

S.Res. 206, Part I. (Sep. 4-6, 1934). Munitions Industry,  
Hearings, 73rd U.S. Congress. GPO.

# MUNITIONS INDUSTRY

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## HEARINGS

BEFORE THE

### SPECIAL COMMITTEE

INVESTIGATING THE MUNITIONS INDUSTRY

UNITED STATES SENATE

SEVENTY-THIRD CONGRESS

PURSUANT TO

## S.Res. 206

A RESOLUTION TO MAKE CERTAIN INVESTIGATIONS  
CONCERNING THE MANUFACTURE AND SALE  
OF ARMS AND OTHER WAR MUNITIONS

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### PART 1

SEPTEMBER 4, 5 and 6, 1934

**ELECTRIC BOAT CO.**

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Printed for the use of the  
Special Committee Investigating the Munitions Industry



**SPECIAL COMMITTEE INVESTIGATING THE MUNITIONS INDUSTRY**

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II

TO VINT  
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III

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# INVESTIGATION OF MUNITIONS INDUSTRY

TUESDAY, SEPTEMBER 4, 1934

UNITED STATES SENATE,  
SPECIAL COMMITTEE TO INVESTIGATE THE MUNITIONS INDUSTRY,  
Washington, D.C.

The committee met, pursuant to call, at 10 a.m., in the caucus room, Senate Office Building, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), George, Clark, Bone, Pope, and Barbour.

Also present: Stephen Raushenbush, secretary, and Robert Wohlforth, assistant to chief investigator.

The CHAIRMAN. The committee will be in order.

This committee, a select committee of the Senate, is met in compliance with and in consideration of Senate Resolution 206, which the Chair asks to have made a part of the record at this point in the proceedings.

(S. Res. 206 is as follows:)

[S. Res. 206, 73d Cong., 2d sess.]

Whereas the influence of the commercial motive is an inevitable factor in considerations involving the maintenance of the national defense; and

Whereas the influence of the commercial motive is one of the inevitable factors often believed to stimulate and sustain wars; and

Whereas the Seventy-first Congress, by Public Resolution No. 98, approved June 27, 1930, responding to the long-standing demands of American war veterans speaking through the American Legion for legislation "to take the profit out of war", created a War Policies Commission which reported recommendations on December 7, 1931, and on March 7, 1932, to decommercialize war and to equalize the burdens thereof; and

Whereas these recommendations never have been translated into the statutes: Therefore be it

*Resolved*, That a special committee of the Senate shall be appointed by the Vice President to consist of seven Senators, and that said committee be, and is hereby, authorized and directed—

(a) To investigate the activities of individuals, firms, associations, and of corporations and all other agencies in the United States engaged in the manufacture, sale, distribution, import, or export of arms, munitions, or other implements of war; the nature of the industrial and commercial organizations engaged in the manufacture of or traffic in arms, munitions, or other implements of war; the methods used in promoting or effecting the sale of arms, munitions, or other implements of war; the quantities of arms, munitions, or other implements of war imported into the United States and the countries of origin thereof, and the quantities exported from the United States and the countries of destination thereof; and

(b) To investigate and report upon the adequacy or inadequacy of existing legislation, and of the treaties to which the United States is a party, for the regulation and control of the manufacture of and traffic in arms, munitions, or other implements of war within the United States, and of the traffic therein between the United States and other countries; and

(c) To review the findings of the War Policies Commission and to recommend such specific legislation as may be deemed desirable to accomplish the purposes set forth in such findings and in the preamble to this resolution; and

(d) To inquire into the desirability of creating a Government monopoly in respect to the manufacture of armaments and munitions and other implements of war, and to submit recommendations thereon.

For the purposes of this resolution the committee or any subcommittee thereof is authorized to hold hearings, to sit and act at such times and places during the sessions and recesses of the Congress until the final report is submitted, to require by subpoena or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, to take such testimony, and to make such expenditures, as it deems advisable. The cost of stenographic services to report such hearings shall not be in excess of 25 cents per hundred words. The expenses of the committee, which shall not exceed \$15,000, shall be paid from the contingent fund of the Senate upon vouchers approved by the chairman.

For 3 weeks the committee will engage in what will amount to a very general study, though perhaps not a detailed study, of the American munitions industry. It should not be felt that the appearance of witnesses at this 3-weeks' session indicates that at the end there has been a completion of the study of the specific cases in which those witnesses might be concerned.

The Chair is delighted to note that with but one exception all of the members of the committee named by the Senate are present this morning and hopes that the committee is going to be able to stay close by the study throughout the hearings. The absentee is one of the co-authors of the resolution occasioning the investigation. Senator Vandenberg, of Michigan, who is absent at this time for reasons beyond his own control. We are hoping that he may be with us at some time during the proceedings.

First of all this morning we want to hear the officers of the Electric Boat Co. We will ask Mr. Carse, Mr. Spear, and Mr. Sutphen to come forward and be sworn at this time.

### TESTIMONY OF HENRY R. CARSE, LAWRENCE Y. SPEAR, AND HENRY R. SUTPHEN

(The witnesses were duly sworn by the chairman.)

The CHAIRMAN. Gentlemen, we have asked you all to come forward at this time because the line of questioning is apt to be such as will occasion a question here and there of any one of you separately.

Mr. CARSE, what is your connection with the Electric Boat Co.?

Mr. CARSE. I am president.

The CHAIRMAN. Where are the headquarters of the Electric Boat Co.?

Mr. CARSE. New York City.

The CHAIRMAN. And where is your plant or plants?

Mr. CARSE. Groton, Conn.

The CHAIRMAN. You have only the one plant?

Mr. CARSE. We also have other plants at Bayonne, N.J.

The CHAIRMAN. Mr. Spear, will you give to the committee your name and your official connection with the Electric Boat Co.?

Mr. SPEAR. Lawrence W. Spear, vice president.

The CHAIRMAN. And Mr. Sutphen?

Mr. SUTPHEN. Henry R. Sutphen, vice president.

The CHAIRMAN. Mr. Carse, when was the Electric Boat Co. organized?

Mr. CARSE. About 1900.

The CHAIRMAN. And by whom was it organized?

Mr. CARSE. Isaac L. Rice.

The CHAIRMAN. Alone?

Mr. CARSE. I was not connected with the company at that time. I think that he formed the Electric Boat Co. and had some friends join with him in purchasing the stock.

The CHAIRMAN. Could you furnish the committee the names of the officers and directors of the corporation when it was first formed? Have you the records here in Washington with you?

Mr. CARSE. No; not in Washington.

The CHAIRMAN. Would you supply that to the committee upon your return home?

Mr. CARSE. If I can find them; yes.

The CHAIRMAN. What is the business of the Electric Boat Co., generally speaking?

Mr. CARSE. The Electric Boat Co. designs and builds submarine boats, motor boats, and also electric machinery primarily designed for use in submarine boats. We also design and construct Diesel engines primarily for use in submarine boats.

The CHAIRMAN. How long have you been at work on the Diesel-engine phase?

Mr. CARSE. I think about 1908.

Mr. SPEAR. 1910, I think.

Mr. CARSE. 1910.

The CHAIRMAN. When did you first become connected with the Electric Boat Co.?

Mr. CARSE. 1915.

The CHAIRMAN. You had no connection with it prior to that?

Mr. CARSE. I had been a director for a few years, off and on, prior to that time.

The CHAIRMAN. With whom is the business of the Electric Boat Co. primarily? With whom do you deal primarily?

Mr. CARSE. With different governments of the world.

The CHAIRMAN. Does the Electric Boat Co. own stock in other corporations?

Mr. CARSE. Our electric plant was formerly the Electric Dynamic Co. The Electric Boat Co. owned all that stock. It has lately consolidated, and outside of that the Electric Boat Co. does not own stock in any other corporation except names, like the Holland Torpedo Co. We own the stock of or maintain that corporation simply for the old patent rights. There may be one or two other corporations we have organized with nominal capital simply to maintain the trade name; for instance, Elco, on the motor-boat end of our business.

The CHAIRMAN. Mr. Carse, do other corporations own stock in the Electric Boat Co.?

Mr. CARSE. None that I know of.

The CHAIRMAN. Let us distinguish between these two companies of which you speak. One is the Electric Boat Co.?

Mr. CARSE. Yes.

The CHAIRMAN. And the other?

Mr. CARSE. There isn't any other now.

The CHAIRMAN. The one that was in existence.

Mr. CARSE. Electric Dynamic Co.

The CHAIRMAN. The Electric Dynamic Co.?

Mr. CARSE. Yes. They built electric machinery.

The CHAIRMAN. But they are no longer in existence?

Mr. CARSE. No. They have been consolidated with the Electric Boat Co.

The CHAIRMAN. Are all of your sales in the name of the Electric Boat Co.—all of your dealings?

Mr. CARSE. Yes.

The CHAIRMAN. What is the name of the corporation whose name you bought?

Mr. CARSE. Holland Torpedo Co.

The CHAIRMAN. You never use their name in selling or contracting for your products?

Mr. CARSE. No, sir.

The CHAIRMAN. Were you on the board of directors of each of these companies before the Electric Dynamic Co. was consolidated with the Electric Boat Co.?

Mr. CARSE. Yes, sir.

The CHAIRMAN. Was that true pretty generally of all the directors?

Mr. CARSE. Yes, sir.

The CHAIRMAN. They were holding common directorates on both boards?

Mr. CARSE. Yes, sir.

The CHAIRMAN. In your financial relations, Mr. Carse, with what banking firm do you do business primarily?

Mr. CARSE. We have deposit accounts in the Central Hanover Bank & Trust Co. in New York; the Guaranty Trust Co. of New York; the Chase National Bank of New York; Mechanics Trust Co. of Bayonne; Bayonne Trust Co. of Bayonne, and a bank in New London—

Mr. SPEAR. The National Bank of Commerce of New London.

Mr. CARSE. The National Bank of Commerce of New London. Those are deposit and checking accounts.

The CHAIRMAN. Do you have any foreign banking accounts?

Mr. CARSE. We have; yes. We have an account with Morgan & Grenfell, London.

The CHAIRMAN. Any Paris accounts?

Mr. CARSE. No, sir.

The CHAIRMAN. Mr. Carse, you were asked to bring with you a statement of the special commissions that were paid to other than agents of your corporation. Has that been supplied the committee?

Mr. CARSE. It has been. The examiners told us that we had supplied everything that they wanted.

Mr. RAUSHENBUSH. Mr. Chairman, we have the statements of the salaries of the officers and commissions paid to agents. We do not have the statements of the commissions or payments made to other than agents. There may be some misunderstanding and possibly the company can furnish us that later. Would that be satisfactory to you?

Mr. CARSE. There are no other.

Mr. RAUSHENBUSH. There are no payments to any other than agents?

Mr. CARSE. No.

Mr. RAUSHENBUSH. There are no payments to anyone other than the agents you have listed here on this exhibit?

The CHAIRMAN. To what exhibit do you refer, Mr. Raushenbush?

Mr. RAUSHENBUSH. To a calculation prepared by the Electric Boat Co. giving the salaries of the officers and the expenses paid to them and to certain of their agents.

The CHAIRMAN. Then, I take it Mr. Carse, there is before you a statement which the committee understands has been approved by you showing the payments made by the Electric Boat Co. to Mr. Henry R. Carse as president of the corporation during the period from 1919 to 1934; is that correct?

Mr. CARSE. Yes, sir.

The CHAIRMAN. Down to and including August 15?

Mr. CARSE. Yes, sir.

The CHAIRMAN. Let that statement be marked as "Exhibit No. 1" and be made a part of the record.

(The statement referred to was marked "Exhibit No. 1", and appears in the appendix on p. 309.)

The CHAIRMAN. Mr. Spear, I call your attention to a statement which we shall have marked "Exhibit No. 2", and which will be made part of the record, showing the payments in salary and expenses made to L. Y. Spear, vice president.

(The statement referred to was marked "Exhibit No. 2", and appears in the appendix on p. 309.)

The CHAIRMAN. Are you conversant with that statement?

Mr. SPEAR. No, sir. I have not seen it.

The CHAIRMAN. A copy will be laid before you.

(Mr. Spear was thereupon handed a copy of the statement referred to.)

The CHAIRMAN. Is that acknowledged by you, Mr. Spear, as being a true statement of the amounts received by you from 1919 to August 15, 1934?

Mr. SPEAR. Not having had any chance to check it, I cannot swear to the accuracy of it; but so far as I know, it is.

The CHAIRMAN. This shows the total salaries to have been paid you in that period to be \$414,218.75; with the total of the expenses being \$28,396.44, or a total altogether of \$442,615.19.

Mr. SPEAR. Yes, sir.

The CHAIRMAN. Referring back to "Exhibit No. 1", Mr. Carse, that statement shows your salary to have been during that period a total of \$459,218.75, and expenses paid to you totals \$2,729.57, or a grand total of \$461,948.32; is that correct?

Mr. CARSE. Yes, sir; that is correct.

The CHAIRMAN. I shall now offer as "Exhibit No. 3", a statement of salaries and expenses paid to H. R. Sutphen, vice president, Electric Boat Co.

(The statement referred to was marked "Exhibit No. 3", and appears in the appendix on p. 310.)

The CHAIRMAN. Mr. Sutphen, with a copy of that statement before you, do you acknowledge that to be a true account of the

salaries and expenses paid to you through that period, from 1919 to 1934?

Mr. SUTPHEN. I do.

The CHAIRMAN. Which shows a total of salaries of \$304,500; a total of expenses of \$8,647.63, or a grand total of \$313,147.63.

Mr. SUTPHEN. That is correct.

The CHAIRMAN. I shall now offer as "Exhibit No. 4" a statement of salaries and expenses paid to H. A. G. Taylor, secretary-treasurer Electric Boat Co., for the period 1919-34, up to August 15.

(The statement referred to was marked "Exhibit No. 4", and appears in the appendix on p. 310.)

The CHAIRMAN. Mr. Carse, with a copy of that exhibit before you, do you acknowledge that to be an accurate statement of what was paid to Mr. Taylor during the period from 1919 to 1934?

Mr. CARSE. I do.

The CHAIRMAN. That statement shows a total salary paid of \$105,783.20; a total of expenses paid of \$3,035.46, and a grand total of \$108,818.66.

Mr. CARSE. Mr. Chairman, I might mention that that is over a period of 16 years.

The CHAIRMAN. That covers the period mentioned, which is 15 or 16 years.

I shall now offer as "Exhibit No. 5" a statement of salaries and expenses paid to G. C. Davison, vice president, Electric Boat Co., for the same period referred to, 1919 to 1934.

(The statement referred to was marked "Exhibit No. 5", and appears in the appendix on p. 310.)

Mr. CARSE. Mr. Davison resigned in 1922.

The CHAIRMAN. That is correct. This shows that Mr. Davison drew a salary and expenses only through the years 1919, 1920, 1921, and 1922, the total in those 4 years being \$50,833.32, with expenses totaling \$761.11, or a grand total of \$51,594.43?

Mr. CARSE. That is correct.

The CHAIRMAN. And you acknowledge that to be a true statement?

Mr. CARSE. Yes, sir.

The CHAIRMAN. Mr. Davison resigned in 1922, did he?

Mr. CARSE. Yes, sir.

The CHAIRMAN. And has no connection now with the corporation?

Mr. CARSE. None at all.

The CHAIRMAN. I shall now offer as "Exhibit No. 6" a statement of the Washington office expenses of the Electric Boat Co. from 1919 to 1934, showing the expenses of this office during that period of 15 or 16 years to have been \$292,617.80.

Do you acknowledge this to be a true and accurate account of the expenses of your Washington office?

Mr. CARSE. I do.

The CHAIRMAN. That shows salaries and expenses paid clerical help, rent, office expense, traveling expense, and apparently Messrs. C. S. McNeir and S. J. Joyner were in charge of the office?

Mr. CARSE. Yes, sir.

The CHAIRMAN. Mr. McNeir until 1927 and Mr. Joyner thereafter?



Mr. CARSE. Yes, sir.

(The statement referred to was marked "Exhibit No. 6", and appears in the appendix on p. 311.)

The CHAIRMAN. Mr. Carse, I shall now offer as an exhibit a statement of contracts for naval vessels, ammunition, and so forth, January 1, 1919, to August 15, 1934, of the Electric Boat Co. A copy of the statement is laid before you, Mr. Carse.

(The statement referred to was marked "Exhibit No. 7", and appears in the appendix on p. 311.)

The CHAIRMAN. That shows a total of \$26,722,153.44, which includes business done with the United States Navy, the Government of Peru, and the Argentine Government. Do you acknowledge that to be a true account of the contracts for this material referred to?

Mr. CARSE. I do.

Mr. SPEAR. Just to get the record correct, Mr. Chairman, this first item is wrong. That order was placed in 1918.

The CHAIRMAN. You are referring to the order——

Mr. SPEAR. For the United States Navy Department, Submarines S-2 to S-47. That was a mandatory order placed during the war by the President.

The CHAIRMAN. In 1918?

Mr. SPEAR. In 1918. The formal contract, however, was not entered into until a month afterward, and evidently this record is made up from the formal contract record.

The CHAIRMAN. So that this would be true of the formal contract record?

Mr. SPEAR. Yes; and the formal document.

The CHAIRMAN. But the actual facts are that the order was placed——

Mr. SPEAR. And the work was begun in 1918.

The CHAIRMAN. Thank you for that explanation.

I shall now offer for the record as "Exhibit No. 8", Mr. Carse, a statement of the royalties received by the Electric Boat Co. during the calendar years shown.

(The statement referred to was marked "Exhibit No. 8", and appears in the appendix on p. 312.)

The CHAIRMAN. That shows royalties from 1916 down to and including 1927 from the British Vickers, Japanese Vickers, Dutch Vickers, Australian and DeSchelde Vickers.

Mr. CARSE. No. Those are all received from Vickers divided in accordance with the submarine boats built for the British Government, those on account of a contract with the Mitsubishi, of Japan, and also contracts Vickers had in regard to supervision, and so forth, of boats built by the Dutch. Some of that Dutch was received from Vickers because of supervision that they gave to the Government in connection with the building of submarine boats by Dutch shipbuilders and some came to us from a shipbuilding concern in Holland directly because of the winding up of an old license agreement.

The CHAIRMAN. Is that what is known as the DeSchelde?

Mr. CARSE. Yes.

The CHAIRMAN. Mr. Carse, what is the reference "S.E.C. Naval"?

Mr. CARSE. That is a Spanish name. I think it is Sociedad Española Construcción Navale. That is a Spanish concern.

Mr. RAUSHENBUSH. I think it is "Constructora Naval."

Mr. CARSE. DeSchelde is a Dutch concern. The Australian refers to submarine boats built for Australia by Vickers.

The CHAIRMAN. What was the nature of these royalties? For what were these royalties paid?

Mr. CARSE. For the granting of a license on our part for them to use our patents on submarine boats.

The CHAIRMAN. Have you totaled this statement of royalties received during that period from 1916 down to and including 1927?

Mr. CARSE. No.

The CHAIRMAN. We have not had that totaled.

Mr. CARSE. No; but they are here.

The CHAIRMAN. Could you approximate from your memory of the corporation records what that total might be? (This figure, later supplied, is \$3,869,637.38.)

Mr. CARSE. No. That would be a guess. I would want to figure it.

The CHAIRMAN. Mr. Carse, who is Capt. Paul Koster?

Mr. CARSE. He is a native of Holland.

The CHAIRMAN. A native of Holland?

Mr. CARSE. A native of Holland who was in the Dutch Navy when the first submarine boats were built in Holland under license that we granted to a shipbuilding concern in Holland. He was a naval officer who made the first trial of that Dutch submarine boat built in Holland. He had very extensive knowledge in regard to submarine boats and submarine-boat construction, and in 1912 Mr. Rice, then president of the company, appointed him the agent of the company in Paris, and he continued so until some few years ago.

The CHAIRMAN. When was he first appointed?

Mr. CARSE. 1912.

The CHAIRMAN. Is he still serving?

Mr. CARSE. No, sir.

The CHAIRMAN. When was his service discontinued? I have a note before me indicating it was in 1932.

Mr. RAUSHENBUSH. I think it was in 1931.

Mr. CARSE. A little before 1932.

The CHAIRMAN. What was the occasion for his retirement?

Mr. CARSE. It was the impossibility of the manufacturers in the United States—in the manufacture of submarine boats, securing any orders in Europe.

The CHAIRMAN. Mr. Koster was virtually in charge of your Paris office, was he not?

Mr. CARSE. He was.

The CHAIRMAN. That was known as your European office?

Mr. CARSE. Yes.

The CHAIRMAN. Did you discontinue that office?

Mr. CARSE. We discontinued it entirely.

The CHAIRMAN. In 1931 or 1932?

Mr. CARSE. Yes, sir.

The CHAIRMAN. I shall offer as "Exhibit No. 9", a statement of the salary, commissions, and expenses paid to Capt. Paul Koster from 1919 to 1931, showing a total salary of \$80,833.32; total commissions of \$17,633.13; a total of traveling expenses, rent, taxes, clerical, office maintenance, and so forth, of \$78,200.60, or a grand total paid

to Capt. Paul Koster or through him of \$176,667.05. You recognize that to be a true statement of the moneys paid to Captain Koster?

Mr. CARSE. I do; for a period of 13 years.

The CHAIRMAN. Over a period of 13 years; yes.

(The statement referred to was marked "Exhibit No. 9", and appears in the appendix on p. 312.)

The CHAIRMAN. You have told us, Mr. Carse, that the receipts from royalties were for patent rights.

Mr. CARSE. Yes, sir.

The CHAIRMAN. Did that include other items; that is, did it include such items as that of supervision in other plants than your own in America?

Mr. CARSE. Supervision in plants in this country?

The CHAIRMAN. Yes; did it provide for supervision of plants in Europe?

Mr. CARSE. Oh, yes; but that supervision was paid for also. The wages of the men were paid for in addition to the license fee.

The CHAIRMAN. You mean the Vickers, or the boat builder abroad, paid the salary of that supervisor?

Mr. CARSE. Yes, sir.

The CHAIRMAN. As well as paying you the royalties?

Mr. CARSE. Yes, sir.

The CHAIRMAN. Does the American Navy use your submarine patents?

Mr. CARSE. Well, any submarine boat that has ever been built has been obliged to use our patents.

Senator BONE. I did not get your last answer. They are obliged to use your patents?

Mr. CARSE. Yes, they are obliged to use our patents.

Senator BARBOUR. I think Mr. Carse means the committee to understand their patents are basic patents.

Mr. CARSE. They were; yes.

Senator BARBOUR. At the time they were in force they were basic patents originally.

Mr. CARSE. Yes.

The CHAIRMAN. The payment of royalties by Vickers and others would indicate they recognized your right to those patents and plans.

Mr. CARSE. Yes; we had taken out patents in every country in the world.

The CHAIRMAN. Has the United States recognized your patents?

Mr. CARSE. They have.

The CHAIRMAN. Do they use your plans and your patents?

Mr. CARSE. Yes, sir.

The CHAIRMAN. Do they use your patents with your consent?

Mr. CARSE. Yes, sir.

The CHAIRMAN. Have you ever denied them consent to use those patents?

Mr. CARSE. No, sir.

The CHAIRMAN. Mr. Carse, under date of April 20, 1925, as president you wrote Capt. Paul Koster in Paris saying:

We have never assented to the United States Government building our type of boat in its navy yard, and have never given them a permit to cover the use of our patents, but in the contract entered into on July 17, 1917, for submarine boats 8-17 to 8-21, inclusive, and contracts entered into on July 1, 1919, for

construction of submarine boats S-42 to S-47 in their own plants or plants of subcontractors, clause 5 of the said contract reads as follows:

I will not bother to read that clause, but I call your attention to the fact you told Mr. Koster that your company had never assented to the United States Government building your type of boat.

Mr. CARSE. We had not assented at that time.

The CHAIRMAN. You have since assented?

Mr. CARSE. We have; yes.

Mr. SPEAR. Let me correct that.

The CHAIRMAN. You want to make a correction?

Mr. SPEAR. Yes, because that is a matter with which I am more familiar than Mr. Carse is. What was the date of that letter, Mr. Chairman?

The CHAIRMAN. April 20, 1925. At this point let that letter be offered as "Exhibit No. 10."

(The letter referred to was marked "Exhibit No. 10", and appears in the appendix on p. 313.)

Mr. SPEAR. There have been, Mr. Chairman, two licenses, one directly and one in an indirect way to the United States Government to build in the United States navy yards submarines from our plans and designs prior to that date. Mr. Carse was probably not familiar with that.

Outside of that, the Government has built quite a number of submarines in its own yard, which, according to our patent attorneys, involved a good many of our patents, but there never had been any agreement with the Government with regard to that, or any negotiations. We simply let the matter run as it was. I think that makes it actually in accordance with the facts.

The CHAIRMAN. What was the occasion now for stating to Mr. Koster here, as Mr. Carse did, that there had not been assent?

Mr. SPEAR. You will have to ask Mr. Carse.

The CHAIRMAN. Mr. Carse, what was the occasion for that? You will find that statement in the second paragraph of the letter.

Senator BARBOUR. A question suggests itself to me at this point, Mr. Chairman. At that time was the United States Government building any submarines or other vessels which used any of your patents, whether you consented to it or not?

Mr. SPEAR. We considered that they did, but we never had any negotiations with them about the matter, or gave them any license, or even discussed it with them.

Senator BARBOUR. In other words, while there may have been no assent, it is a fact that they were constructing vessels in which, in your opinion, they were using certain of your patented features?

Mr. SPEAR. That is a fact.

The CHAIRMAN. You never challenged the Government's use of those features, then?

Mr. SPEAR. No.

Mr. CARSE. The way this should read is that we have never consented generally to the United States Government using our types.

Mr. Spear reminds me that in 1916, of the "O" boat type, we did grant them a license to build two boats in the navy yard while we were building a certain number in our own yard.

The CHAIRMAN. A little later we shall come to the correspondence and the understanding that did exist as regards that.

Mr. CARSE. Then later, when we sold them the parts of some boats we constructed for Russia, we sold those parts to the Government, and they assembled them in one of their navy yards. But I do not know exactly now why Koster was asking about this, and perhaps at that time I did not think it was necessary to go into minute detail with him. But, generally speaking, that is a correct statement.

The CHAIRMAN. Is it probable that Koster had encountered abroad the thought on the part of those that he and you might become customers, that the United States was not using your boats?

Mr. CARSE. I do not recall what he could have been doing in 1925.

#### RELATIONS WITH VICKERS

The CHAIRMAN. Let us leave that for the moment. In that same letter is information that prompts me to ask you this: Does your company consider Vickers a competitor in submarine building, or in the building of machinery for submarines?

Mr. CARSE. In relation to building submarine boats in countries other than the United States or the British possessions.

The CHAIRMAN. In the strict sense of the word you consider them competitors, do you not?

Mr. CARSE. Competitors, because they can build them cheaper, and if in negotiations with some of these outside governments the government does not insist upon the American design, or is perfectly willing to take the British design, Vickers can build them cheaper and make delivery cheaper than we can in the United States; so, we grant Vickers permission or license to build in those countries and they pay us a royalty.

The CHAIRMAN. Perhaps this fourth paragraph in your letter of April 20 to Mr. Koster reveals better that situation. That paragraph says:

In relation to submarines built in England, our arrangement is direct with Vickers, we never having had any negotiations direct with the British Government.

Mr. CARSE. That is right.

The CHAIRMAN. Reading further it says:

The conditions of our agreement with Vickers is that on any type of submarine boat built by that firm for the account of the British Government we receive a certain percentage of the net profit accruing to them on such business, and during the entire period of such construction, running over 20 years, our average profit has been £28,467 per boat, and the profit of Vickers accruing on this business has been larger than our proportion.

That is substantially correct, so far as relates to your relations with Vickers, on British business?

Mr. CARSE. Yes, sir. I think I know what this letter refers to now. We had a claim before the American-German Mixed Claims Commission for infringement of our patents by Germany in the construction of submarine boats during the war, and we had figured there was due us \$40,000 royalty per boat. They had built something over 400 boats; and, of course, there was a great deal of discussion back and forth as to the fair amount of royalty to charge; and this information I evidently wrote to Koster to show what we had been paid by other shipbuilding concerns in different countries.

The CHAIRMAN. In any event, you made a percentage on all of the submarine building that Vickers did for the British Government?

Mr. CARSE. Yes, sir.

The CHAIRMAN. Now, did you pay Vickers any percentage on the boats you built for the American Government?

Mr. CARSE. No, sir.

The CHAIRMAN. In no case?

Mr. CARSE. In no case.

The CHAIRMAN. It resolves itself to this, does it not, Mr. Carse, that, whether you did or whether Vickers built for the British Government, you got a profit out of it?

Mr. CARSE. Yes.

The CHAIRMAN. And to the extent that Vickers is a competitor, you profit even when your competitor gets the business?

Mr. CARSE. Yes, sir.

Senator BARBOUR. In reality Vickers was more in the category of a customer than a competitor, so far as the business you two have in common is concerned?

Mr. CARSE. Yes; they were a customer to use our patent in all of these different countries.

The CHAIRMAN. I offer now to the committee "Exhibit No. 11", this paper being an agreement between the Electric Boat Co. and Vickers, and as supplement A to Exhibit No. 11, a letter by the Electric Boat Co., signed by Mr. Rice, to Vickers; and as supplement B, a letter by Isaac L. Rice to Messrs. Vickers, Ltd.; and as supplement C, a third supplement, being a letter by A. T. Dawson, director, for Vickers, to Isaac L. Rice, at that time president of the Electric Boat Co.

(The agreement referred to was marked "Exhibit No. 11", and appears in the appendix on p. 313.)<sup>1</sup>

All of these exhibits having to do with the one contract.

I am referring to the contract made in London on the 21st day of October 1913.

That contract, Mr. Carse, you will notice in the opening paragraph makes reference to a contract of December 12, 1902. What can you tell us of that contract, or Mr. Spear or Mr. Sutphen, if either of you are prepared to answer the question?

Mr. SPEAR. Yes; I recall the general terms of it. It was a contract defining the relations of the two with regard to submarines, a contract granting Vickers a license, exclusive so far as Great Britain is concerned, and confined, as I recall it, to Great Britain, and defining the conditions under which the license should operate, and defining the compensation to the Electric Boat Co. for the use of the patents.

The CHAIRMAN. Mr. Spear, of course, that contract is still to be had.

Mr. SPEAR. Not unless it is in the New York office; but I presume it is there.

The CHAIRMAN. We are without it, and I should like to have a copy of it. Will you supply it on your return?

Mr. SPEAR. If it can be found, I will be glad to do so.

The CHAIRMAN. That is the 1913 contract?

Mr. CARSE. Here is the 1902 contract.

The CHAIRMAN. That is only a letter, is it not?

Mr. SPEAR. This is a letter of modification, I believe.

<sup>1</sup> The letters referred to were marked "Exhibits Nos. 11-A, 11-B, and 11-C", and appear in the appendix on pages 314 and 315.

The CHAIRMAN. Of which agreement; the 1902 agreement?

Mr. SPEAR. Yes; this is a letter of modification of the 1902 agreement, but the agreement itself is not here.

The CHAIRMAN. That I should like to have.

Mr. SPEAR. We will furnish it, if it can be found.

The CHAIRMAN. And now in the letter by Mr. Rice to Vickers, the letter being dated October 21, 1913, there are these provisions:

The Electric Boat Co. will also agree to the following disposition of any profits which may be gained in the continental business conducted by the Vickers Co., viz:

1. In the event of any boats being constructed for continental countries in the Vickers yards in Great Britain, 60 percent to Vickers, Ltd., and 40 percent to the Electric Boat Co.

2. In the event of such boats being constructed in any other yard in Great Britain or Ireland approved by the Electric Boat Co., 50 percent to Vickers, Ltd., and 50 percent to the Electric Boat Co., after deducting the profits allowed to the building firm.

3. In case such boats are built in continental Europe, or patents or licenses thereunder are sold, 50 percent to Vickers, Ltd., and 50 percent to the Electric Boat Co.

So then you had an agreement, I take it, Mr. Carse, that gave you consideration and profits for whatever boats Vickers built for Britain or for continental Europe.

Mr. CARSE. Yes, sir.

The CHAIRMAN. Does that continue true today?

Mr. CARSE. Yes.

The CHAIRMAN. You signed another contract with Vickers on March 4, 1924, which contract is being offered as committee "Exhibit No. 12."

(The contract referred to was marked "Exhibit No. 12", and appears in the appendix on p. 316.)

The CHAIRMAN. I shall read very briefly from that contract, as follows:

This agreement witnesseth:

First: That from all of the covenants and agreements herein contained, as to the territory therein included, there is and shall be excluded and excepted therefrom the following territory: Spain, Japan, France, Italy, Belgium, Holland, Norway, Finland, Brazil, Argentine, and Peru, and all territory, colonies, and dependencies of each of said countries and of all communities and places that are subject to the government and/or suzerainty of the respective governments of the respective countries above set forth. The business of manufacturing, building, and/or selling submarines to each of the above-mentioned countries shall be, and is hereby, declared to be governed, managed, or controlled by a series of agreements, either heretofore made and entered into or to be hereafter made and/or entered into, and Vickers hereby agrees that it will not attempt to do nor seek business in or for the aforesaid countries just mentioned, except in accordance with such special agreement as have been or may hereafter be made with E. B. Co.

Second: Under this agreement, from which the countries listed in paragraph "First" hereof are and shall be excluded, as between the parties hereto, there shall be the following division of territory, to wit:

(a) Territory reserved exclusively for Vickers; that is, Great Britain and her colonies and dependencies, including self-governing territories such as Canada, Ireland, Australia, and India.

(b) Territory reserved exclusively for E. B. Co., viz. The United States of America, the colonies and dependencies thereof, and the Republic of Cuba, and all communities and countries governed by or under the suzerainty of the United States of America.

(c) Common territory in which both parties shall be free to act, namely, all countries of the world, but eliminating therefrom all countries and territory

included in any of the subdivisions set forth in paragraph "First" hereof, and the countries and territories set forth in subdivisions "a" and "b" of this paragraph "Second" of this agreement.

So there was a division of territory as well as a division of profits accruing through the building of submarines.

Mr. CARSE. There was a provision for the granting by us of the right to Vickers to use our patents in building in these different countries. The reason of that subdivision, the latter part of paragraph 1, and the exclusion of Spain, Japan, France, Italy, Belgium, Holland, Norway, Finland, Brazil, Argentine, and Peru, was that we either had a licensee in those countries or were ourselves negotiating to build submarine boats for those countries, so we told Vickers they must not go in there and compete with us. In the other countries and those mentioned, if the people preferred the British submarine design to the American design, we would be perfectly willing for them to take the business in preference to having Italian or Spanish or German concerns that had located in Holland to go in and get the business.

The CHAIRMAN. Under that contract or agreement any submarine built under your plans, and according to your argument the only submarine that could be built would have to be built under your plan, would have to be bought from either Vickers or from you.

Mr. CARSE. No; because there were other people who ignored our patents, and there were other licensees, too.

The CHAIRMAN. I understand; but at this time you had that agreement that between you and Vickers there should be a division of submarine business.

Mr. CARSE. According to the wishes of the customer.

The CHAIRMAN. Yes; provided the customer was removed from the area upon which there had been an agreement. You had agreed that all countries would have only one that they could really go to.

Mr. CARSE. No; we having granted licenses to shipbuilding concerns in these countries, and they being exclusive licensees, we could not give Vickers a license to go into those countries and compete.

The CHAIRMAN. Certainly not; but where there has been no license previously granted, you and Vickers agreed you would not interrupt Vickers in the territory you were giving the agreement on, and he was not to interrupt you in the territory that would be exclusively yours.

Mr. CARSE. Their territory was the British, and ours was the United States. In the other part of the world, we were perfectly willing for them to go in and bid if people preferred the British design. If they preferred the American design and were negotiating with us we would not give them the right to go in and bid against us.

#### RELATIONS WITH AUSTRIA, GERMANY

The CHAIRMAN. Who was the Whitehead Co., Ltd.?

Mr. CARSE. That was a concern organized to build submarines down in Trieste, Austria, wasn't it?

Mr. SPEAR. No; it was not organized to build submarines, but it was organized to build torpedoes.

The CHAIRMAN. Where?

Mr. SPEAR. In Fiume.



The CHAIRMAN. A little before the war you granted Whitehead a license to build submarines in accordance with patents, secrets, and designs belonging to the said American company. I have before me the agreement of June 11, 1912, which I shall ask to be incorporated as "Exhibit No. 13."

(The document referred to was marked "Exhibit No. 13", and appears in the appendix on p. 324.)

Mr. CARSE. Mr. Spear knows about that agreement.

The CHAIRMAN. Mr. Spear, in paragraph marked 1 on the first page of that agreement I find the following language:

The American Co. hereby grants to the Whitehead Co. for the term of twenty (20) years from the date hereof the exclusive right during the continuance of this license to manufacture submerged boats in Austria-Hungary in accordance with the said patents, secrets, and designs, or any other letters patent now or hereafter belonging to the American Co. or which may either directly or indirectly come under its control relating to or connected with submerged boats, all of which are hereinafter referred to as "The American Company's Patents" and to sell the same exclusively in Austria-Hungary, Greece, Turkey, Rumania, and Bulgaria, for the use of the respective Governments of those countries.

You are acquainted with that contract?

Mr. SPEAR. Yes, sir.

The CHAIRMAN. That means Austria-Hungary was building these submarines from your patents just before the war?

Mr. SPEAR. Yes, sir.

The CHAIRMAN. Is it also true Germany got hold of these patents?

Mr. SPEAR. Yes, sir; and we were allowed some compensation in the Mixed Claims Commission for infringement of our patents by the German Government.

The CHAIRMAN. How many submarines did Germany build under those patents?

Mr. CARSE. We claimed they used one or more of our patents in every one of their boats, but they did not acknowledge that.

The CHAIRMAN. I have before me a letter from Koster in Paris which I offer as "Exhibit No. 14."

(The letter referred to was marked "Exhibit No. 14", and appears in the appendix on p. 327.)

The CHAIRMAN. I note that Koster says in the opening paragraph of this letter dated August 2, 1919, after the war, the following:

Now that we are on the point of getting peace with Austria-Hungary, or with what politically may be left of these countries, it undoubtedly will interest you to know that during the war two submarines have been built in Flume. Before going further into this matter I herewith call to your attention the agreement which we arrived at with Messrs. Whitehead & Co. on June 28, 1913.

Then Mr. Koster quotes the agreement.

Mr. SPEAR. That is the agreement terminating the license.

The CHAIRMAN. You put in a claim, did you not?

Mr. SPEAR. Yes.

The CHAIRMAN. Do you know just how many boats were built in Austria and how many were built in Germany or how many German boats were built?

Mr. SPEAR. I do not remember the figures, Mr. Chairman, but I did have the information when it was in question.

The CHAIRMAN. Is it true you put in a claim with the Mixed War Commission against Whitehead for building two German submarines?

Mr. SPEAR. I think not.

Mr. CARSE. I think I can tell you that, Mr. Chairman. Koster was very anxious to proceed and bring action against the Whitehead Co. or the receivers or successors or something of that nature, so he wrote these letters. I gave the thing my best thought and concluded we would simply be wasting good money in trying to secure anything from a defunct concern in Austria, and he finally came along with a letter by which he proposed to continue the action in his own behalf. I stated if he wanted to go ahead and do that and pay all of his expenses and give us 50 percent of all he received above the expenses I was perfectly willing for him to do it. Nothing has been accomplished in connection with it.

The CHAIRMAN. You never recovered anything from Whitehead & Co.?

Mr. CARSE. No.

The CHAIRMAN. Did you recover anything from Germany?

Mr. CARSE. We had a very trivial recovery; yes.

The CHAIRMAN. You had some trouble with the Alien Property Custodian in that connection—or, did you seek to collect through the Alien Property Custodian?

Mr. CARSE. No; through the Mixed Claims Commission.

Senator CLARK. What was the amount of that claim with the Claim Commission?

Mr. CARSE. According to the record with the Navy Department, Germany had built, or were building, 441 submarine boats, and we thought a royalty of \$40,000 a boat was about fair, and that would amount to about \$17,000,000. The Germans, of course, denied infringing any patent, and we said, "Well, why don't you show the plans of your boats, that will be your defense; and if your plans show no infringing of patents, that ends it." They said they had no plans; they said they had all been taken by the Versailles commission, so that we were in a way stalled for evidence. I went over there in 1924 and appeared before the Mixed Claims Commission and made a hairbreadth advance. But then we found that all of the German submarines taken by Great Britain had been destroyed, the submarines brought over here had also been destroyed, but we found that France had kept a couple of submarine boats they had gotten from Germany. We were able to secure some of the plans of the interior arrangement of those boats.

Senator CLARK. Mr. Carse, this claim had to do with boats constructed during the war or immediately prior to the war, did it not?

Mr. CARSE. Yes. In 1913 Krupp had demanded in the German court a license from us at a very nominal figure.

Senator CLARK. That was what year?

Mr. CARSE. About 1912 or 1913, and they brought in the German Government on the basis they were doing the work for the Fatherland. We contested that, asking a great deal more, because the patents they wanted to use were basic; and while they were not such a very large portion of the submarine, they were the most important parts, they were the vital parts. So it was tried in the courts of Germany, and finally the patent appeal court at Leipzig, in 1913, gave a decision allowing us a certain royalty per tube on submarine boats built by them.

Mr. RAUSHENBUSH. That is per torpedo tube.

Mr. CARSE. Yes; per torpedo tube, and the tanks connected with them. They claimed they had not infringed our patents, but had done something else. We could not produce the boats and we could not get access to their drawings, although counsel we employed told us there was no question that copies of every drawing of the German Admiralty was in existence. Finally we found some drawings of these German submarines in possession of France, and when we produced those, then the Germans found some designs of the interior, and General Parker, head of the Mixed Claims-Commission, questioned them how they discovered those at that time and had never been able to discover them before. They claimed they had secured them from the different shipbuilding yards who had built the German submarines during the war. We clearly showed from those designs to the satisfaction of the American agents and, it seemed, of General Parker that they had infringed. But General Parker was sick at that time and he died of cancer later. Finally there came down a decision arrived at by the German American Claims Commission that we were entitled to the royalties stated by the Liepzig court in 1913 on a very small portion of the submarine boats that had been built by Germany, and this was because of a very slight deviation from the actual drawing, although the portions of the boat were exactly the same. We had to accept the decision.

The CHAIRMAN. Does it not pretty nearly come to this, that about the only thing that is left to be honored at all in time of war is a patent on war machines?

Mr. CARSE. They ignored the patents over there.

The CHAIRMAN. Haven't you stated there was some recovery from them?

Mr. CARSE. Based on the judgment of the German court in 1913, and the recovery was only \$125,000.

The CHAIRMAN. Well, all the same where there was a recovery on the rights to manufacture a machine, there has been no right to recovery for any life or other property.

Mr. CARSE. Yes; the Mixed Claims Commission granted claims and recovery on other things such as merchant vessels.

The CHAIRMAN. Who was Count Hoyos?

Mr. SPEAR. Count Hoyos was the managing director at one time of the Whitehead firm at Fiume.

The CHAIRMAN. What nationality was he?

Mr. SPEAR. He was an Austrian.

The CHAIRMAN. They became our enemy during the war, of course, or we became theirs. Count Hoyos held stock in the Electric Boat Co., did he not?

Mr. CARSE. I believe he did.

The CHAIRMAN. How did he come in possession of that?

Mr. CARSE. I do not know. It was before my time.

The CHAIRMAN. How much stock did he hold?

Mr. CARSE. I do not know. Not very much.

The CHAIRMAN. Is there any record to reveal what he paid for that stock?

Mr. CARSE. No; I do not know.

The CHAIRMAN. There will now be offered in evidence as "Exhibit No. 15", as letter dated July 12, 1921, signed by Carse, addressed to Capt. Paul Koster.

(The letter referred to was marked "Exhibit No. 15" and appears in the appendix, p. 328.)

The CHAIRMAN. This letter refers to 100 shares of the Electric Boat Co. stock which the Alien Property Custodian wanted possession of or wanted new stock issued to the Alien Property Custodian in place of that which had been issued to Count Hoyos. Was Count Hoyos ever in the employ of the Electric Boat Co.?

Mr. CARSE. Not that I know of.

Mr. SPEAR. No, sir.

The CHAIRMAN. Were not these shares of stock owned by Count Hoyos given to him for service that he had rendered at some time?

Mr. CARSE. Not that I know of.

The CHAIRMAN. The Alien Property Custodian wanted you to issue new stock?

Mr. CARSE. Yes.

The CHAIRMAN. Count Hoyos had not surrendered his stock?

Mr. CARSE. No.

The CHAIRMAN. And you could not issue stock above the amount you were authorized?

Mr. CARSE. No.

The CHAIRMAN. Did the Alien Property Custodian ever come into possession of that stock?

Mr. CARSE. I do not know.

The CHAIRMAN. Is Count Hoyos a stockholder in the Electric Boat Co. still?

Mr. CARSE. No; I do not think so. I never saw Count Hoyos.

The CHAIRMAN. This letter to which we have referred says:

A young relative of Count Hoyos was making inquiries here—

That is at your office, I take it—

some time ago in relation to the dividends, and I do not know how far he may have gone in stirring up the matter which we felt had been passed upon some time ago.

Mr. CARSE. He was going down to Washington to see somebody or had been down to Washington to see somebody, and I did not know what he had accomplished or what he could accomplish.

The CHAIRMAN. Had you paid a dividend to stockholders?

Mr. CARSE. There had been some dividends declared prior to that time.

The CHAIRMAN. But were the dividends on this 100 shares of Hoyos' stock paid?

Mr. CARSE. They were mailed to him.

The CHAIRMAN. Were they mailed to him during that year?

Mr. CARSE. I do not know. I suppose they could have been. I cannot answer that offhand. We could check it out but I have never kept it in mind. It was a small matter.

The CHAIRMAN. How much such stock ownership has there been abroad in your company?

Mr. CARSE. Not very much that we know of. Of course, stock is very often in other names; just a few shares, not very many shares.

Senator BARBOUR. Mr. Carse, is your stock or the stock of the Electric Boat Co. listed on the New York Stock Exchange?

Mr. CARSE. Yes, sir.

Senator BARBOUR. Has it been for some time?

Mr. CARSE. Yes, sir; for many years.

Senator BARBOUR. Was it at that time?

Mr. CARSE. Yes; at that time.

Senator BARBOUR. In other words, anybody could acquire stock who went to a broker and ordered and bought it?

Mr. CARSE. Of course.

#### RELATIONS WITH VICKERS AND ZAHAROFF

The CHAIRMAN. Mr. Carse, who was Mr. Craven?

Mr. CARSE. Craven is one of Vickers' principal men.

The CHAIRMAN. What is his full name?

Mr. CARSE. Commander Sir Charles Craven.

The CHAIRMAN. And what is his official connection with Vickers? What do you know it to be?

Mr. SPEAR. He is managing director of their shipyard plants and I believe also some of their steel plants. I do not know exactly how far his authority goes.

The CHAIRMAN. Lieutenant Spear, on January 29, 1926, Mr. Craven, for Vickers, wrote to you a letter that was marked "Strictly private", which letter I ask be known as "Exhibit No. 16."

(The letter referred to was marked "Exhibit No. 16", and appears in the appendix on p. 328.)

The CHAIRMAN. The heading of "Exhibit No. 16" is "Strictly Private." It is addressed as follows:

Lieut. L. Y. SPEAR, U.S.N.,

*Electric Boat Co., Groton, Conn.*

Were you connected with the United States Navy in January 1926?

Mr. SPEAR. No, sir; I was not. My connection with the Navy ceased in 1902.

The CHAIRMAN. How long were you connected with the Navy?

Mr. SPEAR. From 1886 to 1902.

The CHAIRMAN. And you obtained finally the rank of lieutenant?

Mr. SPEAR. Yes, sir.

The CHAIRMAN. What does the reference here to "lieutenant" mean?

Mr. SPEAR. It is a European habit. Over there a man may retire and keep his rank, without pay, and engage in any business he likes.

The CHAIRMAN. Let us get that correct. In Great Britain a man could retire from the British Navy.

Mr. SPEAR. Yes, sir; if he gives up his pay, and he can retain his title and rank and engage in any business he likes.

The CHAIRMAN. But you cannot do that in this country?

Mr. SPEAR. That is illegal. It is simply a custom they have, and they have gotten in the habit of calling me "Lieutenant Spear", although I think I am pretty old for that.

The CHAIRMAN. Have you a copy of "Exhibit No. 16" before you, Mr. Spear?

Mr. SPEAR. Yes, sir.

The CHAIRMAN. It comes to this, then, Mr. Spear, does it not? That when Mr. Craven comes into possession, directly or indirectly, of your patents, they are in the possession of the British Navy?

Mr. SPEAR. Yes; indirectly.

The CHAIRMAN. In this letter, Mr. Craven, for Vickers, asks you to lower your percentage on the bids for their Australian submarines from 3 percent to 1½ percent. In next to the closing paragraph that letter reads as follows:

I dislike very much having to ask your company to meet us in a matter of this kind so very soon after the new agreement has been made. \* \* \*

That is the agreement of 1924, I take it?

Mr. SPEAR. Yes, sir.

The Chairman (continuing reading):

but times are really terrible here, and I think that if for a year or two we can obtain all the submarine building that there is about, we may be able to freeze out a lot of wartime builders, who are relatively much more favourably situated now to compete with us than they would be if times were good, as the three percent to the E. B. Company weighs heavily when one is putting on practically no profit for one's self, whereas in proper times we should not feel it to anything like the same extent.

Who were these war-time builders?

Mr. SPEAR. During the war the British admiralty had need for a great many submarines. They therefore took the designs of the vessels which Vickers were building, and under their war-time powers they said that the Vickers firm did not have sufficient capacity to build as many submarines as they needed, and they accordingly took, as I recall it, four other firms, passed the plans to them, and directed the construction by them of these submarines to the Vickers plans. Cammell-Laird was one of the firms, and I think White was another; and I think Beardmore was another. Those are all the names which I recall right now but my memory is that there were four or five of them.

The CHAIRMAN. This commission that Craven speaks of had been a 3-percent commission?

Mr. SPEAR. Yes, sir.

The CHAIRMAN. What was that commission?

Mr. SPEAR. That was the commission providing for the use of our patents in the last agreement we made with them in the year 1924.

The CHAIRMAN. Your last agreement with Vickers?

Mr. SPEAR. Our last agreement with Vickers. It was a royalty.

The CHAIRMAN. Vickers got the contract for the Australian submarine?

Mr. SPEAR. Yes, they built that submarine.

The CHAIRMAN. You reduced your commission from 3 percent to 1½ percent?

Mr. SPEAR. My memory is we agreed to that.

Mr. CARSE. We did not always meet Mr. Craven's requests for reductions and we used sometimes to split the difference.

The CHAIRMAN. But you were agreeing with Vickers that it was desirable to eliminate or "freeze out", as he expressed it here, the war-time builders and get as much business as you could alone?

Mr. CARSE. Yes, but we sometimes thought that Mr. Craven was a little gloomy in the matter of his opinion as to the future. We wanted all the income we could get.

The CHAIRMAN. Did you pay any commissions to anyone for business abroad outside of your Paris representative?

(Mr. Carse conferred with associates.)

The CHAIRMAN. Did you not pay commissions to Basil Zaharoff?

Mr. CARSE. That is what we were talking about. We do not pay him, but under an old agreement there a certain percentage is paid to us and we transmit it to Sir Basil Zaharoff.

Senator CLARK. When was that agreement made, Mr. Carse?

Mr. CARSE. We later get a commission which we return.

The CHAIRMAN. You get a commission which you return?

Mr. CARSE. Spanish business only.

The CHAIRMAN. I offer as "Exhibit No. 17", a statement by the Electric Boat Co. showing commissions paid to B. Zaharoff, starting in 1919 up to and including 1930, showing the total amount of commissions paid as \$766,099.74.

(The statement referred to was marked "Exhibit No. 17", and appears in the appendix on p. 329.)

The CHAIRMAN. How would you explain the general nature of these commissions shown on "Exhibit No. 17"?

Mr. CARSE. These are our Spanish business. I think it goes back before my time, but we have an agreement there with this Spanish company, Sociedad de Construcción Naval, by which they were to have paid a certain percentage of the profits which they made in building submarine boats for the Spanish Government.

The CHAIRMAN. In which Vickers were interested?

Mr. CARSE. Not in the beginning; not originally.

Senator CLARK. What was that percentage, do you recall, Mr. Carse?

Mr. SPEAR. Originally it was a profit-sharing agreement: 50 percent.

Senator CLARK. They paid you 50 percent of the profits on the Spanish submarines?

Mr. SPEAR. Yes, sir.

Mr. CARSE. That was the basis of all of our original agreements. We have since been obliged to modify them from time to time, owing to the change of conditions, and so forth. This agreement was modified so that they paid us a certain percentage, which under another agreement we transmitted direct to Sir Basil Zaharoff and then they paid us another basis of compensation for ourselves.

Senator BARBOUR. Mr. Carse, who is this Sir Basil Zaharoff? Is he a Spaniard?

Mr. CARSE. Sir Basil Zaharoff is called the mystery man of Europe. He is a very able man. There have been all sorts of stories about his parentage and early youth, and so forth, most of them probably just fables; but I think he probably is a Greek, but he is also Sir Basil Zaharoff, and is a Knight of the Garter of Great Britain.

Senator CLARK. He has also claimed to be a Frenchman at various times, has he not, Mr. Carse?

Mr. CARSE. I do not think he claims to be a Frenchman, but he has lived in Paris and Monte Carlo. He is a Spanish duke also. He is a very able and a very brilliant man. There seems to be a lot of slurring around about him, but I met him in 1924 and I think

he was one of the very greatest men I have had the honor to meet, and I think you will find that the President of the United States in 1919 gave Sir Basil his confidence and advised with him in relation to the matter he was in Europe for.

The CHAIRMAN. I am surprised to hear that. I was about to remark that the only country that has not recognized Sir Basil or decorated him is the United States.

Mr. CARSE. He has not had so much to do with the United States. He is a European.

Senator CLARK. Mr. Carse, when was this original arrangement made with this Spanish concern with respect to the division of profits 50 percent?

Mr. CARSE. It was before my time.

Senator CLARK. Can you get that contract for us so that it can be put in the record?

Mr. SPEAR. Yes, sir.

Senator CLARK. Mr. Carse, when was this modification of that original contract made?

Mr. CARSE. Mr. Spear can probably answer it more directly.

Mr. SPEAR. Just to make the subject clear, while the original agreement provided for a share of the profits, we found—

Senator CLARK. Do you know about when the original agreement was made, Mr. Spear?

Mr. SPEAR. I could tell you roughly.

Senator CLARK. Yes, sir.

Mr. SPEAR. I should say about 1910 or 1912.

The CHAIRMAN. This statement which was made, "Exhibit No. 17", showing commissions paid starting in 1919 is not inclusive of all commissions that were probably paid to Sir Basil Zaharoff?

Mr. SPEAR. No; I think there was a great deal before that. No; business was received immediately after the agreement. It was some years after the agreement, Mr. Chairman, before there was any business. Just to finish my statement: We found our Spanish friends a little bit slow in accounting, and so forth, so that before we had formally modified this agreement, we did reach an agreement with them that instead of paying us 50 percent on the business which they were then doing, they would pay a fixed percentage, which merely meant that we could get some money as we went along instead of waiting for them to finish the boats and make up an accounting.

Senator CLARK. That was a fixed percentage of the gross business which was done?

Mr. SPEAR. Yes, sir.

Senator CLARK. As against a division of profit?

Mr. SPEAR. Yes, sir; that was the first modification of the original agreement.

Senator CLARK. Do you know about when that was, Mr. Spear?

Mr. SPEAR. That, I think, was in 1921.

Senator CLARK. That was entered into by you on behalf of the Electric Boat Co.?

Mr. SPEAR. I negotiated that in Europe; yes, sir. Then later on our original agreement with them expired, came to an expiration date—our license agreement.

Senator CLARK. When was that?



**Mr. SPEAR.** I do not know. I did not bring these dates with me. At any rate, it was subsequent to this modification of which I have told you.

Thereupon a new agreement was entered into in which they became—

**Senator CLARK.** Do you have that agreement with you?

**Mr. SPEAR.** I did not bring any of these papers. I do not know whether you have them or not.

**Senator CLARK.** All right.

**Mr. SPEAR.** Under the new agreement, they became licensees of both ourselves and Vickers; the reason for that being that Vickers owned some stock in this Sociedad de Construcción Naval.

**Senator CLARK.** That is the Spanish company?

**Mr. SPEAR.** That is the company which had been directed technically by British engineers, largely from the beginning.

**Senator CLARK.** Does Vickers have any patents as distinguished from your patents?

**Mr. SPEAR.** Yes, sir; they have patents as distinguished from our patents. Under the new agreement we jointly give them a license. In other words, they take a license from both of us so that they can use Vickers' patents, Vickers' engines, and so forth, if they choose, as well as ours.

**Senator BONE.** Are you permitted to use Vickers' patents under that agreement?

**Mr. SPEAR.** Yes.

**The CHAIRMAN.** Do you pay Vickers anything for the use of those patents?

**Mr. SPEAR.** We do not.

**Senator CLARK.** Mr. Spear, what was the intention of the second agreement entered into in 1924 or 1925? What did you get out of that?

**Mr. SPEAR.** My recollection is we got 3½ percent, when the submarines are built according to our designs and when we supply all the working plans, and so forth.

**Senator CLARK.** That is on the gross?

**Mr. SPEAR.** Three and a half percent on the gross. If, on the contrary, they should be directed by their own government to build a different kind of boat we did not design for them, but they used our patents, then they pay 1½ percent.

**Senator CLARK.** What does Zaharoff get out of it under that contract?

**Mr. SPEAR.** Nothing.

**Senator CLARK.** Then what are the sums set out in the exhibit which has just been put in evidence, indicated as sums paid to Zaharoff? What do they represent?

**Mr. SPEAR.** They came under the old agreement.

**Senator CLARK.** They apparently extended to 1930, which is several years after the old agreement expired, according to your testimony.

**Mr. SPEAR.** I cannot tell you, because I did not make this up.

**Mr. CARSE.** This new thing which the Spaniards have advised us that they have made, without consultation with us, 1½ percent is just lately.

Senator CLARK. What I am trying to get at, Mr. Spear, is this: In 1926 this exhibit shows that there was paid to Sir Basil Zaharoff the sum of \$67,309.58.

Mr. SPEAR. Yes, sir.

Senator CLARK. And in 1927 you paid in \$33,327.44.

Mr. SPEAR. Yes, sir.

Senator CLARK. And in 1928 you paid in \$90,086.79.

Mr. SPEAR. Yes, sir.

Senator CLARK. And in 1929 you paid in \$35,744.65.

Mr. SPEAR. Yes, sir.

Senator CLARK. In 1930 you paid in \$77,883.12. Now you say that this is not part of the three and a half percent or one and a half percent which you get back, and at the same time you say that Sir Basil Zaharoff did not receive anything under that contract. What do these payments represent?

Mr. SPEAR. You misunderstood.

Senator CLARK. I understood that that was what you said.

Mr. CARSE. Sir Basil at the present time, under this latest modification which we have been advised the Spaniards themselves have made, gets nothing; and there is no provision for Sir Basil Zaharoff at all, but prior to this late episode 5 percent went to Sir Basil Zaharoff on the Spanish business.

Senator CLARK. But the figures which I have just enumerated from the exhibit you have said were under the original contract which has expired, and that a new contract was entered into which provided nothing for Sir Basil Zaharoff.

Mr. CARSE. You misunderstood him. He did not mean that. I think the thing was modified so that we got  $3\frac{1}{2}$  percent and Vickers  $3\frac{1}{2}$  percent and Sir Basil continued the 5 percent, the same as he had previously.

Senator CLARK. In the new contract?

Mr. CARSE. Yes, sir.

Senator CLARK. Is that contract still in effect?

Mr. CARSE. It is still in effect, only, as I say, the Spaniards have given us notice that instead of operating under the three and a half percent clause, they propose to operate under the one and a half percent clause.

Senator CLARK. I am not now speaking, Mr. Carse, of the amount of your commission. I am speaking of your payments to Sir Basil Zaharoff. What do they represent for the years 1926 to 1930, inclusive?

Mr. CARSE. Remittances which were made to us by the Spanish Company of 5 percent, and we transferred that to Sir Basil Zaharoff.

Senator CLARK. Now, Mr. Carse, will you explain to the committee why it is that you were required on a fixed commission to make these payments to Sir Basil Zaharoff for the Spanish company, and why they should have been transmitted to you and the actual payments made by you?

Mr. CARSE. I do not know.

Senator CLARK. What is the basis for that arrangement?

Mr. CARSE. Sir Basil Zaharoff secured that business for us entirely. It was his business. The Spanish business was his business. He secured that business and he held it for us against very keen competition. He secured the contract originally.

Senator CLARK. But if the contract provided for an allowance to you by Zaharoff, why should the payment be made through the Electric Boat Co.? That is what I am trying to get at.

Mr. CARSE. I suppose because the contract or agreement was made between the Sociedad de Construccion Naval and the Electric Boat Co.

Senator CLARK. Sir Basil Zaharoff is not a party to it?

Mr. CARSE. Not a party to it.

Senator CLARK. Did his name appear in the contract?

Mr. CARSE. No, sir.

Senator CLARK. What was the specification, then, in the contract covering this 5 percent?

Mr. CARSE. I cannot say.

Senator CLARK. In other words, let me put it a little bit differently, Mr. Carse. Did the contract provide that you were to have 5 percent as your commission, that you were to have 5 percent plus  $3\frac{1}{2}$  percent or  $1\frac{1}{2}$  percent; in other words, that you were to have your commission on one class of business,  $8\frac{1}{2}$  percent, and on another of  $6\frac{1}{2}$  percent?

Mr. CARSE. No, sir; never  $6\frac{1}{2}$ . They simply advised us that they were going to operate under clause no. 4,  $1\frac{1}{2}$  percent, which they have not paid us.

Senator CLARK. I understand, Mr. Carse, but since Basil Zaharoff, as you say, was not a party to this contract, what was the provision in the contract with regard to your commission? Did the contract provide for a payment of 5 percent to Sir Basil Zaharoff?

Mr. SPEAR. No; I think not. I do not think his name was mentioned.

Mr. CARSE. I could not answer that.

Senator CLARK. In other words, the contract actually provided for a payment of  $8\frac{1}{2}$  percent to you, of which you, of your own accord, remitted 5 percent to Sir Basil Zaharoff?

Mr. CARSE. I do not think I would say "of our own accord." I think that was based on some old agreement at the time he secured the business for us.

Senator CLARK. That was based upon an old agreement between the Electric Boat Co. and Sir Basil Zaharoff?

Mr. CARSE. Yes, sir; and continuing—

Senator CLARK. So that, in effect, this 5 percent was simply a splitting of the commission between you and Sir Basil Zaharoff on the basis of 5 percent or  $3\frac{1}{2}$  percent or  $1\frac{1}{2}$  percent, as the case might be?

Mr. CARSE. It was the payment of commission to an agent who secured for us the business.

The CHAIRMAN. And you looked upon Zaharoff as the agent who had secured the business?

Mr. CARSE. Absolutely.

Senator POPE. Whose agent? Your agent?

Mr. CARSE. Yes, sir; our agent in connection with Spanish business.

The CHAIRMAN. Senator Bone.

Senator BONE. Mr. Carse, can you tell the committee what service this gentleman rendered to the British Empire that induced the King to make him a Knight of the Garter, or which induced the Spanish Government to make him a duke?

Mr. CARSE. I do not know.

Senator BONE. Would you suggest to the committee that it was his activity in the munitions business that led those Governments to give him those decorations and titles?

Mr. CARSE. I do not know. I do not know his history. He is not a man who talks very much.

Senator BONE. He seems to have been very influential with the Spanish Government, and he got an exclusive contract from them, and I was wondering if it had anything to do with the bestowal of his title.

Mr. CARSE. I could not say.

Senator BONE. Will you advise us why these various European governments have sought to bestow these titles on this gentleman?

Mr. CARSE. Sir Basil married a Spanish duchess.

Senator BONE. I understand that; but you would not bestow a title on a man because he married some woman. What services did he render those countries, if you can advise us?

Mr. CARSE. I do not know.

Senator BONE. He appears to have been supplying ammunition and munitions of war to all of them, and they were fighting one another, and I was wondering what was in the gentleman's history that led them to bestow upon him these titles. Possibly you can enlighten us.

Mr. CARSE. His wife was the cousin of King Alfonso.

Senator BONE. It was rather a family affair, more than anything else?

Mr. CARSE. It would seem so. I spent a day with Sir Basil at his country home, and I certainly did not put him on the stand and cross-examine him.

The CHAIRMAN. I think, Senator Bone, you will find your question answered as we go along further in the inquiry.

Senator POPE. Did you take up his relation with Greece and the services which he might have performed for Great Britain in connection with Greece?

The CHAIRMAN. Senator Clark will take up that tomorrow.

Senator CLARK. One other question, Mr. Carse. This figure of \$766,099.74, which was paid by you to Sir Basil Zaharoff between 1916 and 1930, inclusive, if I understand correctly, represents 5 per cent of the business transacted by you with Spain during that period?

Mr. CARSE. Yes, sir.

The CHAIRMAN. Is Mr. Zaharoff interested in Vickers?

Mr. CARSE. I do not know. At one time it was reputed that he had a controlling interest.

The CHAIRMAN. That he had a controlling interest?

Mr. CARSE. Yes, sir.

The CHAIRMAN. Vickers, however, speaking generally, is very much a British concern, is it not?

Mr. CARSE. Very much so; yes, sir.

The CHAIRMAN. I have before me a letter written by C. W. Craven, addressed to you, Lieutenant Spear, dated October 7, 1927, and again marked "Absolutely Personal and Confidential", which we will ask to have incorporated as "Exhibit No. 18."

(The letter referred to was marked "Exhibit No. 18", and appears in the appendix on p. 330.)

The CHAIRMAN. Referring to "Exhibit No. 18" down close to the middle of the opening paragraph we find Mr. Craven saying:

"... we have just received an inquiry for 1, 2, or 3 boats for the Admiralty. Armstrong-Whitworth's have also received a similar inquiry."

Who is Armstrong-Whitworths?

Mr. SPEAR. Armstrong-Whitworths are now out of business, but at that time it was a large shipbuilding and engineering company in Great Britain, also an ordnance company, with large plants at Newcastle.

The CHAIRMAN. Vickers now possess them?

Mr. SPEAR. No, sir; only a part. They went through bankruptcy after the war and Vickers took over some of their plants, but not all.

The CHAIRMAN. At any rate, Mr. Craven says: "My present feeling is that we should quote for 1, 2, or 3 from Armstrong's"—that indicates that Vickers then had a large holding in Armstrong's, does it not?

Mr. SPEAR. That would be my conclusion.

The CHAIRMAN (continuing quotation):

Who have agreed to put in whatever price I tell them, and that we should also quote for 1, 2, or 3 boats from Barrow.

Who is Barrow?

Mr. SPEAR. That is where Vickers' principal shipbuilding plant is located. It is on the east coast of England.

The CHAIRMAN. Then Mr. Craven says:

I would keep the Armstrong price very slightly above ours, the idea being that whatever boats were ordered from either party would be built at Barrow, so effecting considerable economies. I also think that perhaps it would be worth while putting forward a tender for six boats, the total number to be built. I have had a word with the director of contracts at the Admiralty, who is a friend of mine, and who would like this. He, I know, tried to get us the order for all five submarines last year.

Now has Vickers kept you informed constantly of such business as they were contemplating?

Mr. SPEAR. In general, whenever there is an inquiry.

The CHAIRMAN. Do you keep Vickers advised of such business as you have in prospect?

Mr. SPEAR. Not unless it is a business in which Vickers is legitimately interested.

The CHAIRMAN. Although Vickers is a British concern, in this particular case they were not opposed at all to "ganging up" when it is to their advantage to drive a better bargain with their own Government?

Mr. SPEAR. I presume not. I do not know.

The CHAIRMAN. This same letter, Lieutenant Spear, in the closing paragraph, makes reference to the secretary of Vickers and says:

who was put on the board yesterday, is leaving in the *Mauretania* on Saturday to see Sheridan and Roberts.

Who are they?

Mr. SPEAR. I believe they at that time were Vickers' agents in this country.

The CHAIRMAN. In this country?

Mr. SPEAR. In this country.

The CHAIRMAN. Vickers had agents here in America then?

Mr. SPEAR. Yes; they have many products.

The CHAIRMAN. Are Mr. Sheridan and Mr. Roberts still in business?

Mr. SPEAR. I believe not.

The CHAIRMAN. Where were they located at that time?

Mr. SPEAR. They have an office in New York.

The CHAIRMAN. In New York?

Mr. RAUSHENBUSH. Sheridan is still here!

Mr. SPEAR. Yes, sir.

The CHAIRMAN. And how about Mr. Roberts?

Mr. SPEAR. I do not know where Mr. Roberts is.

Mr. CARSE. He is in New York.

Mr. SPEAR. I think he is in New York, but I do not know of my own personal knowledge.

The CHAIRMAN. Is either of them connected with your industry in any way?

Mr. SPEAR. Not with our industry.

Mr. CARSE. Roberts is a director of the Electric Boat Co.

The CHAIRMAN. Mr. Roberts is a director of the Electric Boat Co.?

Mr. CARSE. Yes, sir.

The CHAIRMAN. Did you see the secretary of Vickers when he came over on that trip, Mr. Spear?

Mr. SPEAR. I do not remember that I did, sir.

The CHAIRMAN. Mr. Craven had said in his letter that he did not suppose he would be getting in touch with you, but if you happened to meet him:

I know you will be kind to him.

Mr. CARSE. What year was that?

The CHAIRMAN. 1927.

Mr. CARSE. Sims came in the office one time for about 5 minutes. I do not know whether it was then or some other time.

The CHAIRMAN. I have laid before you "Exhibit No. 19", being a letter dated November 30, 1927, addressed to you, Mr. Spear, again written by Mr. Craven, and I will interrogate you with reference to that.

(The letter referred to was marked "Exhibit No. 19" and appears in the appendix on p. 330.)

The CHAIRMAN. Down in the fourth paragraph of that letter, "Exhibit No. 19", you will find this language:

When you are next over here I will show you my estimate, but you can take it from me now that I knew there was going to be keen competition, and I cut my price to under 5 percent profit, because I felt that, with your support, it was up to me to get the work and starve out competitors for another year or two. For your private information, I was in a position to look after Armstrong's and keep them out of the picture on this occasion.

Do you know how he kept Armstrong's out of the picture?

Mr. SPEAR. No, sir; I have no information except what is in this letter.

The CHAIRMAN. He wrote a postscript to that letter, which reads as follows:

You will notice in the enclosed report of the meeting that Armstrong's had to make a terrible fuss about the Merchant Shipyards, etc., which they are retain-

ing. and which will continue to be operated by the old company quite apart from the new amalgamation. This, it will be obvious to you, is for the benefit of their debenture and shareholders. For your own private information, the works they are retaining are the ones we refuse to have anything to do with.

Do you know anything more about the consolidation at that time?

Mr. SPEAR. No, sir; I know nothing about it except what there is in this letter and what appeared in the public press.

The CHAIRMAN. Mr. Craven wrote you another letter under date of September 10, 1930, and I will offer that letter at this time as "Exhibit No. 20."

(The letter referred to was marked "Exhibit No. 20" and appears in the appendix on p. 331.)

The CHAIRMAN. Referring to "Exhibit No. 20", Mr. Craven stated as follows:

I still hope your company will meet me regarding the amount due to you, because there was certain action I had to take which involved expenditure, and which I am sure you would have agreed with. I cannot possibly say any more in writing, but when the long-promised visit takes place we will have a talk.

Has that long-promised visit taken place?

Mr. SPEAR. No, sir.

The CHAIRMAN. You have not seen Mr. Craven since that time?

Mr. SPEAR. I have not been abroad since that time. Mr. Craven stopped one day in New York.

Mr. CARSE. I do not know the date, but he came over on the maiden voyage of one of the big ships built for the Canadian Pacific road. He came over on that.

Mr. SPEAR. To make my answer responsive, I know what the chairman wants to know. He wants to know if I have ever had a talk with Commander Craven about the subject of this letter.

The CHAIRMAN. That is right.

Mr. SPEAR. The answer is "no."

The CHAIRMAN. Have you had a talk with any one connected with Vickers on the subject matter of this letter?

Mr. SPEAR. I have not had a talk with anyone connected with Vickers on the subject matter of this letter.

The CHAIRMAN. Did you see Mr. Vickers 2 months ago when he was over here?

Mr. SPEAR. No, sir.

The CHAIRMAN. Did you, Mr. Carse?

Mr. CARSE. No, sir.

The CHAIRMAN. Do you know whether he had a talk with any officials of the Electric Boat Co.?

Mr. CARSE. No; he did not.

The CHAIRMAN. Did you know he was in the country?

Mr. CARSE. No, sir; I did not know he was in the country.

The CHAIRMAN. Mr. Craven expressed the hope that you would meet him regarding "the amount due to you." Have you met him regarding the amount due to you?

Mr. SPEAR. I do not recall that. Every time that any business appeared in sight he always wanted to pay us a smaller amount. Whether we agreed at that time, I could not tell without looking up the record.

The CHAIRMAN. He said that there was certain action that he had to take which involved expenditure. What could that actual expenditure be?

Mr. SPEAR. I could not tell you.

The CHAIRMAN. One hesitates to use the word lieutenant, but I am rather forced to ask here if it could mean anything other than that there was bribery resorted to in getting business?

Mr. SPEAR. Yes; it could very readily mean many other things, I think.

The CHAIRMAN. Do you think it does mean anything other than that?

Mr. SPEAR. I think so, because, so far as my knowledge goes, I have never known of any case of bribery in connection with the British Government.

The CHAIRMAN. Do you know of any cases where officials connected with the Spanish Government, for example, have been susceptible to bribery in order to help get business, one way or the other?

Mr. SPEAR. I have no knowledge of any such thing.

Senator CLARK. Sir Basil attended to that end of it, did he not?

Mr. SPEAR. I cannot answer for Sir Basil.

The CHAIRMAN. Mr. Carse, we find that, in addition to having very positive working agreements and understandings as to divisions of profit and territory, the Vickers people even went so far as to assume the right occasionally to reproach your company for your method of doing business abroad. Here is a letter dated July 30, 1932, addressed to you by Mr. Craven, which I introduce as "Exhibit No. 21."

(The letter referred to was marked "Exhibit No. 21" and appears in the appendix on p. 332.)

The CHAIRMAN. A portion of that letter reads as follows:

First may I suggest that even in code it is better not to mention any names of ships, as I am rather afraid that such telegrams might get into the hands of our clients, and it would be awkward if they asked me about our agreement with you. I am sure you will appreciate what I mean.

Is the conclusion to be drawn from that statement that the British Admiralty had no knowledge at all of the agreement between Vickers and you?

Mr. CARSE. I think that is what Mr. Craven means, that the British Admiralty might raise some objection to an American concern receiving any money on account of business with the British Government, the same as you asked me, apparently with intent, whether we paid Vickers anything on American business.

Vickers have behaved in a straightforward manner with us in all of our arrangements since early 1900.

The CHAIRMAN. Has the British Government had knowledge of the existence of this understanding between you and Vickers?

Mr. CARSE. I do not know. We have never had—

The CHAIRMAN. Has the United States Navy or has the American Government had knowledge of this agreement between you and Vickers?

Mr. CARSE. Undoubtedly.

The CHAIRMAN. You say "undoubtedly." How do you know that they knew?

Mr. SPEAR. I, for one, have talked to them.



Mr. CARSE. We have told them many times.

The CHAIRMAN. You, Mr. Spear, have advised them of it?

Mr. SPEAR. Yes, sir.

The CHAIRMAN. Did it ever occasion any embarrassment at all?

Mr. SPEAR. Not the slightest.

The CHAIRMAN. Mr. Carse, what is your own personal opinion regarding the effort to accomplish agreements looking to disarmament in the disarmament conferences?

Mr. CARSE. I take no position at all.

The CHAIRMAN. They had a tendency to slow business down, leading up to them and during their conduct?

Mr. CARSE. Certainly. They have held it up, especially the effort of Great Britain to do away with submarines, and it has certainly affected our line of business very substantially.

The CHAIRMAN. Speaking now more particularly of Vickers, have you ever heard them express themselves regarding their attitude toward these disarmament conferences?

Mr. CARSE. I so very seldom see Vickers that there is not any conversation.

The CHAIRMAN. With anyone connected with them?

Mr. CARSE. The last time I was over in England was in 1924. They have not expressed any opinion about it.

The CHAIRMAN. You have had a pretty constant flow of correspondence between you. Have they expressed themselves in that respect?

Mr. CARSE. I do not recall any expression.

The CHAIRMAN. Here is a letter dated October 30, 1932, addressed to you by C. W. Craven, of Vickers, which is offered as "Exhibit No. 22."

(The letter referred to was marked "Exhibit No. 22" and appears in the appendix on p. 332.)

The CHAIRMAN. In this letter, "Exhibit No. 22", Mr. Craven says:

All that you and I gain by the transaction will be that we shall know that if the ship is built Vickers will get the order. If, on the other hand, Geneva or some other fancy convention decide that large submarines have to be abolished, no definite contract will be placed and the Admiralty can retire gracefully without having to pay us anything. I cannot, of course, commence spending any money until say March, but, at any rate, our competitors will not receive the enquiry.

Is not that rather a slurring of the disarmament program?

Mr. CARSE. No; I do not think so.

The CHAIRMAN. What is the meaning of the reference to "fancy convention"?

Mr. CARSE. Some people sometimes use words and phrases. I think there was perhaps a division of opinion in regard to these conferences. Some people, members of the conference, favored certain things and others favored other things. You cannot blame private citizens and so forth for having differing opinions. They had presented a design for a submarine boat which had been approved by the British Government, subject to the result of the Geneva Conference, and if the conference did not decide against the building of submarines of this size, they would get the order, and if they did decide against it, they would not get the order. So that they had to wait until the end of the Geneva Conference.

The CHAIRMAN. Is there not to be read in this paragraph which I have quoted to you a desire that the conference fail?

Mr. CARSE. Naturally a person would not wish some action to be taken by any conference that would be detrimental to his interest.

The CHAIRMAN. Now Mr. Craven expressed the same thought as related to H. M. S. *Clyde*, in a letter under date of January 6, 1933, addressed to Mr. Henry R. Carse, which I will offer as "Exhibit No. 23."

(The letter referred to is marked "Exhibit No. 23", and appears in the appendix on p. 333.)

The CHAIRMAN. In "Exhibit No. 23", Mr. Craven stated as follows:

At the same time the admiralty also promised us the order for H.M.S. *Clyde* (another repeat of the *Thames*), but in this latter case they will not give us a contract until after the end of March. In other words, they will have the right to withdraw their promised order for the second ship if Geneva or any other troublesome organization upsets the large submarine. In view of this, I am not saying anything publicly about the *Clyde*, and I would suggest that it would be wise that Spear should not let the information get into the hands of your Navy Department until after I can tell you that we really have a proper contract. Cammell Lairds will get the two small S boats. On the whole, I am very pleased, because it is impossible in these days of starvation of shipbuilding to get all the submarine orders.

Who are the "other troublesome organizations" to which he refers?

Mr. CARSE. I suppose they have pacifists in England, the same as they have in the United States.

The CHAIRMAN. Yes; but pacifists in England could not upset their submarine program.

Mr. CARSE. They might very well. Who can tell what any organization might do? He does not refer to Geneva there except "or other troublesome organizations."

The CHAIRMAN. That was January 1933 and we were approaching the renewed disarmament conference.

Mr. CARSE. People have different opinions about that.

The CHAIRMAN. You do not think Craven was referring to that?

Mr. CARSE. No, sir.

The CHAIRMAN. Not at all?

Mr. CARSE. No; because he expected to get the order when Geneva had adjourned unless some other troublesome organization should come into the picture.

Senator CLARK. No; he does not do that, Mr. Carse. He does not describe the other organization. He puts Geneva in the same class. He states: "In other words, they will have the right to withdraw their promised order for the second ship if Geneva or any other troublesome organization upsets the large submarine." So that he regarded the Geneva Conference as a troublesome organization, evidently.

Mr. CARSE. I could not speak the English words for the man who wrote that.

The CHAIRMAN. Perhaps it is better to let the language stand by itself without our undertaking to say what it does mean.

Mr. CARSE. I would say so.

The **CHAIRMAN**. At any rate, Mr. Carse, in this case there was a premium for Vickers and for yourself in the event that the conference failed to come to any agreement?

**Mr. CARSE**. No; that is not it. Not come to any agreement, but if any agreement that they made did not prohibit or prevent the construction of submarine boats of the size indicated.

The **CHAIRMAN**. Lieutenant Spear, did you withhold from the Navy Department and did you refrain from letting the Navy Department know what Britain's plans were, as stated in this letter?

**Mr. SPEAR**. I said nothing about it to anybody until after it became an established fact.

The **CHAIRMAN**. Why was he afraid that the information would get into the hands of the Navy Department?

**Mr. SPEAR**. I could not tell you that. I do not know. I presume they thought it was a confidential matter with the admiralty and that if the admiralty chose to tell our delegates at Geneva what they were contemplating, well and good, but it was up to them. I really do not know anything about it.

The **CHAIRMAN**. Would it have been to the advantage of the delegates of Britain in the disarmament conference to have contemplated building for the future and keeping the United States in the dark as to having such ships that they had in part contracted for?

**Mr. SPEAR**. That I do not know, Mr. Chairman. I know from talks which I have had with some people who have attended these conferences they thought that the right thing to do was to put their cards on the table and tell each other what they contemplated doing, in the event the agreement took a certain form. Whether they all lived up to that or not, I do not know, of course.

The **CHAIRMAN**. All in all, you and your associates or your company have had pretty direct understanding with Vickers all the way through regarding their plans and your plans as related to shipbuilding?

**Mr. SPEAR**. In general; yes, sir.

**Senator CLARK**. Mr. Spear, you say that this information was confidential information of the British Admiralty. It was not so confidential to prevent Vickers giving it to you, a private concern in this country, was it?

**Mr. SPEAR**. No.

**Senator CLARK**. Mr. Carse, or Mr. Spear, do you have any written contracts with Sir Basil Zaharoff with regard to this Spanish business?

**Mr. CARSE**. There was something back in 1912.

The **CHAIRMAN**. Let that be offered as "Exhibit No. 23-A."

(The document referred to was marked "Exhibit 23-A" and appears in the appendix on p. 333.)

**Senator CLARK**. Was there any subsequent agreement in writing between the Electric Boat Co. and Sir Basil Zaharoff?

**Mr. CARSE**. No; not that I know of.

**Senator CLARK**. Mr. Carse, do you understand that Sir Basil Zaharoff still controls the Spanish armament business since the Spanish people rose up and drove his cousin Alfonso out of the country?

Mr. CARSE. I do not know.

Senator CLARK. Whatever contractual arrangement you have with him is still in effect?

Mr. CARSE. Still in effect, but we have not got any money.

Senator CLARK. But if you get any, you will have to "kick" over 5 percent to him?

Mr. CARSE. No, sir. Everybody all around the world is repudiating what they owe, or might owe, so that we do not know where we might come out.

Senator BARBOUR. You are not doing any business with him now, or he with you at the moment?

Mr. CARSE. We have not paid him any money for some years, according to the statement.

Mr. RAUSHENBUSH. Since 1931?

Mr. CARSE. Yes, sir.

Senator GEORGE. Mr. Carse, are there any restrictions applicable to your patents that do not apply to all other American patents generally?

Mr. CARSE. I do not know exactly what you mean. I do not know of any. Restrictions of what nature, do you mean?

Senator GEORGE. With reference to granting license to foreign firms.

Mr. CARSE. No; the patents do not contain any restrictions and we have granted licenses in times gone by to shipbuilding concerns of different countries. There was Great Britain, Holland, Norway, and Austria.

Senator GEORGE. There are no restrictions on your base patents applicable to submarine construction that do not apply generally to patents issued or granted by our Government?

Mr. CARSE. No, sir.

The CHAIRMAN. The committee will be in recess until 1:30 o'clock and the witnesses will please come back at that time.

(Thereupon, at 12:15 p.m., the committee took a recess until 1:30 p.m. of the same day.)

#### AFTER RECESS

The recess having expired, the committee resumed at 1:30 p.m., Hon. Gerald P. Nye (chairman) presiding.

The CHAIRMAN. The committee will be in order. There should be incorporated in the record at this time a telegram received from Senator Vandenberg, the only member of the committee absent, declaring:

[Telegram]

W 5 47 Govt. DL. Grand Rapids, Mich., 10:46 a.m., September 4, 1934.

HON. GERALD P. NYE.

*United States Senate:*

Previous unbreakable engagements keep me from opening session of committee stop Hope to join you Thursday morning stop Deeply gratified at progress our investigators seem to have made stop More and more convinced that our committee task is of vital importance and that the people expect results.

SENATOR A. H. VANDENBERG.  
1112A

Senator POPE. Mr. Chairman, I would suggest that the total of the amount of royalties received by the Electric Boat Co. in connection with this foreign business be inserted in the record.

The CHAIRMAN. I suggest that that figure be inserted by the reporters at the point when that was being considered this morning.

Senator POPE. So that it may be made a part of the record; at any rate, the amount is \$3,869,637.38. That is the total of the figures as shown on "Exhibit No. 8."

Senator BARBOUR. Is the range of time over which that is spread stated?

Senator POPE. Yes. They cover the years 1916 to 1927.

The CHAIRMAN. Before recess there was offered in evidence "Exhibit No. 23-A", that being a copy of a memorandum concerning a meeting held in London in June 1912.

Mr. Carse, 1912 does not mark the beginning of the relations of your company with the Vickers concern, does it?

Mr. CARSE. No, sir.

The CHAIRMAN. Who is Albert Vickers?

Mr. CARSE. At that time he was head of Vickers Co.

The CHAIRMAN. And who was Isaac L. Rice?

Mr. CARSE. He was president of the Electric Boat Co.

The CHAIRMAN. And at that time who was Basil Zaharoff?

Mr. CARSE. Sir Basil Zaharoff.

The CHAIRMAN. Did he have any connection with a Spanish munitions undertaking?

Mr. CARSE. I think at that time he was our European representative.

The CHAIRMAN. Was he not also at that time a director of the Sociedad Espanola de Construcción Naval?

Mr. SPEAR. I think he was.

Mr. CARSE. I do not know myself. Mr. Spear thinks he was.

The CHAIRMAN. This copy of the memorandum of which I speak is signed by Albert Vickers and Basil Zaharoff (Exhibit No. 23-A) and says that—

A meeting was held in London in June 1912 at which an agreement, dated 18th June 1912 was drawn up between the Electric Boat Co. of New York, and the Sociedad Espanola de Construcción Naval, of Madrid. At this meeting there were present: Mr. Albert Vickers, chairman of Messrs. Vickers, Ltd., and vice president of the Sociedad Espanola de Construcción Naval; Mr. Isaac L. Rice, now deceased, but at the time of the meeting president of the Electric Boat Co., New York; Mr. Basil Zaharoff, director of the Sociedad Espanola de Construcción Naval.

Clause 9 of the above agreement reads as follows:

"For the purpose of maintaining the American company's business in Europe it is agreed that 5 percent of the selling price of each boat shall be paid by the Spanish company to the American company and that these payments will be made pro rata as and when the money is received by the Spanish company under the order for such boat or boats."

As to the application that had to be given to the amount representing the said 5 percent of the selling price of each boat and how it was to be dealt with, it was decided and agreed by the three above-named gentlemen that these commissions be paid to and distributed by Mr. Basil Zaharoff.

We, the undersigned, hereby confirm the accuracy of the above statement.

(Sgd.) ALBERT VICKERS.

(Sgd.) BASIL ZAHAROFF.

I gather from the existence of this memorandum that it was brought to you in confirmation of an agreement that was reached at this London meeting.

Mr. CARSE. Yes, sir.

The CHAIRMAN. Was this agreement the one that was so long discussed this morning between you and Senator Clark having to do with the 5-percent commission?

Mr. CARSE. Yes, sir.

The CHAIRMAN. Just why was the distribution of this commission left to Mr. Zaharoff?

Mr. CARSE. I do not know. It was a commission paid to him of 5 percent, which is not an out-of-the-way commission on securing any important business, and what he did with it he alone knows.

The CHAIRMAN. In any event, Spain was affording a rather large submarine business at that time, was it not?

Mr. CARSE. It was starting a program but—there were only one or two boats, were there not?

Mr. SPEAR. There was none for some years and then it began later after that agreement.

The CHAIRMAN. On August 9, 1917, Mr. Carse, you sent certain disbursements to Mr. Zaharoff. In any event, Mr. Zaharoff under that date of August 9, 1917, acknowledged receipt, and his letter reads:

PARIS, August 9, 1917.

HENRY R. CARSE, Esq.,

*President Electric Boat Co.,*

*Nassau and Pine Streets, New York.*

DEAR SIR: I am in receipt of your letter of 20th ultima, bringing me check on Paris for francs 82,691.37, and note that further remittances will be made on this account from time to time, as the funds are received by your company, and I am, dear sir,

Truly yours,

BASIL ZAHAROFF.

The CHAIRMAN. How much commission was paid Basil Zaharoff up to 1919; are you prepared to say?

Mr. CARSE. No, I could not say. This was on the Spanish account.

The CHAIRMAN. Will your records enable you to produce for the committee the figures of commissions paid to him up to that time?

Mr. CARSE. I think so.

The CHAIRMAN. What did you understand this commission that has been recited here as 82,000 francs to be for? What was that commission for?

Mr. CARSE. The Spanish company would have remitted to us in pesetas 5 percent of the amounts that they had received on a contract for submarine boats for the Spanish Government.

Senator CLARK. That was in addition to your share, was it not?

Mr. CARSE. Yes. Our share came later. His share came first. As he was in Paris we converted the pesetas into francs and sent him a draft for francs.

Senator BONE. Does it appear in the records who owns this Spanish company?

The CHAIRMAN. It does not yet. I think now might be a good time to develop that point.

Who owns the Spanish company?

Mr. CARSE. I do not know. We have no knowledge of that at all.

The CHAIRMAN. You do, however, have knowledge that Zaharoff was very extensively interested in it?

Mr. CARSE. We believe he was, but we have no definite knowledge.

Senator POPE. You do not know whether he is a stockholder in the company or not?

Mr. CARSE. No.

Senator BONE. Do you know whether Vickers had any interest in it?

Mr. CARSE. We do not know, but we believe they have an interest in it.

Senator CLARK. You knew Cravens was an officer of the Spanish company, did you not?

Mr. CARSE. During the last few years he has become an officer.

The CHAIRMAN. Do you feel that this commission of 82,000 francs was Mr. Zaharoff's own?

Mr. CARSE. We have no reason to think otherwise.

#### ZAHAROFF—INCOME TAX

The CHAIRMAN. In 1917, Mr. Carse, the correspondence reveals that you were drafting or having drafted a letter to help Zaharoff avoid paying income tax on these commissions. There is now offered in evidence as "Exhibit No. 24", a letter dated September 21, 1917, addressed to H. C. Sheridan, Esq., Woodward Building, Washington, D.C., by yourself.

Who was Mr. Sheridan?

Mr. CARSE. He owns the Hotel Washington. I do not know whether at that time he had anything to do with the Hotel Washington, or not. He, at that time, was the agent of Vickers, Ltd., in this country, and he also was a representative of Sir Basil Zaharoff. I believe some question was raised as to income tax on the payments to Sir Basil Zaharoff, and Mr. Sheridan took charge of it and he took up the matter with White & Case, of New York, who were one of the leading income-tax law firms. This came to me.

The CHAIRMAN. Was that income-tax law firm White & Case?

Mr. CARSE. White & Case. This came to me—I do not know exactly why they sent it to me instead of direct to Sheridan; and I transmitted it to Sheridan.

The CHAIRMAN. In any event, Mr. Carse, in that letter to Mr. Sheridan, "Exhibit No. 24", you said:

We handed to Messrs. White & Case the copy of the letter which you left with us last Wednesday from Paris, and we are in receipt today of a letter from them recommending that Mr. Z. make a reply somewhat as follows:

" COMMISSIONER OF INTERNAL REVENUE,  
" TREASURY DEPARTMENT,  
" Washington, D.C., U.S.A.

"DEAR SIR: I have received your letter of June 29 requesting me to fill in the blank form 1040 enclosed therein showing my income derived from sources within the United States. In reply I beg to respectfully inform you that I have received no such income. The commissions of \$1,360,000 referred to by you were not income to me personally but were payments transmitted through me to the corporation for which I am the agent here in Paris.

"Respectfully yours",

It is further suggested that Mr. Z. communicate to us any reply he may receive to said letter and to advise with us before writing any letters or filing

any reports that may be requested. Any communications, of course, that come from Mr. Z. will be taken up with Messrs. White & Case for opinion.

Yours very truly,

(Signed) HENRY R. CARSE, *President*.

This would indicate, Mr. Carse, that you were in very close direct knowledge of this income-tax difficulty. Your letter suggested that Mr. Z., meaning Mr. Zaharoff, I suppose, make a showing that the commissions of \$1,360,000 were not income to him personally, but were payments transmitted through him to the corporation for which he was an agent.

Now, what corporation could that possibly have been?

Mr. CARSE. It might have been many of them. That was a commission not on business done in the United States.

Senator CLARK. What corporation did you have in mind, Mr. Carse, that he was agent for when you made that suggestion to him, the suggestion that he write that letter?

Mr. CARSE. I did not make that suggestion. White & Case made that suggestion.

Senator CLARK. You transmitted it?

Mr. CARSE. Yes; I transmitted it.

Senator CLARK. What did you understand that meant, when you transmitted that suggestion?

Mr. CARSE. I did not know who he meant. It might have been Vickers or it might have been someone else.

Senator CLARK. Where did you get the suggestion that that had actually been commission going to a company instead of to Mr. Zaharoff personally?

Mr. CARSE. I did not make that.

Senator CLARK. I say, where did you get the suggestion that you transmitted to Mr. Zaharoff?

Mr. CARSE. From White & Case.

Senator CLARK. They did not make any suggestion to you as to what company he was agent for?

Mr. CARSE. No.

Senator CLARK. They just suggested to you that you write Zaharoff and suggest to him to write a letter to the United States Bureau of Internal Revenue, setting up that he had passed these commissions on to a firm?

Mr. CARSE. That was not the point. Mr. Sheridan had taken this up with White & Case directly and they wrote this letter to me. I think myself they should have written direct to Mr. Sheridan, because he was handling it and I simply transmitted it. These commissions, I believe it was decided, were not—

Senator CLARK (interposing). Just before you go on with that, Mr. Carse, you had first submitted Sir Basil Zaharoff's letter to Messrs. White & Case?

Mr. CARSE. No. I had submitted Mr. Sheridan's letter—

Senator CLARK. To Messrs. White & Case. Did Mr. Sheridan make any suggestion as to where these commissions had gone at the time he wrote you this letter?

Mr. CARSE. I do not recall that he had made any definite statement.

Senator CLARK. Do you have a copy of Mr. Sheridan's letter that you submitted to White & Case?

Mr. CARSE. I do not know. It was all there, but I do not know.



Senator BONE. Why would this firm of New York lawyers ask you to write that kind of a letter, instead of writing it themselves?

Mr. CARSE. They did not ask me to write that letter. They sent that to me to transmit to Sheridan and have Sheridan, who represented Sir Basil Zaharoff, have him write such a letter.

Senator CLARK. Who opened up the negotiations with White & Case? Did you do it?

Mr. CARSE. No. Sheridan did it.

Senator CLARK. How did you happen to be submitting a letter to White & Case from Sheridan?

Mr. CARSE. Sheridan was in the office there. He was one of our directors at that time and he wrote this letter addressed to White & Case.

Senator CLARK. Why did you have to hand it to White & Case if Sheridan wrote the letter? Why did you have to do it? You say in this letter:

DEAR MR. SHERIDAN: We handed to Messrs. White & Case the copy of the letter which you left with us last Wednesday from Paris and we are in receipt today of a letter from them recommending that Mr. Z make a reply somewhat as follows:

What did you have to do with it?

Mr. CARSE. I suppose I introduced him to White & Case, that is all.

Senator CLARK. Did your introduction of him to White & Case make it necessary for you to deliver all communications from Sheridan to White & Case?

Mr. CARSE. He asked me to send it to them. He was in the office. You see, this goes back a good many years.

Senator BARBOUR. The Electric Boat Co. would have to report any income to a third party, I take it?

Mr. CARSE. Not if it were earned outside the United States. That had been passed upon in relation to the salary paid to Koster. Koster's salary was earned entirely in Europe. It was not anything that was done in the United States for which he was paid. That was passed upon by the Internal Revenue Bureau as not coming within the act.

Senator BARBOUR. That is exactly what I mean. You people would know, in other words, whether it was for services in the United States or not?

Mr. CARSE. Yes.

Senator BARBOUR. If it was not, it would be your duty to designate it that way, as I see it?

Mr. CARSE. If it were earned in the United States.

The CHAIRMAN. But, Mr. Carse, this letter of yours to Mr. Sheridan has you revealing a belief, or at least you are suggesting, that Mr. Z make a showing that this income of \$1,360,000 was not income to Zaharoff personally. Yet there is a letter written on the 9th of August 1917 in connection with which you have said that the 82,000 francs paid to Basil Zaharoff was, so far as you knew, his own personal income.

Mr. CARSE. Yes.

The CHAIRMAN. That it went to him, not to anyone else.

Mr. CARSE. So far as I know; yes.

The CHAIRMAN. How do you square off these two letters 6 weeks apart?

Mr. CARSE. I did not write that letter.

The CHAIRMAN. What letter?

Mr. CARSE. This letter here, suggesting the kind of a letter Sir Basil Zaharoff should write. That was not my letter.

The CHAIRMAN. But that was incorporated in your letter.

Mr. CARSE. I passed it along as the advice of White & Case.

The CHAIRMAN. Did you know then that this was false, that the commission of a million dollars referred to actually was Sir Basil Zaharoff's income?

Mr. CARSE. No; I did not know anything about Sir Basil Zaharoff's income or what he did with it.

The CHAIRMAN. But you have told us with respect to a letter by Sir Basil Zaharoff 6 weeks earlier that 82,000 francs that he received was his own personal income.

Mr. CARSE. So far as I had any advice. I do not know what Zaharoff did in his business. He did not tell me.

The CHAIRMAN. You believed that, but here in this letter you are indicating a belief or an understanding at least that none of this commission was personal income to Basil Zaharoff.

Mr. CARSE. That was not my thought or my knowledge. That was White & Case's suggestion. I did not say it was so.

The CHAIRMAN. The most interesting point of all is this: Did Zaharoff succeed in escaping the payment of any income tax in the United States?

Mr. CARSE. I do not know. I believe there was some settlement, but I never knew what it was. Sheridan never told me. It was handled entirely by him. I did not have any more to do with it except transmit that advice from White & Case to Sheridan.

Senator BONE. You do not know whether he or his undisclosed principals paid any tax to the Government on that?

Mr. CARSE. I heard that there was a settlement made.

Senator BONE. A settlement?

Mr. CARSE. Yes.

Senator BONE. With the Internal Revenue Bureau?

Mr. CARSE. Yes; that is correct.

Senator BONE. Could you tell us out of what transactions the income of \$1,300,000 arose?

Mr. CARSE. Well, I would have to check that.

Senator BONE. Were those commissions on sale of munitions?

Mr. CARSE. Munitions? What do you call munitions?

The CHAIRMAN. Submarines or machinery for submarines.

Senator BONE. That were produced in this country? Was the equipment produced in this country, on which that commission was paid?

Mr. CARSE. I would have to check that out.

Senator BONE. Is there any way of finding out, so that you can let us know on what transactions that commission was paid?

Mr. CARSE. Certainly.

Senator BONE. Whether it was on machinery and equipment produced in this country. I would like to have that made a part of the record at some point later, if that information can be checked on.

I would like to be informed as to whether that transaction arose in this country, whether the profit or the commission was on a transaction involving equipment that was produced in the United States. Because if it was, I cannot see why the Government should have compromised a case of that kind even though the money went to a foreign country.

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Carse, the suggestion by White & Case, which was incorporated in your letter to Sheridan under date of September 21, 1917, is that a showing be made that the \$1,360,000 referred to constitute payments transmitted through Zaharoff to the corporation for which he was the agent in Paris. For what concern was he the agent in Paris?

Mr. CARSE. Not necessarily in Paris.

The CHAIRMAN. That is what the letter says.

Mr. CARSE. The business extends all over Europe.

The CHAIRMAN. Did Vickers have offices in Paris?

Mr. CARSE. I think he represented Vickers in some respects.

The CHAIRMAN. Do you suppose that this \$1,360,000 was income to Vickers?

Mr. CARSE. To anybody. I do not know who it might have been. I would have to see if I can check it out for you.

The CHAIRMAN. I wish we could be clearer on that if it is at all possible. Could he have been agent for this Spanish boat building concern that had an office in Paris?

Mr. CARSE. He may have been.

The CHAIRMAN. Did you have any understanding at any time that these payments were anything other than commissions directly to Sir Basil Zaharoff?

Mr. CARSE. Well, they were made to him. I had no way of going behind the scene to find out whom he represented or how he was going to handle the amounts that he received.

Senator BONE. Who paid this money to Zaharoff—your firm?

Mr. CARSE. Yes; our firm.

Senator BONE. The Electric Boat Co.?

Mr. CARSE. The Electric Boat Co.

Senator BONE. Paid \$1,360,000 to Zaharoff?

Mr. CARSE. Yes.

Senator BONE. Was that money that came into your possession through business operations?

Mr. CARSE. It must have; yes.

Senator BONE. Then you can inform us now out of what transactions it arose, can you not? That is a very large sum of money.

Mr. CARSE. I know it is.

Senator BONE. Did it represent commissions on submarines that your firm built?

Mr. CARSE. I would like to be exact. I would like to look it up in our records and figure it all out. I do not want to give you any inaccurate information.

Senator BONE. Of course, I do not expect you to be able to repeat from memory; perhaps your memory might be faulty. But that is a very large sum of money to pay a man in one commission.

Mr. CARSE. We did not pay him that in one commission at one time. It was a series of commissions.

Senator BONE. A series of commissions; but that is a very large sum of money. I should think perhaps that you would know in a general way at least out of what transaction or transactions it grew.

Mr. CARSE. Well, I could not say what it all grew out of.

Senator BONE. Will you supply the committee with that information later?

Mr. CARSE. Certainly.

Senator GEORGE. Mr. Carse, this letter to which we have been referring, after quoting the suggested letter from White & Case, adds this:

It is further suggested that Mr. Z communicate to us any reply he may receive from said letter and to advise with us before writing any letters or filing any reports that may be requested.

That seems to be a part of your own letter, does it not? Will you examine it?

Mr. CARSE. I have read it. I do not know whether that—have you got a letter from White & Case to me, Mr. Raushenbush?

Mr. RAUSHENBUSH. No; we did not find that.

Mr. CARSE. I think you have it. I think that is a part of White & Case's letter.

Senator GEORGE. I think if you will examine this copy you will see that it is not.

Mr. CARSE. I have the copy right before me. I think you must have the letter from White & Case to me. I think you will find the whole thing is in it.

Mr. RAUSHENBUSH. We can examine our files, but I do not remember it.

Mr. CARSE. It was a full page, was it not?

The CHAIRMAN. Mr. Raushenbush, what have our agents revealed respecting the condition of the files from which all of this material was taken?

Mr. RAUSHENBUSH. They seem to be in good shape, as far as the files of the company in New York and at Groton went.

The CHAIRMAN. Did there appear to be any part of the consecutive file or correspondence missing?

Mr. RAUSHENBUSH. Not from the files of the company as far as the New York and Groton offices went.

The CHAIRMAN. So it is fairly possible that we may have in them the record of this White & Case correspondence?

Mr. RAUSHENBUSH. It may be.

The CHAIRMAN. Mr. Spear, when did you first become connected with the Electric Boat Co.?

Mr. SPEAR. In 1902.

The CHAIRMAN. As an officer at that time?

Mr. SPEAR. No; as a technical employee in charge of their designing and construction.

The CHAIRMAN. When did your connections become such as to occasion your activity abroad?

Mr. SPEAR. I used to accompany Mr. Rice, the president then, abroad to advise him on the technical aspects of the matter.

The CHAIRMAN. In those earlier days?

Mr. SPEAR. In those earlier days. Later on—I do not recall the exact date—later on I became a director and vice president. The

record will show the date. I do not remember. It was a good many years ago.

The CHAIRMAN. But there came a time when you went or were sent on your own, not as an adviser, but as a representative of the company, to Spain?

Mr. SPEAR. Yes; later on. I have visited Spain.

The CHAIRMAN. Writing to the Electric Boat Co. under date of July 24, 1923, Basil Zaharoff says:

Although I have no doubt that Lieutenant Spear keeps you informed re the Spanish business, it may not be out of place if I also report. On his arrival in Paris, Lieutenant Spear came to luncheon at my house with Mrs. Spear, after which we had a long talk about the Spanish business, and I prepared Lieutenant Spear's line of conduct for him previous to his going to Spain.

Just what was the meaning of that? How was your line of conduct prepared for you? Tell us about your visit at that time with Mr. Zaharoff.

Mr. SPEAR. I am speaking now from memory about that particular visit, and subject to any lapse in my memory. I think that was the time when I was endeavoring to arrange with the Spanish company, instead of waiting until they completed the work we had in hand and accounted for the costs and profits, to transform that into a fixed percentage, so that we could receive some money immediately without waiting for this work to be finished. I think that was at that time, and that was the object, the only object I then had, as I recall it. The only active business I had to do with Spain was to secure their consent to a modification of the original agreement. I believe that is what he is referring to there.

The CHAIRMAN. Surely, there were matters of diplomatic relations that would have to be considered in a mission of that kind and his experience would put him in a position to acquaint you with the situation in Spain, would it not?

Mr. SPEAR. I thought he was a very good adviser as to how I should approach the gentlemen, particularly as I then understood that he was a director in that company himself. I wanted his advice as to how I should approach and how I should deal with that issue.

The CHAIRMAN. Mr. Zaharoff goes on in this letter to say:

On his return from Spain I thought it wise to go and see our Spanish friends, and to generally study the position, and during my conversations with the authorities I found that the Ministry of Marine was very frightened about our idea of introducing German machinery into the submarine boats; in fact so disturbed about this that they nearly broke off the negotiations.

Mr. SPEAR. That came about in this way. At that time we were the licensees of the Maschinenfabrik Augsburg Nuremberg.

The CHAIRMAN. You mean the Electric Boat Co. was the licensee?

Mr. SPEAR. We had the American license on their design and patents on Diesel engines. That was the firm that developed the particular Diesel engine which was used so extensively in Germany in their submarines during the war and at that time it was considered generally to be as good, if not better, than any other Diesel engine for that particular purpose.

We had prepared some designs for the Spanish Government. The design of a submarine is a very intricate matter and the machinery is very intimately connected with the whole design. In that design we had brought up this particular type of engine which could be

obtained by the Spanish Government either from us or could be obtained from Germany or some other licensee of the German firm.

The CHAIRMAN. When did you become the licensee of the German firm?

Mr. SPEAR. I think 1910.

The CHAIRMAN. And you were licensed right on during the war time and up to this time in 1923 at least?

Mr. SPEAR. Yes; up to that time. I think the license expired in that year.

The CHAIRMAN. Did you exercise your rights under that license during the war?

Mr. SPEAR. Yes and no. During the war, the only instruments that we built for the United States Government were designed by us, not by the German firm. During the war, of course, we had no communication with the German firm and we never received any plans of any of these developments that they made during the war, until after the war was over.

The CHAIRMAN. Did the German firm have access to your plans and your designs?

Mr. SPEAR. No.

The CHAIRMAN. The American plans?

Mr. SPEAR. No.

The CHAIRMAN. Were they a licensee of yours?

Mr. SPEAR. No.

The CHAIRMAN. Were they a licensee of Vickers?

Mr. SPEAR. No.

The CHAIRMAN. Or of this Spanish company?

Mr. SPEAR. No. They had no connection with them. They were purely an engine firm.

The CHAIRMAN. Mr. Zaharoff goes on in this letter as follows:

I smoothed the matter carefully, and after meeting the Spanish board in Madrid I returned to Paris, and shortly after Colonel Fuster, the managing director of the Constructora Naval, came to see me in Paris, when we arranged for the line of conduct to be followed by all of us at the meeting which was to take place between Messrs. Vickers, Lieutenant Spear, and the two Spanish representatives.

Colonel Fuster has just returned and stopped here on his way to Spain, and tells me that the meeting at Messrs. Vickers, in London, was very satisfactory, and that he thought that the ideas put forward by Lieutenant Spear would be acceptable to the Constructora Naval, and also to the Spanish Government, and I must congratulate Lieutenant Spear on his tact and great authority in the matter, and I feel confident that everything will go to the satisfaction of all concerned.

Will you please in future remit me in pesetas on Madrid, instead of in francs on Paris, which would be more convenient for me to deal with the question; and I am, gentlemen,

Sincerely yours,

BASIL ZAHAROFF.

What were these ideas that you put forth at that London meeting?

Mr. SPEAR. I hesitate to say, because I do not recall the details of that meeting. I presume that we discussed ways and means of dispensing with the German design engine in those boats.

The CHAIRMAN. Of getting away from that design entirely?

Mr. SPEAR. Of getting away from that design. I also think we discussed this other question I spoke to you about, of modifying our

agreement so we would receive a percentage of the contract price rather than a share of the profits.

The CHAIRMAN. What does Mr. Zaharoff mean when he suggests that remittance be made to him in pesetas on Madrid instead of in francs on Paris when he says that this would be more convenient for him to deal with the question?

Mr. SPEAR. I do not know.

The CHAIRMAN. Were you making remittances to him in connection with this particular difficulty you were having with Spain?

Mr. SPEAR. No, no remittances in that connection at all.

The CHAIRMAN. Whatever remittances he got were these commissions?

Mr. SPEAR. Those that you have already discussed.

The CHAIRMAN. His closing paragraph in this letter would make it appear that there was need for pesetas to do the business with them.

Mr. SPEAR. Possibly so. I know nothing about it, Mr. Chairman.

The CHAIRMAN. Recalling the matter, do you recollect now that the Spanish were very much alarmed about the use of this German machinery?

Mr. SPEAR. I did not think they were as much alarmed as Sir Basil thought they were, but I did see some signs that for some reason of their own they thought it an undesirable thing to do.

The CHAIRMAN. On September 11, 1923, Mr. Zaharoff wrote you, Mr. Carse, saying:

I quite agree with you that the era of submarine boats is now opening all over the world, and I trust it will bring much business to your company, and you may count upon my little efforts always working in your direction.

Are we to draw the conclusion that his efforts in your behalf were really little or was he engaged in your behalf in a large way, Mr. Carse?

Mr. CARSE. Well, I suppose he was a very modest man. When was that?

The CHAIRMAN. September 11, 1923.

Mr. CARSE. We have never received any business through any efforts he might have made other than that Spanish business since that time.

Senator CLARK. It is already in evidence, Mr. Carse, that the business that he brought in amounted to something like \$2,000,000 at 5 percent. In other words, \$2,000,000 was only 5 percent of the business that he brought? That appears from figures already put in the record.

Mr. CARSE. No. I thought it was only \$700,000.

Senator CLARK. That is since 1919. There was put in evidence just a while ago the fact that there was \$1,350,000 in addition to that which had been paid by you to him in commissions.

Mr. CARSE. That was before 1923.

Senator CLARK. Well, how much was it? How much did his commissions amount to during the period of the contract?

Mr. CARSE. You have it here.

Senator CLARK. That schedule is since 1919. But we have got an additional figure of \$1,350,000 in connection with which the income-tax matter was taken up.

Mr. CARSE. I will have to check that out.

Senator CLARK. I should be glad if you would do that and furnish the information for the record, please.

Senator BARBOUR. Did you get any business for submarine boats through Sir Basil Zaharoff other than for Spain?

Mr. CARSE. Way back in the early days Sir Basil did arrange some negotiations with one of the building concerns in Russia, but nothing developed from that until the war came along.

Senator BONE. How far back was that, Mr. Carse?

Mr. SPEAR. I should think, speaking from memory now, that that contract was entered into—that is, with the Nevsky Shipbuilding Co.—along in 1908, 1909, or 1910.

Senator CLARK. Was it under that contract that, during the period of the war when the United States was supposed to be neutral, you shipped parts of submarines abroad and had them assembled in Russia?

Mr. SPEAR. No. That was a direct order from the Russian Government.

Senator BONE. Were Sir Basil's relations with the Russian Government—that is, the old Czarist government—cordial at that time?

Mr. CARSE. It was long before my time. I really do not know.

Senator BARBOUR. What I had in mind when I asked you the question was that there were two altogether separate transactions; one was the transaction that you people had with the Spanish Government to sell them submarines, which is your business. The other transaction was with Sir Basil, to give him a certain commission to help you get that business.

Mr. CARSE. Yes.

Senator BARBOUR. And that is all that it amounts to, is it not?

Mr. CARSE. That is right.

The CHAIRMAN. I will ask that the letter of September 11, 1923, become a part of the record as "Exhibit No. 25."

(The letter referred to was marked "Exhibit No. 25" and appears in the appendix on p. 334.)

The CHAIRMAN. Mr. Spear, writing from the Hotel de Paris, Monte Carlo, on the 8th of March 1924 Mr. Zaharoff said to you as follows:

#### EXHIBIT No. 26

HOTEL DE PARIS,  
MONTE CARLO,  
8th March 1924.

LIEUTENANT L. Y. SPEAR,  
THE ELECTRIC BOAT COMPANY,  
Groton, Conn.

MY DEAR SPEAR: Sir Trevor Dawson, who is staying with me, has shown me your letter about the unsatisfactory way in which the submarine work is being done, and to begin with I am writing somewhat diplomatically to Madrid, without going into details, and I will later on either get the managing directors of the constructora naval to come and see me in Paris on the subject, or, preferably, I will go to Madrid myself, as this matter needs careful attention, and I will keep you informed of results.

Sir Trevor also showed me your letter about the delay in the new contract, and as this question calls for speedy attention I am telling Madrid that it is in the interest of all concerned that the new contract should be signed without delay, and I have no doubt that this will be done.

I am, my dear Spear,  
Sincerely yours,



Who was Sir Trevor Dawson?

Mr. SPEAR. Sir Trevor Dawson was a director in Vickers, managing director as I recall it at that time.

Senator BONE. In what business?

Mr. SPEAR. Vickers.

The CHAIRMAN. He was a Britisher, of course?

Mr. SPEAR. Yes, an Englishman.

The CHAIRMAN. Mr. Carse, when did you go to Europe?

Mr. CARSE. In 1924.

The CHAIRMAN. It was after you had been in Europe, then, that Basil Zaharoff wrote you from Paris on the 13th of February 1925 as follows:

PARIS, 13th February 1925.

Messrs. THE ELECTRIC BOAT COMPANY,  
Nassau and Pine Streets, New York.

GENTLEMEN:

I beg to acknowledge receipt of your letter dated 3rd inst., bringing me cheque for—Pcs. 391,497.68 on Madrid, with which I am doing the needful.

I avail myself of this opportunity to say good morning to your president, in the hope that Mrs. Carse and Master Carse are in excellent health, and

I am, gentlemen,  
Truly yours,

BASIL ZAHAROFF.

The CHAIRMAN. What is the meaning of that language "with which I am doing the needful"?

Mr. CARSE. I do not know. I do not know what he did with the money we gave him.

The CHAIRMAN. What did you understand that this remittance was for?

Mr. CARSE. That is the 5 percent on some payment that we had received from Spain. They had sent us 5 percent and I transmitted it to him.

Senator CLARK. What did you understand when you read this letter Sir Basil Zaharoff to mean by the language "with which I am doing the needful"?

Mr. CARSE. I did not understand anything about it. I do not ask people what they are doing. It is none of my business.

Senator CLARK. That phrase was just a meaningless phrase to you in Sir Basil's letter?

Mr. CARSE. Yes. It did not mean anything. He never told us what his expenditures were.

Senator BONE. Mr. Carse, does the language "doing the needful" have any particular significance in a country like Spain?

Mr. CARSE. I do not know. I do not know what he did with it. I do not know whom he employed or anything of the kind. One can make all sorts of guesses and have all sorts of dreams, and so on. But you are talking facts. You are asking for facts. I do not know anything about what he did with the money. From what I know of Sir Basil, I would rather think that he kept it for himself.

The CHAIRMAN. I will ask that this letter be made a part of the record as "Exhibit No. 26".

(The letter above referred to was thereupon marked "Exhibit No. 26" and appears in text on p. 46.)

Senator BARBOUR. So far as you are concerned, you had no understanding with him as to what he was to do with any of it?

Mr. CARSE. No, absolutely nothing.

Senator BARBOUR. You did not care.

Mr. CARSE. He would not have explained any of his actions to me. He was not a little commission agent that you would find on the street and tell him what he was to do.

Senator CLARK. At this time you were operating under the new contract, were you not?

Mr. CARSE. Evidently.

Senator CLARK. 1925?

Mr. CARSE. Yes. Evidently the Spaniards had agreed to the modification which had been proposed and which I laid before Sir Basil in August 1924.

Senator CLARK. Which meant that you were getting either 3½ percent or 1½ percent on the work yourselves, depending on the basis on which the Spanish company did the work and Sir Basil was getting 5 percent. Is it not a rather unusual arrangement by which your agents in the sale of submarines get more than the company itself?

Mr. SPEAR. Just let me correct one thing. I think the 5 percent, as I recall it, only went with the 3 percent, but when we got only 1½ percent, he got nothing, I believe.

Senator CLARK. He got nothing.

Mr. SPEAR. I think so.

Senator CLARK. He only got 5 percent when you got 3½ percent.

Mr. SPEAR. Yes.

Senator CLARK. It is not rather unusual to have an arrangement by which the agent in the sale of submarines gets a bigger percentage than the company itself?

Mr. SPEAR. It is the only case I know of. Perhaps I might add this, that new contract was a joint agreement and the two licensors got more than the agents—the two put together. But they had to divide it up.

Senator CLARK. He got 5 percent in order that "he might do the needful."

Mr. SPEAR. We got a total of 7 percent and he got a total of 5 percent. We had to divide the 7 percent up.

Senator BONE. Can you tell us whether this British gentleman who was named a moment ago, Sir Trevor Dawson, is a director or an officer of this Spanish company?

Mr. CARSE. He is dead.

Mr. SPEAR. I believe he was.

Senator BONE. That would seem to indicate that the British firm of Vickers had some interest in the Spanish firm.

Mr. SPEAR. It is my understanding that they did. They certainly had a technical interest, because they had a technical board in England advising them on their technical operations. It is my understanding—I cannot testify to that as a fact—but it is my understanding that they also owned some of the stock of the Spanish company at that time.

Senator BONE. Did Sir Basil Zaharoff have any stock in it?

Mr. CARSE. It is my understanding that he did. I do not know how otherwise he could have been a director, as I understand he was.

Senator BONE. He was a director of the Spanish company also?

Mr. CARSE. So I understand, and I suppose he held stock.

Senator GEORGE. Did you understand that he was a director of the Spanish company all along over a period of years?

Mr. SPEAR. Sir Trevor Dawson or Sir Basil Zaharoff?

Senator GEORGE. Sir Basil Zaharoff.

Mr. SPEAR. My understanding is that he was a director over a period of years, yes.

Senator GEORGE. And was also director of Vickers?

Mr. CARSE. I believe he was, although I do not know that he continued to be a director of Vickers as long as he was a director of the other company or not.

Senator BONE. Do the facts seem to indicate that he, as a director of Vickers and an officer of the Spanish company, was getting this commission aside from what the company was getting out of it?

Mr. SPEAR. The facts are just as we testified.

Senator BONE. Are those facts that he was getting that 5 percent outside of what the company was getting out of it?

Mr. SPEAR. Yes.

Senator BARBOUR. You do not know what he did with the 5 percent, whether it went back to the company or not?

Mr. SPEAR. I do not know it went back to the company.

The CHAIRMAN. I offer as committee "Exhibit No. 27" the letter of March 1, 1925, addressed to Mr. Carse by Mr. Zaharoff.

(The letter referred to was marked "Exhibit No. 27" and appears in the appendix on p. 334.)

The CHAIRMAN. In that letter Zaharoff acknowledges receipt of Mr. Carse's report to him of the state of the American Boat Co. markets, and he promises that—

on my arrival in Madrid on 12th April I convoke your representatives and those of the Constructora Naval to state their claims to me.

What do you recollect about that, Mr. Carse?

Mr. CARSE. Daniell was our technical representative at the plant of the Sociedad, that is, the Constructora Naval, the Spanish concern.

Mr. SPEAR. I think this was it. I do recall at one time Mr. Daniell said that some of the technical methods used in doing the work did not fully meet with his approval, and I believe the reference was this, that an arrangement be made so that the Spanish authorities down in the shipyard would recognize the fact they must make the work satisfactory to our representatives, because we were responsible for the technical performance of the boat for speed and other qualities.

The CHAIRMAN. I offer as "Exhibit No. 28" a letter dated March 27, 1925, written by Basil Zaharoff and directed to Mr. Carse.

(The letter referred to was marked "Exhibit No. 28", and appears in the appendix on p. 335.)

The CHAIRMAN. In this letter, "Exhibit No. 28", Mr. Zaharoff says:

Having attended to the principal part, I now come to the rest of your letter, and reassure you that on my arrival in Madrid, 2 weeks from now, I will immediately deal with the differences between your good selves and the Constructora Naval and your Mr. Daniell is already informed of my intention, and will meet me in Madrid.

It is good to know that Congress has passed a bill in your favour, which I hope will be very satisfactory to you, and I must congratulate Lieutenant Spear on the diplomatic way in which he has handled this matter and has obtained such a result.

Mr. Spear, were you doing some lobbying, or were you active in supporting some bill back in 1925 or 1924?

Mr. SPEAR. There was a bill then pending for the relief of contractors.

Senator CLARK. For the relief of what?

Mr. SPEAR. For the relief of contractors. During the war, where they had received orders from the Navy Department to do certain things and they had executed those orders, and the Comptroller's Department held the Navy Department had no authority to give such orders, the result of that being that the Navy Department inaugurated a bill and submitted it to Congress in which they sought to have a commission or body set up to deal with those matters and do equity. Eventually such a bill was passed, but we never acted under that bill. We eventually brought our matter into the Court of Claims and disposed of it there.

Senator CLARK. Where did Zaharoff get the idea you were active in that matter?

Mr. SPEAR. I do not know, but I can say this: Sir Basil was the most polite man I ever saw. I think he ascribed to some young men qualities they did not have.

The CHAIRMAN. I offer in evidence committee's "Exhibit No. 29", being a letter written by Mr. Spear to Mr. Zaharoff under date of May 8, 1925.

(Said letter was marked "Exhibit No. 29" and appears in the appendix on p. 335.)

The CHAIRMAN. The first paragraph of that letter, "Exhibit No. 29", is as follows:

Please accept my thanks for your notes of the 14th, 24th, and 28th ultimo, all relative to the Spanish business and my congratulations upon the results which you have secured with respect to the new contract. It goes without saying that we are all pleased with the outcome and grateful to you for your successful intervention in the matter. I note that the new arrangement will not become effective until after the next Constructora Naval Board meeting which I assume will be held before very long. In the meantime, I should like to prepare a draft of the necessary form of agreement between the Constructora Naval on the one hand and Messrs. Vickers and ourselves on the other as well as of the necessary agreement between Messrs. Vickers and ourselves, and in order to do that I shall require to know whether or not under the new arrangement we shall continue to receive and pass to you a certain percentage of the contract price. Perhaps you will be good enough to let me know about this at your convenience.

Now, what was the understanding up to this time?

Mr. SPEAR. It was that 5 percent of the contract price was passed to Sir Basil Zaharoff.

Senator BONE. Was any part of that business in which your firm supplied none of the material?

Mr. SPEAR. I beg your pardon; I didn't quite understand.

Senator BONE. In other words, were you given any part of the profits on equipment over there which your firm did not manufacture under that agreement?

Mr. SPEAR. Under that agreement the first submarine built in Spain we supplied from our own plan the engines and certain other parts, such as electric motors. In the subsequent vessels we did not, but those were all secured in Europe, mostly in Spain, because they were trying to build up their industries in Spain, and desired to have the work done in Spain.

Senator GEORGE. Is that Spanish concern entirely a private concern?

Mr. SPEAR. It is entirely a private concern in a way, but in a way it is semipublic in character, in that it is a very widespread concern, and some of the properties they operate belong to the Government, and they did have a very broad general agreement with the Spanish Government. It covers not only such things as we are discussing, but also merchant ships, locomotives, and all sorts of things.

Senator GEORGE. The Spanish Government dealt entirely through this concern?

Mr. SPEAR. With us?

Senator GEORGE. Yes.

Mr. SPEAR. Yes, sir; the negotiations were always directly between the Sociedad and the Spanish Government.

Senator BONE. Do you know whether the Spanish Government subsidizes in any manner this concern?

Mr. SPEAR. I believe it does in an indirect way, because I have seen notices in the Spanish press with regard to the difficulties this company was in, and the government was coming to its rescue, in order to maintain employment in its yards.

Senator BONE. In other words, the government abdicates its right to build its own ships and gives this private yard the privilege of doing that, and subsidizes it, as you say?

Mr. SPEAR. I should say that there was an element of subsidy in it in some way.

Senator BONE. Would you say the subsidy was concealed in some manner?

Mr. SPEAR. No, I said these are all public matters as to the arrangement between the company and the government.

Senator BONE. I was wondering if you could enlighten us on that.

Mr. SPEAR. I do not know of any subsidy, but I do know that when business got bad in Spain as it did everywhere, there came up the question of the discharge of a lot of workmen on these different ships, and when that arose the Government itself intervened and made some arrangement for ordering some ships, or doing something for the purpose of preventing unemployment that might arise. In other words, if these people had been left without employment, they would have had to very largely reduce their force, and I know the Government did take some action to prevent that being done. My knowledge of that is entirely from what was published in the Madrid press. I had no communication about that from the Sociedad.

#### DIRECTORS AND STOCKHOLDERS

The CHAIRMAN. Mr. Carse, is it correct that yourself, Henry R. Carse, Otto Marx, Stephen Peabody, A. S. Roberts, Charles P. Hart, Joseph A. Sisto, Henry R. Sutphen, Lawrence Y. Spear, and Herbert A. G. Taylor constitute the board of directors of the Electric Boat Co. at this time?

Mr. CARSE. Yes, sir.

The CHAIRMAN. I find here given the name of A. S. Roberts. Is that the same Roberts to whom reference was made this morning?

Mr. CARSE. Yes, sir.

The CHAIRMAN. And whom the Vickers agent was to see over here on a trip he was making to America?

Mr. CARSE. Yes, sir.

The CHAIRMAN. I think the record should contain the business connections of all members on the board. As relates to this, Mr. Carse who is president and director, your address is given as 40 Wall Street, and it is indicated that you are president and director of the Duralumin Co.

Mr. CARSE. That was a subsidiary of the Electric Boat Co. The American Duralumin Co., we call it.

The CHAIRMAN. How did you pronounce that?

Mr. CARSE. D-u-r-a-l-u-m-i-n Co. The British company is called the Duraluminum Co., and we leave off the one syllable. The Duralumin Co. was the licensee of some German patents which Mr. Rice secured sometime back, and the Electric Boat Co. owned all of the stock, and when I went with the company I became president and director of all of these little subsidiaries.

The CHAIRMAN. That was true of the Electric Dynamo Co.

Mr. CARSE. Of the Electro Dynamic, yes.

The CHAIRMAN. What is Transmarine?

Mr. CARSE. The Transmarine was a subsidiary of the Submarine Boat Company organized to operate ships which the Submarine Boat Company had taken over from the Emergency Fleet Corporation.

The CHAIRMAN. You are also trustee of the Central Hanover Bank & Trust Co.?

Mr. CARSE. Yes, sir.

The CHAIRMAN. You are director of the American Construction Fire Assurance Co.?

Mr. CARSE. That is not the name of it.

The CHAIRMAN. Const. Here is the abbreviation.

Mr. CARSE. That is the American Home Constitution Co.

The CHAIRMAN. The American Constitution Fire Assurance Corporation?

Mr. CARSE. Yes.

The CHAIRMAN. You are shown also to be a director of the American Home Fire Insurance Co., are there two of them?

Mr. CARSE. They have been consolidated.

The CHAIRMAN. And also you are shown to be a director of the Stuyvesant Insurance Co.

Mr. CARSE. Yes.

The CHAIRMAN. Has that also been consolidated?

Mr. CARSE. No, that is separate.

The CHAIRMAN. What is your connection with the Birmingham Realty Co.?

Mr. CARSE. President and director.

The CHAIRMAN. Now, as to Otto Marx, whose address is given as 25 Broad Street, New York, another director of the Electric Boat Co., he is shown to be a director of the Submarine Boat Corporation, the Atlantic Port Corporation, organizer of the Otto Marx & Co. engaged in bonds and bonding, organized in 1901.

Mr. CARSE. That is in Birmingham, Ala.

The CHAIRMAN. He is shown also to be a director of the Transmarine Corporation.

Mr. CARSE. All of that Submarine and Transmarine are out of existence.

The CHAIRMAN. He is shown to be a director of the Associated Drygoods Corporation.

Mr. CARSE. Yes; I believe that is true.

The CHAIRMAN. And a director of the American Writing Paper Co.?

Mr. CARSE. I believe so.

The CHAIRMAN. He is shown to be a director of the Avondale Mills.

Mr. CARSE. I believe so.

The CHAIRMAN. Also a director of Hahne & Co.

Mr. CARSE. That is a part of Associated Drygoods, and I believe he is a director.

The CHAIRMAN. Also a director of James M. McCreery & Co.

Mr. CARSE. Yes.

The CHAIRMAN. Also a director of Lord & Taylor.

Mr. CARSE. Yes.

Mr. RAUSHENBUSH. May I ask a question, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. RAUSHENBUSH. Is he a director of Ladenburg, Thalmann & Co.?

Mr. CARSE. I do not know.

The CHAIRMAN. Stephen Peabody, also a director of Electric Boat is shown to be a director of Kelly-Springfield Tire Co., a director of Buffalo Gas Co., a director of Frontier Electric Lighting Co., and also of the Western & Pennsylvania Traction Co.

Mr. CARSE. Everything I know is that he is a director of Kelly-Springfield, but I do not know about the others.

The CHAIRMAN. Now, about Mr. A. S. Roberts, another director of Electric Boat, do you know of any other business connection Mr. Roberts may have?

Mr. CARSE. Oh yes; he is with the White Rock Co., an officer, but just the title I do not know.

The CHAIRMAN. Is he not also a representative of the Vickers Co.?

Mr. CARSE. No, that ceased some years back.

The CHAIRMAN. When?

Mr. CARSE. It must be about 3 years, was it not?

Mr. SPEAR. I think 3 or 4 years ago.

The CHAIRMAN. What was his connection with Vickers at that time?

Mr. CARSE. He was the representative in the United States.

The CHAIRMAN. Was he not a stockholder?

Mr. CARSE. I do not believe he was. I understood that the business being done in this country by Vickers did not justify the maintenance of their office here.

The CHAIRMAN. Charles P. Hart, who is assistant secretary of the Electric Boat, is also a director?

Mr. CARSE. Yes.

The CHAIRMAN. His address is given as 33 Pine Street, New York.

Mr. CARSE. That is the same address.

The CHAIRMAN. Joseph Sisto is also a director of Electric Boat?

Mr. CARSE. J. A. Sisto, yes; and I suppose his first name is Joseph.

The CHAIRMAN. He is shown as the president and director of the Sisto Financial Corporation, of Sisto & Co., Inc., and as a director of Potrero Sugar Co., the American Composite Shares Corporation, and president and director of the Central Management, and as director of Cuneo Press Corporation and of Hygrade Food Corporation.

Mr. CARSE. I do not know whether he is or not.

The CHAIRMAN. Henry R. Sutphen, vice president and director of Electric Boat and his address is shown as 40 Wall Street. Mr. Sutphen, if this is not correct, I would like you to inform us, but you are shown to be vice president and director of the Holland Torpedo Boat Co.

Mr. SUTPHEN. One of the old companies, yes.

The CHAIRMAN. And president of the National Association of Engineers and Boat Manufacturers.

Mr. SUTPHEN. Of Engine and Boat Manufacturers.

The CHAIRMAN. Also vice president and director of the Electric Dynamic Co.

Mr. SUTPHEN. Electro-dynamic.

The CHAIRMAN. That is the company that has been absorbed by Electric Boat?

Mr. SUTPHEN. Yes.

The CHAIRMAN. Also vice president and director of the American Duralumin Co.

Mr. SUTPHEN. That is one of the old companies.

The CHAIRMAN. You are shown to be president and director of the Ratchet Brake Co.

Mr. SUTPHEN. That was one of these subsidiary companies that has dissolved.

The CHAIRMAN. All of these companies that were dissolved, did they possess some patent holdings?

Mr. SUTPHEN. That company did have, until the patent expired, a patent on the ratchet brake.

The CHAIRMAN. You are shown to be a director of the American Constitution Fire Assurance Co.

Mr. SUTPHEN. Yes.

The CHAIRMAN. And the American Home Fire Assurance Co.?

Mr. SUTPHEN. Yes.

The CHAIRMAN. And a trustee of the American Savings Bank?

Mr. SUTPHEN. Yes.

The CHAIRMAN. Mr. Spear, this shows you are vice president and director of the Electric Boat Co., and you are shown also to be a director, or were a director of the Submarine Co.?

Mr. SPEAR. Yes.

The CHAIRMAN. And the New England Shipbuilding Co.

Mr. SPEAR. That has been absorbed by the Electric Boat Co.

The CHAIRMAN. You are also shown to be a director of the Bed Rock Petroleum Co.

Mr. SPEAR. Yes.

The CHAIRMAN. And a director of the Structure Oil Co.

Mr. SPEAR. Yes.

The CHAIRMAN. You are also shown to be a director of the Petroleum Extraction Co.

Mr. SPEAR. Yes.

The CHAIRMAN. And also a director of the Tri-State Refining Co.?

Mr. SPEAR. That also is out of existence.

The CHAIRMAN. Herbert A. G. Taylor, secretary-treasurer and a director of the Electric Boat, whose address is 40 Wall Street is shown to have been secretary and treasurer and director of the Submarine Boat Corporation.

Mr. CARSE. He was until it passed out of existence.



The CHAIRMAN. And also a director of Electric Dynamic Co.

Mr. CARSE. That is Electro Dynamic Co.

The CHAIRMAN. He is shown also to be secretary and treasurer and director of the Electric Launch Co. Is that still in existence?

Mr. CARSE. It is a name we keep, but it is a part of the Electric Boat Co.

The CHAIRMAN. He is shown also to be secretary and treasurer and a director of the Elco Co.

Mr. CARSE. That is also a name for motor boats, that is all.

The CHAIRMAN. He is shown to be secretary and treasurer and a director of the Holland Torpedo Boat Co.

Mr. CARSE. That is a part of Electric Boat.

The CHAIRMAN. Also secretary-treasurer and a director of the Ratchet Brake Co.

Mr. CARSE. Yes.

The CHAIRMAN. And secretary-treasurer and director of the American Duralumin Co.

Mr. CARSE. Yes.

Senator CLARK. Mr. William B. Shearer was formerly a director of your company?

Mr. CARSE. No.

Senator BONE. Is the Transmarine Corporation still in existence?

Mr. CARSE. No, Submarine and Transmarine went into receivership about the 1st of January 1930, and they are about wound up now, and they are expected to wind them up in a short time.

Senator BONE. I understand this corporation owned the boats that had been taken over from the Shipping Board.

Mr. CARSE. Yes.

Senator BONE. Did you operate them for a while?

Mr. CARSE. Yes, we did.

Senator BONE. Did you have a mail contract with the Government?

Mr. CARSE. No.

The CHAIRMAN. I am offering in evidence now "Exhibit No. 30", which is a copy of the material used by the committee showing the list of stockholders in the Electric Boat Co. who are holding over a hundred shares of stock.

(The document referred to was marked "Exhibit No. 30", and is on file with the committee.)

Mr. CARSE. That list is of date last April, I think.

The CHAIRMAN. This was as of when?

Mr. CARSE. It was prepared for the annual meeting held in April.

The CHAIRMAN. That was held last April?

Mr. CARSE. Yes, sir.

The CHAIRMAN. We will bother to give concern alone to those stockholders who show blocks of 2,000 or more shares.

We find there J. S. Bache & Co., of New York City, who have 5,896 shares. Who are they?

Mr. CARSE. That is a brokerage house in New York.

The CHAIRMAN. Charles D. Barney & Co., New York, holding 3,311 shares; who is that?

Mr. CARSE. That is a brokerage house.

The CHAIRMAN. John F. Clark & Co., New York City, 3,877 shares; who are they?

Mr. CARSE. That is a brokerage house.

The CHAIRMAN. Is that true as well of Clark Dodge & Co., of New York City, holding 4,422 shares?

Mr. CARSE. That is not right; it is Clark, Childs & Keech.

The CHAIRMAN. Clark, Childs & Keech hold 3,796 shares and Clark Dodge & Co. hold 4,422 shares.

Mr. CARSE. Then, that is a new one to me.

The CHAIRMAN. Henry Clews & Co., of New York City, holding 2,060 shares. Is that also a brokerage house?

Mr. CARSE. Yes, sir. We have not paid any dividends in so long that people do not have their stock transferred to their names.

The CHAIRMAN. The next is Derby & Co., holding 34,800 shares, who are they?

Mr. CARSE. Derby & Co. is a nominee. You know it has become the custom in New York for the different institutions instead of transferring stock to an individual name, because if he dies they have to transfer it back and forth, that all of the large institutions, trust companies, banks, and other institutions of that kind create a partnership with a number of their clerks, 2, 3, or 4, and have these stocks transferred to that partnership name so that if any one of the clerks die there is always a partner to sign the name, and then they can appoint another clerk to be another partner. Derby & Co. is one of those partnership names.

The CHAIRMAN. Dominick & Dominick, of New York City, holding 3,065 shares, who is that?

Mr. CARSE. That is a broker.

The CHAIRMAN. Dyer Hudson & Co., New York City, holding 2,920 shares, who is that?

Mr. CARSE. That is a broker.

The CHAIRMAN. Is that also true of the Empire Securities Co., of Daytona Beach, Fla., holding 2,386 shares?

Mr. CARSE. I do not know that company.

The CHAIRMAN. Fenner, Beane & Ungerleider, of New York City, holding 2,935, who is that?

Mr. CARSE. That is a broker.

The CHAIRMAN. Goodbody & Co., of New York City, holding 2,934 shares, who is that?

Mr. CARSE. That is a broker.

The CHAIRMAN. Hallgarten & Co., of New York City, holding 11,830 shares, who is that?

Mr. CARSE. That is a brokerage house.

The CHAIRMAN. Edward T. Hargrave, of New York City, owning 2,000 shares, who is that?

Mr. CARSE. That is an individual.

The CHAIRMAN. Harris Upham & Co., New York City, holding 2,280 shares, who is that?

Mr. CARSE. That is a broker.

The CHAIRMAN. Charles P. Hart, New York City, holding 43,269 shares, who is that?

Mr. CARSE. I think that is very largely the stock of the company which they hold in the treasury.

The CHAIRMAN. Mr. Hart is an officer of the company?

Mr. CARSE. He is our treasurer.

The CHAIRMAN. And also a director?

Mr. CARSE. Yes; we put it in his name.

The CHAIRMAN. Hayden, Stone & Co., of Boston, Mass., holding 11,570 shares; who is that?

Mr. CARSE. That is a brokerage house.

The CHAIRMAN. Joseph J. Himes, of Washington, D.C., holding 5,200 shares, who is that?

Mr. CARSE. That is an individual.

The CHAIRMAN. Hornblower & Weeks, of New York City, holding 10,130 shares; who is that?

Mr. CARSE. That is a brokerage house.

The CHAIRMAN. Homer Huggan, of Chestnut Hill, Mass., holding 3,500 shares; can you tell me who that is?

Mr. CARSE. That is an individual, but I do not know who it is.

The CHAIRMAN. Hutchins & Parkinson, of Boston, Mass., holding 19,461 shares; who is that?

Mr. CARSE. That is a brokerage house.

The CHAIRMAN. E. C. Jameson, of New York City, holding 7,000 shares; who is that?

Mr. CARSE. That is an individual.

The CHAIRMAN. Is that the same E. C. Jameson who fathered the campaign that Bishop Cannon undertook some years ago?

Mr. CARSE. I do not know anything about any campaign, but I know he has held that stock for 25 years or more.

The CHAIRMAN. It is the same initials, anyhow. Frazier Jelke & Co., of New York City, holding 3,210 shares; who is that?

Mr. CARSE. That is a brokerage house.

The CHAIRMAN. Ladenburg Thalmann & Co., New York City, holding 33,550 shares; who is that?

Mr. CARSE. That is a brokerage house.

The CHAIRMAN. Laidlaw & Co., New York City, holding 4,275 shares, who is that?

Mr. CARSE. That is a brokerage house.

The CHAIRMAN. Edith F. Lowis, of Racine, Wis., holding 3,200 shares; who is that?

Mr. CARSE. That name is Lewis. It is an individual.

The CHAIRMAN. Livingston & Co., New York City, holding 5,502 shares; who is that?

Mr. CARSE. A broker.

The CHAIRMAN. McClure, Jones & Co., New York City, holding 2,308 shares; who is that?

Mr. CARSE. A broker.

The CHAIRMAN. Mabon & Co., New York City, holding 1,900 shares; who is that?

Mr. CARSE. That is a broker.

The CHAIRMAN. Thomas L. Manson & Co., New York City, holding 4,000 shares, who is that?

Mr. CARSE. That is a brokerage house.

The CHAIRMAN. Montgomery, Scott & Co., New York City, holding 4,715 shares; who is that?

Mr. CARSE. That is a brokerage house.

The CHAIRMAN. Francis P. Murphy, of Nashua, N.H., holding 2,500 shares; who is that?

Mr. CARSE. That is an individual.

The CHAIRMAN. Kenneth Outwater, New York City, holding 11,500 shares; who is that?

Mr. CARSE. That is an individual. I do not know whether he is a nominee or not.

The CHAIRMAN. Paine Webber & Co., New York City, holding 20,004 shares; who is that?

Mr. CARSE. That is a brokerage house.

The CHAIRMAN. Pearl & Co., New York City, holding 2,525 shares; who is that?

Mr. CARSE. A broker.

The CHAIRMAN. E. A. Pierce & Co., New York City, holding 21,358 shares; who is that?

Mr. CARSE. That is a broker.

The CHAIRMAN. Pouch & Co., New York City, holding 26,525 shares; who is that?

Mr. CARSE. A broker.

The CHAIRMAN. R. W. Pressprich & Co., New York City, holding 2,300 shares; who is that?

Mr. CARSE. That is a brokerage house.

The CHAIRMAN. Theodore Prince & Co., New York City, holding 7,775 shares; who is that?

Mr. CARSE. That is a broker.

The CHAIRMAN. Rhoades, Williams & Co., New York City, holding 12,140 shares; who is that?

Mr. CARSE. That is a broker.

The CHAIRMAN. E. P. Ristine & Co., New York City, holding 2,275 shares; who is that?

Mr. CARSE. That is a brokerage house.

The CHAIRMAN. Albert S. Roberts, Long Island, N.Y.; holding 2,030 shares; who is that?

Mr. CARSE. That is Mr. Roberts.

The CHAIRMAN. Mr. Roberts who is one of your directors?

Mr. CARSE. Yes.

The CHAIRMAN. Anna Russo, of Brooklyn, N.Y., holding 2,000 shares; who is that?

Mr. CARSE. That is an individual.

The CHAIRMAN. Shields & Co., of New York City, holding 2,337 shares; who is that?

Mr. CARSE. That is a brokerage house.

The CHAIRMAN. Sigler & Co., of New York City, holding 4,498 shares; who is that?

Mr. CARSE. I guess that is a nominee.

The CHAIRMAN. Edward B. Smith & Co., New York City, holding 3,290 shares; who is that?

Mr. CARSE. That is a brokerage house.

The CHAIRMAN. L. Y. Spear, Groton, Conn., holding 2,001 shares; who is that?

Mr. CARSE. That is a director.

The CHAIRMAN. Another director of the company?

Mr. CARSE. Yes, sir.

The CHAIRMAN. Thomson & McKinnon, of New York City, holding 9,234 shares; who is that?

Mr. CARSE. That is a brokerage house.

The CHAIRMAN. Harry Weisburg, New York City, holding 10,000 shares; who is that?

Mr. CARSE. I do not know who that is. That is an individual, but who he represents, I do not know.

The CHAIRMAN. C. E. Williams, of New York City, holding 27,150 shares; who is that?

Mr. CARSE. That sounds like Chester E. Williams, one of our young men, and that stock is probably part of the stock which is in the treasury in the name of one of our clerks.

The CHAIRMAN. Very frankly, Mr. Carse, I am surprised to come down here to the Z's and find that Mr. Zaharoff is not listed as a stockholder.

Mr. CARSE. He never was a stockholder as far as I ever saw or had any knowledge. Whether he had stock in other people's names, I do not know.

The CHAIRMAN. Do you suspicion that he has done that?

Mr. CARSE. It may be possible. The men who handle very large stock do not put the stock in their names.

The CHAIRMAN. He wrote you under date of the 19th of May, 1925, and said, "I desire no thanks for what I have done, because I am bound to attend to the interests of my firm of Vickers and of my friend the Electric Boat Co., in both of which I am a shareholder."

Mr. CARSE. I know, and he told me that, too, but I never was able to trace anything, and I tried hard enough.

The CHAIRMAN. Why would he not have that sort of thing in his own name?

Mr. CARSE. They never put stock in their own names. If they should sell it then they would have it floating around the street and everybody would say "so and so is selling the stock." They do not do that.

Senator BARBOUR. What is your stock quoted at now in the Electric Boat Co.?

Mr. CARSE. 5, I think.

Senator BARBOUR. What was it quoted at, at its highest point?

Mr. CARSE. I have seen this Electric Boat Co. stock 20 or 21.

Senator BARBOUR. What is par?

Mr. CARSE. There was no par, but we changed it and made it \$3 par so as to balance what we marked off on surplus.

Senator BARBOUR. What does it pay?

Mr. CARSE. It does not pay anything and has not paid anything since about 1920.

Senator BARBOUR. In other words, then, this stock paid no dividends and it is down to about \$5 a share?

Mr. CARSE. Yes.

Senator POPE. How many outstanding shares are there?

Mr. CARSE. There are authorized 800,000 shares, and there are in the hands of the public about 750,000. The company has in its treasury about 50,000 shares, authorized but in the treasury.

The CHAIRMAN. Mr. Carse, can you designate any of the nominees who might be involved in some of these accounts?

Mr. CARSE. I have designated as you went along all of those of whom I had any knowledge.

The CHAIRMAN. Do you know who they represent?

Mr. CARSE. As far as I know I have told you.

Senator BARBOUR. Of the larger amounts in mentioning these brokers' names as you came to them, did you know for whose account they are holding the stock?

Mr. CARSE. No, I do not.

The CHAIRMAN. Has Mr. Zaharoff ever indicated to you how extended were his stock holdings in the Electric Boat Co.?

Mr. CARSE. No, sir. In that quotation in that letter and in my talking to him that afternoon he said he was interested in our company. To what extent or anything of the kind or description I do not know.

The CHAIRMAN. Had he ever been given stock for services to the company?

Mr. CARSE. Not that I know of.

Senator BONE. It would be very easy then for him to cover the transactions of ownership that way through any of these brokerage houses?

Mr. CARSE. Certainly, anybody can do that. If he had any stock it probably was in some other person's name.

The CHAIRMAN. The letter in which Mr. Zaharoff spoke of being a shareholder in the Electric Boat Co., I offer as "Exhibit No. 31". (The letter referred to was marked "Exhibit No. 31", and appears in the appendix on p. 336.)

The CHAIRMAN. In that letter, "Exhibit No. 31", Mr. Zaharoff had said:

My long experience has always made me pay great attention to any opposition, however small or insignificant, and there can be no doubt that the Germans and Italians are boiling to get the wedge end in, especially as Spain is spending money on her navy, and the proposals they make to the Spanish Government are carefully considered by the junior Spanish naval officers, who (I tell you in the strictest confidence) are working to persuade the superior officials that the Electric Boat Company, Vickers, and the Constructora Naval are all old-fashioned, and that the time has come for a new departure.

That letter was addressed to you, Mr. Spear. What is the meaning of it all; tell us what is the meaning of it.

Mr. SPEAR. There has been a great effort on the part of the Italian firms, and the French and German firms, to get a share of the Spanish business, and we are doing our best to keep them from taking any business away from us.

The CHAIRMAN. Evidently these proposals are being considered by the junior officers of the Spanish Navy, but they are not getting to the top with any of their proposals.

Mr. SPEAR. No; they have not been effective so far.

The CHAIRMAN. It is barely possible Sir Basil was holding them back enough so that they were not receiving consideration of the officers at the top of the Spanish Navy.

Mr. SPEAR. Beg pardon, I did not hear what you said.

The CHAIRMAN. I drew the conclusion that Sir Basil was serving a large purpose in preventing the senior officers of the Spanish Navy from paying any attention at all to the proposals to the Spanish Navy.

Mr. SPEAR. I hope he is trying to.

Senator BONE. I believe you said, Mr. Carse, your company had paid no dividends on your stock since 1920.

Mr. CARSE. Yes; I think so.

Senator BONE. Then 1919 would be the last year dividends were paid?

Mr. CARSE. About that year, but I am not absolutely positive of the year.

Mr. SPEAR. I might add one thing more with reference to the Spanish business. A private shipyard in Spain built a submarine on their own account, without any order, some 3 years ago, and it is still on their hands, because it has not commended itself to the authorities either of Spain or any other country. Outside of that and an order that was placed some years ago, I think before our contract, where the Spanish Government had obtained some small submarines from Italy, I think that was all before we made the arrangement with the Sociedad, there certainly has been a very strong effort on the part of the Italians, Germans, and French to push us out of the picture in Spain.

The CHAIRMAN. Well, the Germans were becoming quite a factor in the field of submarine building.

Mr. SPEAR. They became a great factor after the war. Under the Versailles Treaty they were not supposed to build submarines, so what they did was to organize a company in Holland of entirely German interests, but they set up the head office in Holland, and in that company they have been very active in soliciting business all over the world.

#### RELATIONS WITH UNITED STATES GOVERNMENT DEPARTMENTS

The CHAIRMAN. I offer in evidence a letter dated November 3, 1925, dated at Paris, addressed confidential to Mr. Spear, signed by Mr. Zaharoff.

(The above letter was marked "Exhibit No. 32.")

The CHAIRMAN. This letter, "Exhibit No. 32", addressed to Mr. Spear by Zaharoff urges your Mr. Spear to get the State Department to help you against the German competition in Spain. I will read the letter in full, as follows:

(The chairman thereupon read in full "Exhibit No. 32".)

#### EXHIBIT No. 32

[Copy]

PARIS, 3rd November 1925.

Confidential

MY DEAR SPEAR: The Germans are moving terribly in Spain, and unless we all combine against them we may find them installed there one day, and action is necessary.

The United States Ambassador in Spain is a very clever gentleman, and highly esteemed, and I think that you should arrange for instructions to be sent to him from your State Department for him to tell the Spaniards that the United States Government work very harmoniously with the Electric Boat Company, with whom they exchange ideas, and that the United States hope that the Spanish Government is satisfied with the guarantee of the Electric Boat Company, combined with that of Vickers, and will not see any necessity for any other guarantee.

The English Government will be difficult to move in the same direction, but when you inform me that your Government have given the necessary instruction to their ambassador in Madrid I will have no difficulty in persuading the British to do ditto, ditto, ditto.

I hope you are well, and with my homage to Mrs. Spear, and my kind regards to Mr. Carse for himself and family, I am,

Sincerely yours,

(S.) BASIL ZAHAROFF.

The CHAIRMAN. Mr. Spear, did you approach the State Department in this connection?

Mr. SPEAR. I do not remember whether I did or not. I am inclined to think I did, but I do not remember.

Senator BARBOUR. In that connection, Mr. Chairman, with your permission, I will ask this: While the company has made no money and paid no dividends and with the stock selling around \$5 a share, how many people did you employ?

Mr. SPEAR. We are employing now at our Groton plant about 1,300 people.

Senator BARBOUR. Taking it all into account, how much employment have you given to people.

Mr. SPEAR. We employ about 1,600 people.

The CHAIRMAN. You say you think you did approach the State Department?

Mr. SPEAR. I have no real recollection of it. I would not see anything improper in it, and I probably did, but I do not know.

The CHAIRMAN. Then surely there was more than one approach to the State Department in matters of that kind?

Mr. SPEAR. You mean on the Spanish matter?

The CHAIRMAN. Well, on any matter?

Mr. SPEAR. Whenever we had a matter where we were negotiating with a foreign company and we found other foreign competitors were running in their Embassies and Legations, we endeavored to get the American Government to do its part to offset what they were doing. I cannot say, however, that we ever succeeded in obtaining an order that way.

The CHAIRMAN. The contract that was sought in Spain was finally accomplished, was it not?

Mr. SPEAR. You mean the contract with the Government?

The CHAIRMAN. Yes, sir.

Mr. SPEAR. Yes. Since that contract has been in force the Sociedad has built all the submarines that the Spanish Government has had constructed for it. Not a large number, but all there were.

The CHAIRMAN. Do you know whether the English Government finally took the steps that Sir Basil had suggested might be taken if the American Government would act in the premises?

Mr. SPEAR. I do not know, sir; whether they ever did anything or not. I do not recall ever being advised about it.

The CHAIRMAN. Why instead of going to the State Department in matters of this kind do you not rather approach the representatives of the Commerce Department?

Mr. SPEAR. We also do, or we also have.

The CHAIRMAN. What could the State Department do that the Commerce Department cannot do?

Mr. SPEAR. Well, I should say that the Ambassador in these countries, generally speaking, speaks with a more authoritative voice than the representative of the Department of Commerce. In other words, he presumably is listened to to a greater extent than the other representatives of the Government.

The CHAIRMAN. On the other side, there are those who look upon the State Department as being the one and only Department of Government that exercises any hand in accomplishing maintenance of peace and understanding between countries, taking those steps



that will prevent war or misunderstandings, taking the leading part in disarmament conventions and conferences. Is it not at least strange that the State Department should put its hand in as a helper or a salesman in selling munitions of war to another country?

Mr. SPEAR. I do not think so, sir. These are questions of international competition. If the orders are placed with us, our Government at least has definite information, can obtain definite information, as to the qualities and characteristics of the vessels built, and it all gives employment to American labor. If, however, the order is placed with somebody else, there is no benefit.

Senator CLARK. But you have sought the intervention of the State Department at times when the ships were to be constructed in Belgium, a foreign country, have you not?

Mr. SPEAR. We have sought their intervention whenever we thought it would help.

Senator CLARK. That would not give any help to American labor, would it?

Mr. SPEAR. No; except we make the plans, which means employment for American labor.

The CHAIRMAN. When did Mr. Roberts become connected with the Electric Boat Co.?

Mr. CARSE. At the time that Mr. Sheridan resigned, he suggested that Mr. Roberts would make a good director.

The CHAIRMAN. I offer "Exhibit No. 33", being a letter from Zaharoff to Mr. Carse, under date of February 2, 1926.

(The letter referred to was marked "Exhibit No. 33" and appears in the appendix on p. 336.)

The CHAIRMAN. That letter reads—

Senator BONE. May I ask one question with reference to the letter just introduced. In that letter, "Exhibit No. 32", there is a statement that ideas were exchanged, where he asks you—

to tell the Spaniards that the United States Government works very harmoniously with the Electric Boat Co., with whom they exchange ideas.

What does that refer to, Mr. Spear?

Mr. SPEAR. It refers to technical matters.

Mr. BONE. It refers, then, to patents, types of equipment, and the like?

Mr. SPEAR. All kinds of technical matters, Senator.

Senator BONE. Does the Navy Department exchange ideas with you, as this letter indicates?

Mr. SPEAR. Whenever the Navy Department desires us to have anything to do with any submarine matter which they are getting ready to do, we always hold ourselves open to present them any ideas or information which we have that would be useful.

Senator BONE. So that the United States naval officials are fully advised at all times of the exact type and patent of the boat you are building?

Mr. SPEAR. Correct; yes, sir.

Senator BONE. They have the most intimate detailed knowledge of those boats?

Mr. SPEAR. They have complete knowledge.

Senator BONE. The reason I asked that question is this: By this arrangement with the Vickers Co., the Vickers Co. and the Spaniards

and most of them have an equal knowledge of these things because they will use your plans that are bid on and will buy them?

Mr. SPEAR. No, Senator, the contracts with the United States Government contain a provision under which it is not permissible for us to transmit to any government or to any person not authorized by the Government any information about the ship as such. In other words, the designs which are built for the United States Government are a confidential matter between the United States and ourselves.

Senator BONE. Suppose the Spanish Government wanted a submarine of the very latest type, would you withhold from introducing into that boat the latest designs which you have?

Mr. SPEAR. Yes, we never supply nowadays to any foreign government the design to which we are building for the United States Government.

Senator BONE. Do you think that that attitude is true of American munitions companies generally?

Mr. SPEAR. I would not think so, Senator, because I think that munitions in general are standardized and submarines are not.

Senator BONE. Then when you are selling abroad you work under the handicap of telling the fellow that it is not possible to furnish him the latest device?

Mr. SPEAR. That is true, that we are not selling what we have worked on for the United States Government.

Senator BONE. How do you expect to operate in competition with other companies when you are not giving him the latest devices?

Mr. SPEAR. We are not having much luck, Senator. The only thing built abroad now is a boat in Spain with respect to which we are the technical advisers.

Senator BONE. Would that have any possible connection with the statement of Sir Basil Zaharoff with respect to the effect this might have in Spain?

Mr. SPEAR. I would not see any connection. We give them what they want. They specify certain things they want the boats to do, and we are responsible for producing the design which will do that.

The CHAIRMAN. Lieutenant Spear, let us assume that you were up to this moment a lieutenant in the service, commissioned, and then you retired, what would the law prevent you doing if the Electric Boat Co. asked you tomorrow to become a director and to be associated with them in the manufacture of submarines?

Mr. SPEAR. As I understand it, the law is that no retired officer is permitted to occupy any position or be employed by any company which has contractual relations with the United States Government.

The CHAIRMAN. You could not even be employed, after you divorced yourself from your relations with the Government, to represent your company in the foreign field?

Mr. SPEAR. When you are retired, you are not divorced from the United States Government, but you are at the call of the United States Government.

The CHAIRMAN. Do you think that the law would prevent you from being tied up in any way with the Electric Boat Co. for a given period of time?

Mr. SPEAR. It is my understanding of the facts that it is wholly illegal for any officer on the retired list to be employed by any corporation.

The CHAIRMAN. Now, supposing there were some little technicality there so that you feel that, strictly speaking, under the law you could accept a position with the Electric Boat Co., but that position must find you divorced at all times and having no connections with the United States Government or with any contracts running between the Government and the Electric Boat Co. At least you would not feel morally sound in that position, would you?

Mr. SPEAR. No; I think the only way you can feel morally sound and obey the law, and the spirit of the law, is to resign completely from the Navy. I believe that if there were a corporation which had Government business and separate commercial business, I think you might morally connect yourself with the commercial end, but I do not think you could legally.

The CHAIRMAN. Supposing you were retired today by the Army or the Navy, would you feel that tomorrow you could accept employment with the Electric Boat Co.?

Mr. SPEAR. No, sir; I think it is absolutely illegal. You must resign. You must completely sever your relations.

The CHAIRMAN. You said that Mr. Roberts became connected with the Electric Boat Co. when?

Mr. CARSE. When Mr. Sheridan ceased to be a representative of Vickers and Mr. Roberts was appointed in his place.

The CHAIRMAN. Mr. Roberts was connected with the Electric Boat Co. in 1926 anyway?

Mr. CARSE. I think probably so.

#### RELATIONS WITH ZAHAROFF

The CHAIRMAN. "Exhibit No. 33" is a letter from Zaharoff to Mr. Carse dated February 2, 1926.

The CHAIRMAN. "Exhibit No. 33" reads in part as follows:

The Duchess and I were pleased to have good news of you from Mr. Albert Roberts, who was here with us for a week and is now returning home to the United States.

Mr. Roberts also spoke well of the Electric Boat Co.'s position, which he thinks will soon declare itself.

Will you please tell Lieut. Spear that it is not advisable for your Paris office to know *anything whatever* of your Spanish business, and will Mr. Spear give the necessary instructions on this point to your Mr. Daniell who is in Spain.

Mr. Carse, why could not your own Paris office know what you were doing in Spain?

Mr. CARSE. Because Sir Basil Zaharoff did not like Koster.

The CHAIRMAN. Are Zaharoff's connections so large that he could dictate what your representatives abroad were to do or were not to do?

Mr. CARSE. In regard to the Spanish business. He did not want Koster interfering down there.

The CHAIRMAN. He did not like your representative in Paris, did he?

Mr. CARSE. No, sir.

The CHAIRMAN. He did not feel he was a proper man?

Mr. CARSE. No, sir.

The CHAIRMAN. What was the Paris man's name?

Mr. CARSE. Koster.

The CHAIRMAN. Is it in a degree fair to say in this business of selling submarines abroad that it is not always well to let your right hand know what your left hand is doing, or does not that apply here?

Mr. CARSE. No; I do not think that is the point, but when you have one man handling a business it is not wise to have another man butt in and try to do something different. You are apt to confuse the thing and fall down between two horses. It is the same in any business. If you wanted to sell a building in Washington, it would not be wise to give it to two or three agents.

The CHAIRMAN. I offer in evidence "Exhibit No. 34", being a letter dated August 14, 1926, addressed to Mr. Carse by Mr. Zaharoff.

(The letter referred to was marked "Exhibit No. 34" and appears in the appendix on p. 337.)

The CHAIRMAN. In "Exhibit No. 34", Sir Basil Zaharoff in part says as follows:

I had a very important Spanish official here the week before last, and from our conversations there can be no doubt that good business will continue for you and all of us in Spain, and we need not fear Krupp nor anybody else for a long time to come.

Had you been given any word as to what had happened there to make the situation seem as secure as Sir Basil had it appearing at that time, Mr. Spear?

Mr. SPEAR. No, sir.

The CHAIRMAN. Or you, Mr. Carse?

Mr. CARSE. No, sir.

The CHAIRMAN. Mr. Zaharoff continued:

Referring to what you say about the Argentine Government, you know of course that they have been negotiating for some considerable time with the Constructora Naval for naval and war material, in which the King of Spain himself takes a great interest, and is using all his endeavours for Argentine business to go to Spain.

I believe that the Constructora Naval has a fair—though not a big—chance, because foreign officers prefer living in Paris or London to being isolated in Spain, and consequently they generally put spokes in the wheels of the Spanish, much to the detriment of their country's interests.

Lieutenant Spear is embarking for Europe while I am dictating this letter, and you know that I will always be at his disposal, and support any valid ideas he may put forward.

Mr. Spear, in your contact in Spain, did you get to know the King?

Mr. SPEAR. No, sir.

The CHAIRMAN. Did you get to know, Mr. Spear, how direct or active may have been his interest in the Constructora Naval?

Mr. SPEAR. No.

The CHAIRMAN. Do you know whether or not he did have any direct personal holding there?

Mr. SPEAR. Not to my knowledge.

Senator BONE. Mr. SPEAR, who was the United States Minister or Ambassador to Spain at the time?

Mr. SPEAR. At the time of my visit there, Mr. Moore.

The CHAIRMAN. That was in 1925?

Mr. SPEAR. I do not remember. I could not tell without looking it up.

The CHAIRMAN. I offer as "Exhibit No. 35", a letter dated June 17, 1927, marked "Personal and Confidential." That letter is addressed by Mr. Zaharoff to Mr. Carse.

(The letter referred to was marked "Exhibit No. 35".)

The CHAIRMAN. It appears that in 1927 Mr. Zaharoff was very much alarmed about letting your Paris office know too much of what was going on in Spain. He stated as follows, and I think it would be well to read this entire letter [reading]:

JUNE 17, 1927.

EXHIBIT No. 35

(Personal and confidential)

DEAR MR. CARSE: I regret to have to trouble you with a disagreeable matter, which is the following:

The Paris representative of the Electric Boat Co. has written to Don Pablo Ruiz, commander of submarine *B-6*, built by us in Spain, inviting him to come to Paris, when he would give him all the latest information regarding submarine boats. Commander Ruiz, who is a good friend of the Sociedad Espanola de Construccion Naval, informed our Spanish company of this confidentially, but naturally thought it his duty to communicate your Paris agent's invitation to his superiors at the Ministry of Marine in Madrid, and there is now a regular mess.

The Spanish authorities say that we have always pressed them not to look at any other submarine proposals but ours, and have always assured them that we were giving them the very best that exists; yet the Electric Boat Co.'s agent in Paris must certainly be in possession of improvements which we were keeping back from the Spanish authorities.

Our Spanish friends tell me that this question has become very serious, and will open the door to competitors, and that if the Electric Boat Co. desire to bring improvements to the notice of the Spanish Government, it was the duty of the Electric Boat Co. to communicate these improvements to the Constructora Naval, for them to submit them to their naval authorities.

Our Spanish company are very much disturbed, because they fear their Government may suspect their good faith, and they tell me that it has always been an exceedingly difficult and delicate problem to create a monopoly for the Electric Boat Co. products, and that this unusual intervention has already caused serious friction.

I have repeatedly gone out of my way in warning you, my friend Lieutenant Spear, and Mr. Daniel, and also Mr. Roberts, to be exceedingly careful of your Paris agent, of whom I have a very bad experience, and consequently have no confidence in him, yet none of you have paid the least attention to my warning, and I will add that I have especially cautioned you all against Captain Koster's intervention in Spain, or even his ever mentioning Spain.

Is Captain Koster of so much value and importance to you all that my warnings have been in vain? Or is this person protected by all or some of you?

I have gone further, and told you all that I did not think it to the dignity of your company that you should be so represented in Paris.

I have for some long time given up all active exertions with Vickers, but as I am the sole founder of the Constructora Naval, it is my pet baby, and I continue watching it, helping it, keeping it out of trouble, and cherishing it, but if you people continue as you are now doing, I am afraid I will have to let you deal direct with our Spanish friends without my intervention.

Will you kindly present my homage to Mrs. Carse, and with a bonjour to your little boy, I am, dear Mr. Carse,

Cordially yours,

BASIL ZAHAROFF.

Addressed as this was to you, Mr. Carse, what did you do as soon as you got that letter?

MR. CARSE. It seemed that too many cooks would spoil the broth, so I cabled to Mr. Koster that a repetition of his interfering in Spanish business would require us to ask for his resignation. Mr. Spear and myself had both told Koster to mind his own business, and his business had nothing to do with Spain.

The CHAIRMAN. Perhaps this question has already been asked and answered, but I must ask you again: Who was Koster? What was his background?

MR. CARSE. Mr. Spear can tell better.

Mr. SPEAR. He was a Hollander by birth and was in the Dutch Navy.

The CHAIRMAN. I recall.

Mr. SPEAR. And was the first officer in the Dutch Navy to be connected with submarines.

The CHAIRMAN. When he is referred to as Captain Koster that does not mean that he ever had any connection with the American Army or Navy?

Mr. SPEAR. No, sir. Later on he retired from active interest and some years after his retirement he was employed by us.

The CHAIRMAN. Koster's connection there was soon terminated, was it not?

Mr. CARSE. No; several years later, I think.

The CHAIRMAN. This was in 1927.

Mr. CARSE. He went up to about 1930 or 1931.

Senator CLARK. Even as late as this year you have had negotiations with Koster about representing you in Europe on some other armaments?

Mr. SPEAR. Not the Electric Boat Co. I have. It had nothing to do with the Electric Boat Co.

Mr. CARSE. He wrote to Mr. Spear and he did not write to us. Koster means well enough, but he has the peculiar quality of allowing himself to have quarrels or differences with important people, or his customers, and does not get any business.

Senator CLARK. You heard rumors that Koster was known all over Europe as an international spy?

Mr. CARSE. I heard someone said that, but I did not believe it.

Senator CLARK. You mentioned that to Mr. Spear as one reason when you were fixing to "bounce" Koster, did you not?

Mr. CARSE. For instance, in France I was told that was his reputation. Of course that prevented him from ever doing anything in France. We never saw any evidences of that in any way.

The CHAIRMAN. The fault or trouble that really caused Zaharoff's anger toward Koster seems to me that Koster revealed to the Spanish authorities that they were not getting from the Electric Boat Co. or from Vickers, or from Constructora Naval the last word in submarine building.

Mr. CARSE. That is the way they apparently construed it down there in Spain. What did Koster mean by that? (Addressing associate.)

Mr. SPEAR. I do not know what he meant. I suppose he meant he would give him all the information he had about what submarine building was going on in Europe, but the other construction would be ridiculous because Koster was not in possession of the information. We did not send Koster word every time we thought of a new development or a way of improving a submarine. He did not have any such information.

Mr. CARSE. He just butted in where he did not belong. That is all.

Senator CLARK. Based on Mr. Spear's answer to Senator Bone a few minutes ago with respect to giving such information to the Spaniards, I was wondering how you would give them the latest development in submarines.

Mr. CARSE. We had not given them any development of submarines that we had been working on for the United States Government.

Mr. CLARK. So the assumption of the Spaniards was not a very violent one, was it?

Senator BARBOUR. You would not give it to any government?

Mr. CARSE. We would not give it to any government. We are honor bound.

Senator BONE. Mr. Spear or Mr. Carse, if you had got an order for a submarine from Spain, would you guarantee it was entirely up to date and an efficient submarine?

Mr. SPEAR. We guarantee it as a submarine of the type which they want, which will go so deep, and has a certain range, and will carry so many torpedoes and torpedo tubes.

Senator BONE. As an expert in this particular field, would you say that the submarine that they called for is a late or efficient type?

Mr. SPEAR. No; I think that the type they called for is not in accordance with the latest type they have asked for; is not in accord with our ideas of a good design.

Senator BONE. Would it differ in speed?

Mr. SPEAR. It differs quite materially in speed.

Senator BONE. And method of operation?

Mr. SPEAR. It differs in a great many respects. It is a highly technical question. It is not a design which we ourselves would recommend to somebody.

Senator BONE. I understand, but that would be largely different in the technical viewpoint of the man, would it not? In other words, the Spaniard would think that was the very last word in submarines?

Mr. SPEAR. They would think that was what they wanted, but, as a matter of fact, I think they make up their minds very largely by seeing somebody has got a submarine which has this thing, and somebody else has one with that on it, and they would like to have one with all those qualities. You cannot make a sound design out of those qualities, and, therefore, the attempt to do it is in our technical judgment not a reasonable one.

Senator BARBOUR. They pay you for getting a submarine, which in their judgment is what they want, and if they did not get it from you they would get it from somebody else?

Mr. SPEAR. They would get it from somebody who would give it to them. They ask for certain things, and we endeavor to give them what they ask for.

The CHAIRMAN. We have been wondering all day, Mr. Spear, just what Mr. Zaharoff's interest in Constructora Naval might be. In this letter of June 17th, 1927, he says that the Constructora Naval is his "pet baby", and he continues watching it very closely.

Mr. RAUSHENBUSH. And he is the sole founder.

The CHAIRMAN. And declares that he was the sole founder. Are we to gather that he is the sole owner?

Mr. SPEAR. No, sir.

The CHAIRMAN. What do you know about that? How extensive is his interest?

Mr. SPEAR. I imagine it is rather small. I imagine that at one time he owned a considerable part of it. From what I hear—it is

hearsay and I cannot swear to it—I understand his actual holding in the company is very moderate or small at the present time; not as big as it was.

Mr. RAUSHENBUSH. At one time, later on in the history of that company, Vickers took a very much larger interest, did it not, than at first?

Mr. SPEAR. I do not know whether they ever added to their interest or not.

Mr. RAUSHENBUSH. What I am trying to get at is this—was Zaharoff getting out of the company in a big way replaced by Vickers coming in, the selling of stock from one to the other?

Mr. SPEAR. That might have happened, but I have no knowledge of it. I do not know whether that is the case or not.

The CHAIRMAN. Mr. Spear, what in the world can be the advantage of having an agent in Europe, as Zaharoff is for Electric Boat, who has interests such as he has in the Constructora Naval, which is doing the same thing that you folks are doing?

Mr. SPEAR. That was the only way we could do any business with Spain, that is, to make arrangements to have the greater part of the work done in Spain because that is the policy of the Spanish Government.

The CHAIRMAN. That is aside from my question. I stated that the Constructora Naval was Zaharoff's pet baby, and how could he be a conscientious agent for you or how could he be the most conscientious agent for you that you could hope for?

Mr. SPEAR. We felt that we would like to make this arrangement with the Constructora Naval because it was the leading industrial company in Spain and Sir Basil was at that time very influential in that company, and so we used his good offices to bring about this contract that we made with them. Knowing him and knowing that he was intimately connected with it, we naturally used his good offices to persuade them that this would be a good thing to do.

The CHAIRMAN. All right. We must move on. While evidently you were considering this complaint of Zaharoff regarding your Paris agent, he wrote you under date of July 12, 1927, a letter which is offered as "Exhibit No. 36."

(The letter referred to was marked "Exhibit No. 36" and appears in the appendix on p. 337.)

The CHAIRMAN. Mr. Zaharoff in the letter of July 12, 1927, "Exhibit No. 36", stated in part as follows:

It has just occurred to me that Monsieur Michel Clemenceau, son of the great Clemenceau, and who represents the Vickers Company on the European Continent, and also keeps in touch with all the South American Naval and Military Commissions in Paris, might be useful to your company under my supervision.

Have you ever utilized the services of Clemenceau?

Mr. SPEAR. That is a letter to Mr. Carse.

The CHAIRMAN. I beg your pardon. Mr. Carse.

Mr. CARSE. No, sir; we never have.

The CHAIRMAN. Have you considered it?

Mr. CARSE. No.

The CHAIRMAN. Do you know whether Mr. Zaharoff has used his services in any connection?

Mr. CARSE. I have no knowledge that he used anything because we have not had any European business outside of Spain.



The CHAIRMAN. Outside of Spain you have had no European business since 1927?

Mr. CARSE. No.

The CHAIRMAN. On August 27, 1928, in a letter which will be marked "Exhibit No. 37," you wrote Mr. Zaharoff, Mr. Carse, about your Japanese business.

(The letter referred to was marked "Exhibit No. 37" and appears in the appendix on p. 338.)

The CHAIRMAN. Was Zaharoff particularly interested in the Japanese business?

Mr. CARSE. No; he was not, except that I was telling him. He had said that he was a stockholder and I thought that would interest him, to know that we were negotiating with them, and at that time we thought we were negotiating with some degree of success, but nothing has ever developed.

The CHAIRMAN. Would your business in Japan pay Zaharoff any commission?

Mr. CARSE. No.

The CHAIRMAN. You say in this letter of August 27, 1928:

As you no doubt are aware, considerable friction developed between our staff and the officials of the Navy Department in Washington some 6 or 7 years ago, and the officials endeavored in every way to make it as difficult for the company as possible. I am glad to say that we have apparently eliminated that animosity, and I have reason to believe that the design of the Department at Washington of submarines has proven unsuccessful.

Is the committee to gather, Mr. Carse, that the Navy Department's ignoring of what you have called more recent plans for submarine building had led them into difficulties and that it had not proved itself able to stand up?

Mr. CARSE. No; it had not proven to be as successful as it might have been.

The CHAIRMAN. The letter goes on to state:

At present our relations are such that we have been invited to present our idea of the proper type and design of submarine to be built by the United States Navy Department, and the plans and specifications we have submitted have been approved and accepted, and the expectation is that we will in the future divide with the Navy Department the building of submarine boats for this Government.

Has there been reasonable division since that time?

Mr. CARSE. During the last 3 years. What date was that?

The CHAIRMAN. August 27, 1928.

Mr. CARSE. We were not as successful, as soon as we thought at that time that we would be, but we since then, about 3 years ago, have been given the *Cuttlefish* and the *Shark* and the *Tarpon* and now they have awarded us three of the new submarine boats.

We have an organization that has existed for over 30 years. Many men have been there that time and they have concentrated entirely on the designing and building of submarine boats. We have taken out very many patents, which we have filed in all the countries of the world. Our men are concentrating on that work. In the Navy Department they shift from the bureaus to service and back again, so that a naval officer has many other things on his mind besides the designing of submarines. They also work on battleships and cruisers and destroyers. So that there cannot be the extent of concentration upon the single item that our organization can and does give, and it is

a very difficult piece of work to do up to the highest efficiency. That is what is meant by that. There is no slur on anybody intended. It is simply a private letter. I did not publish that in the paper or anything.

Senator BONE. Whose plans were used in building the Government submarines in later years; that is, where the Government built its own submarines?

Mr. CARSE. Mr. Spear can tell you about that better than I.

Mr. SPEAR. How far back do you want to go?

Senator BONE. This letter is dated in 1928. Go back to 1928. Do you know who supplied the plans to the Government for building submarines?

Mr. SPEAR. The Government supplied its own plans for the first two submarines after that. They supplied the general design for the first three, and those that were ordered last year to be built by us were designed by us, and those which were ordered this year to be built by us were designed by us.

Senator BONE. Mr. Spear, in the last 10 years, how many submarines would you say that the Government has built in its own yards, has constructed, as contrasted with those built in private yards?

Mr. SPEAR. There has been very little building in the last 10 years. I am talking about the date of starting the work and I cannot go to the date of completion because I do not carry that in my mind.

Senator BONE. Roughly, approximately how many?

Mr. SPEAR. There have been 10 submarines ordered, all told, by the United States Government. So that the United States Government has ordered 3 from us and has ordered 7 to be built in the navy yards.

Senator BONE. In Government navy yards?

Mr. SPEAR. In Government navy yards.

Senator BONE. There is one other question which I have in mind, which is provoked by this letter. Can you tell us where Zaharoff gets into the Japanese picture?

Mr. CARSE. He does not get into it at all.

Senator BONE. Has he any connection with Mitsui or Mitsubishi outfit?

Mr. CARSE. No.

Senator BONE. Does Vickers have a plant over there?

Mr. CARSE. They have some connection with the Mitsubishi people.

Senator BONE. Does Vickers have a plant over there?

Mr. CARSE. I do not think they have any plant.

Senator BONE. They maintain an office there?

Mr. CARSE. In the Mitsubishi office.

Senator BONE. They are stockholders in one of the large Japanese plants, the Vickers?

Mr. CARSE. I do not know whether they own any stock or not. I doubt it.

Mr. SPEAR. I think it is a license arrangement. I think Mitsubishi has a license from Vickers for engines, and so forth.

Senator BONE. Under that license, do they use Vickers' patents?

Mr. SPEAR. Yes, sir; whenever they build anything under that, if Vickers has a patent.

Senator BONE. In other words, they use the Vickers' patents whenever they choose?

Mr. SPEAR. Of that sort, but they do a lot of business of their own outside of the license with Vickers.

Senator BONE. Of course through the Vickers' contracts Zaharoff would have an interest in Japanese business.

Mr. SPEAR. He would not have any interest in our business.

Senator BONE. I understand, but in the Japanese business Zaharoff would cut into it through his connection with Vickers?

Mr. SPEAR. I should suppose so. I would assume that was his only interest.

The CHAIRMAN. I offer in evidence "Exhibit No. 38", being a letter from Mr. Zaharoff to Mr. Spear, dated September 11, 1927.

(The letter referred to was marked "Exhibit No. 38", and appears in the appendix on p. 339.)

The CHAIRMAN. It appears, Mr. Spear, that Zaharoff cannot interfere in your Argentine business for what he states are "social reasons". What do you understand those "social reasons" to have been?

Mr. SPEAR. I do not know, sir.

The CHAIRMAN. Was it his relationship to Alfonso, whom we were told in the previous correspondence was very jealously interested in the welfare of the Spanish manufacturing concerns?

Mr. SPEAR. I could not tell you what he meant, Mr. Chairman. I have no knowledge of what his reference to "social reasons" was about.

Mr. CARSE. We did not get the Argentine business. The Italians took that.

The CHAIRMAN. You did not get any Argentine business?

Mr. CARSE. No, sir; the Italians took it. The competition in building submarine boats is far from being a monopoly. It is the fiercest competition imaginable.

The CHAIRMAN. Speaking of such "social reasons" that might stand in the way of his interesting himself in your behalf in Argentine, does not the same hold true in France as well? Would not he have "social reasons" there which would prevent it?

Mr. CARSE. I do not think so.

Mr. SPEAR. I think he refers to it.

The CHAIRMAN (reading from Exhibit No. 38):

\* \* \* and also for my personal standing in France, which obliges me to be absolutely neutral.

Where in the world has Zaharoff been neutral?

Mr. CARSE. I have never considered that we have any possibility of doing any business with the French Government because the French Government is the most self-contained of any Government in the world, and they keep everything for their home labor and we have never been able to do anything with them at all.

Senator BARBOUR. Did he mean that his connections with the Spanish were such that while he was helpful in that quarter, he could not be helpful in another quarter and that it might militate against him?

Mr. CARSE. It might. I do not know what it means. He is a very polite man and it is sometimes hard to say just what he does mean.

The CHAIRMAN. I offer in evidence as "Exhibit No. 39", a letter from Mr. Zaharoff to Mr. Carse, in which Zaharoff again criticizes your European set-up, Mr. Carse.

(The letter referred to was marked "Exhibit No. 39", and appears in the appendix on p. 339.)

The CHAIRMAN. In that letter marked "Exhibit No. 39," under date of September 13, 1927, Zaharoff says in part:

I entirely approve of what you say regarding the difficulties of obtaining business from foreign countries by your representatives in Europe, and I must frankly tell you that I have never approved of your heavy expenditure in Europe for a useless purpose, but on the contrary I believe that this rather cheapens your position, whereas, if people want to communicate with you, you can always send a special representative to meet them, in which case the expenditure would be moderate.

I will continue keeping Monsieur Michel Clemenceau in view, and we might utilize him in case of need, without our going to any expense.

You have said that you have no recollection that Clemenceau was ever utilized?

Mr. CARSE. Never was to my knowledge. We maintained Koster there because we believed that he knew more about submarine-boat construction and operation than any man in Europe, and while there were certain qualities about him that we did not absolutely approve of, yet he did keep in touch with the technical aspects as developed in Europe and kept Mr. Spear advised. Then, as I mentioned this morning with relation to our claim against the Germans for infringing our patents during the war, Koster did some very good service in obtaining the evidence that finally forced the Germans to produce some drawings of the boats that had been constructed, and also the Germans raised some defenses in relation to aspects of German law, and Koster secured the opinion of a German counsellor of standing and weight that controverted the opinion that had been advanced in the German defense.

So, as you will perhaps note in one of those letters which I wrote to Sir Basil, we could not dispense with Koster's service pending the settlement of this German claim.

The CHAIRMAN. I offer in evidence "Exhibit No. 40". This, Mr. Carse, is a letter written to you by Basil Zaharoff, and dated November 12, 1927, from Paris.

(The letter referred to was marked "Exhibit No. 40" and appears in the appendix on p. 339.)

#### RELATIONS WITH SOUTH AMERICAN COUNTRIES

The CHAIRMAN. Zaharoff makes reference in the first paragraph of that letter, "Exhibit No. 40", to Senor Luiz Aubry. Who is Aubry?

Mr. CARSE. Luiz Aubry was our agent in South America. He was naval attaché for Peru at Washington, and after resigning from there he took up our agency in South America and secured orders for some submarine boats in Peru and went to Brazil and Argentina endeavoring to procure business there.

Back at the time of that letter he resigned from our employ and went to Paris as the naval attaché of the Peruvian Government in Paris, and called on Sir Basil Zaharoff. I guess perhaps I gave him a letter. I am not certain. But he called on Sir Basil Zaharoff and Sir Basil Zaharoff was very much pleased with his acquaintance and

arranged to have him go to Madrid and he was received very cordially down there.

The CHAIRMAN. You spoke of his having later resigned from the Electric Boat Companies' employ?

Mr. CARSE. Yes; at the time he went to Paris.

The CHAIRMAN. But he came back into your employ later on?

Mr. CARSE. After he resigned as naval attaché in Paris. He was never in the employ of both his Government and ourselves at the same time.

The CHAIRMAN. During the time he was out of your employ—was that in 1927 and 1928?

Mr. CARSE. Yes, sir.

The CHAIRMAN. In 1927 you are shown as paying him a salary of \$5,400, and no salary paid in 1928.

Mr. CARSE. When was that?

The CHAIRMAN. I offer for the record "Exhibit No. 41", being a record of the receipts of salaries, commissions, and expenses from the Electric Boat Co. of Capt. Luiz Aubry.

(The statement referred to was marked "Exhibit No. 41", and appears in the appendix on p. 340.)

Mr. CARSE. I am not certain on these dates and the dates are more or less blended in my mind.

The CHAIRMAN. The date of this letter, referring to Aubry not having yet arrived at the Peruvian Legation in Paris is November 12, 1927.

Mr. CARSE. There were 11 months in 1927 besides that.

The CHAIRMAN. In 1926 he drew a salary of \$7,200, and in 1927 a salary of \$5,400, which would indicate that he had drawn salary only for a part of the year?

Mr. CARSE. Yes, sir.

The CHAIRMAN. And in 1928 he drew no salary at all.

Mr. CARSE. That is right.

The CHAIRMAN. But in 1928 he did receive from you a commission of \$18,720. What was that for?

Mr. CARSE. That was for his commission on orders where we had built Peruvian submarine boats, where we paid him a commission as we received the money from the Peruvian Government.

The CHAIRMAN. "Exhibit No. 41", shows a total salary starting in 1922 and running down and including 1932 showing \$37,800 paid to Mr. Aubry and commissions starting in 1924 and running down through the 15th of August of this year totaling \$253,674.04; and expenses starting in 1920 running down to and including August 15, 1934, in the total amount of \$34,727.85, or a total of salary and commissions and expenses paid to him during that period of \$326,201.89.

Mr. CARSE. That is about 5 percent on the business which he secured for us.

The CHAIRMAN. About 5 percent on the business which he secured for you?

Mr. CARSE. Yes, sir.

The CHAIRMAN. About the same commission which you were paying to Zaharoff?

Mr. CARSE. That is it. It seems a moderate commission. That covered all expenses, traveling expenses, office expenses, and everything else.

The CHAIRMAN. I offer in evidence "Exhibit No. 42", being a letter dated November 23, 1927, addressed to "My dear Sir Basil" and signed by Mr. Carse.

(The letter referred to was marked "Exhibit No. 42", and appears in the appendix on p. 340.)

The CHAIRMAN. The third paragraph of "Exhibit No. 42" being the letter from Mr. Carse to Sir Basil reads as follows:

In regard to our negotiations with Japan, I would have written you fully if there had been any definite contract. We have been working very closely on this subject for practically two years, and our representative, who has shown very clearly that his relations with Hayashi, Saito, and other leading men of Japan, are very close, advises us that he has complete assurances that the business will come to us, but during the last year, as you know, many matters have happened in Japan to delay the closing of such negotiations.

Who was your representative?

Mr. CARSE. Our vice president, Sterling Joyner.

The CHAIRMAN. When did he become vice president?

Mr. SPEAR. It was 1929 or 1930, according to my recollection. He came with us in 1927.

Mr. CARSE. He was not an officer at that time. He was simply taking an agency to secure an order from Japan.

Senator POPE. Was he in Japan at that time?

Mr. CARSE. He was there twice. I think we engaged him in 1925.

The CHAIRMAN. Mr. Carse, Mr. Joyner was to have been here. We have certain affidavits revealing the inability of Mr. Joyner to be here. I am going to suggest that Mr. Raushenbush make them a matter of record at this time.

Mr. CARSE. He is a very sick man.

Mr. RAUSHENBUSH. Mr. Chairman, we have received a statement from Dr. Robert Scott Lamb, dated yesterday, saying:

This is to certify that Sterling J. Joyner is ill and under my professional care, suffering from an acute laceration of an old heart lesion and must not leave his room for the present if he is to avoid serious consequences.

Dr. Lamb is a Washington physician.

We also have a statement from Dr. Burt D. Harrington, of Brooklyn, describing the previous treatment Mr. Joyner has received at his hands and stating—

He is under treatment at the present time and from my examination today—

That is, August 31—

I feel that he is in grave danger of a complete collapse unless he follows my advice and takes a rest as I have advised. It might be desirable if he be hospitalized so that he can be closely watched.

For your information, Mr. Chairman, I have asked Mr. Spear whether, in spite of Mr. Joyner's illness, it would not be possible to secure from Mr. Joyner the correspondence which he was asked to produce in his subpoena, and Mr. Spear has informed me that he will discuss that matter with Mr. Joyner tonight and try to secure it, if it is at all available.

The CHAIRMAN. Continuing with the letter of November 23, 1927, to Mr. Basil, written by you, Mr. Carse, you say:

There have been many rumors, and our Government has endeavored to obtain details from us, and the British Government recently has been endeavoring to get information from us through our friends Vickers, but all discussions on

the project under negotiation are fraught with danger and we have endeavored to keep the matter absolutely confidential \* \* \*

This refers to your dealings with Japan, which Mr. Joyner was interesting himself in. Are we to understand that you were not giving to the United States Government, even though it was making inquiry, the facts that the Government wanted respecting these rumors of Japanese submarine building, Mr. Carse?

MR. CARSE. They had some rumors somewhere that we had received a contract in Japan for a large number of submarine boats, and one of the Reserve officers, I believe of the O.N.I., came down to see me at my office. He was connected with some brokerage office in New York and he said that O.N.I. in Washington had directed him to come and get the particulars from me about the contract with Japan. I said, "We have not any contract with Japan." He did not believe it and was very indignant that I would not tell him about the contract with Japan. I said, "We have not any contract with Japan. I do not know of any contract with Japan." I said: "We have had a man over there talking to them, but what has been accomplished, I do not know." He and a good many other people thought that by saying that that I was trying to hide something.

Then I think we had other inquiries from Washington, and my answer was the same all the time, that we had no contract from Japan. We did not have and never have had. Simply because I could not give the answer they wanted is no reason why I should be condemned.

Sir Trevor Dawson wrote asking me if we could let him know what we were doing, and I simply had to tell him there was nothing tangible. We had heard a lot of talk about promises, and we had submitted preliminary sketches, not only for submarines, but for other vessels.

Senator POPE. Where was Mr. Joyner when the Government was inquiring of you about this matter?

MR. CARSE. He had not arrived here yet. He was on his way east. I think somewhere between Honolulu and New York.

Senator POPE. On his way to the United States?

MR. CARSE. On his way back; yes, sir. They had evidently gotten some flash from Japan. I thought we were going to get the thing because gossip came to me from around the street that we were going to get a big order from Japan for building vessels, not only submarines, but other vessels, and one piece of gossip which came in was that somebody said they knew it because they knew where the money was. The money was already in New York to pay us, but we never saw it. It would have been a very nice piece of business for the United States if we could have landed it, and all those things, if possible to be arranged, are beneficial to the United States, not only for labor but for the knowledge that the United States has of what is going on.

The CHAIRMAN. But the United States does not get that knowledge until what is going on has happened, does it?

MR. CARSE. Don't it?

The CHAIRMAN. When the United States Government made inquiry of you, then, in this matter, you gave them all the information that was available?

MR. CARSE. I gave them all the information which I had, which was nothing.

The CHAIRMAN. I offer in evidence as "Exhibit No. 43" a copy of a letter addressed to Mr. Carse by Mr. Zaharoff under date of August 14, 1928.

• (The letter referred to was marked "Exhibit No. 43" and appears in the appendix on p. 341.)

The CHAIRMAN. I will quote this very brief paragraph from "Exhibit No. 43":

I feel confident about your business in Spain, and believe that still bigger things are being cooked, though matters in that country take long to materialize.

He has told you in this letter about seeing Alfonso going down in a submarine and quoting the newspaper account of that.

I offer in evidence "Exhibit No. 44," being a letter dated September 2, 1928, from Basil Zaharoff to Mr. Spear, in which the writer gives a lesson on how to get along with the authorities.

I read from this letter dated the 2d of September 1928.

I have your letter of 20th ultimo, with one from Mr. Daniell, about the Spanish Navy accepting the Echevarrieta offer to import all parts of a submarine boat to be assembled at Cadiz, and should tell you that we have for years past strongly opposed all offers made to the Spanish Government, but we were advised by good naval friends not to interfere in this case, because they did not want the authorities to think that they had got into a monopoly with us re submarines.

We are advised that the clique that have been opposing our boats will now keep quiet, and the proof of this is that we are just negotiating most satisfactorily for a new lot of your submarines, and hope to conclude shortly.

The letter is offered as "Exhibit No. 44".

(The letter referred to was thereupon marked "Exhibit No. 44." and appears in the appendix on p. 341.)

The CHAIRMAN. I offer as "Exhibit No. 45" a letter dated September 10, 1928, addressed to Mr. Carse by Sir Basil Zaharoff where he again gives a recipe evidently this time on how to maintain a monopoly. He says:

EXHIBIT No. 45

SEPTEMBER 10, 1928.

MY DEAR MR. CARSE: Many thanks for your chatty letter of 27th ultimo, which I have read with much interest, and regret that there has not been harmony between your naval authorities and your good selves.

Government representatives are often difficult to deal with, but my 50 years' experience with them tells me that tact goes a very long way, and whenever my firm has got into misunderstandings with the authorities, I have always changed the person who has been negotiating, and utilized somebody else, and went on doing this until I had somebody who was sympathetic to the authorities.

The Spanish naval programme is going on all right, and I expect final news during this autumn, and in one way am not sorry that Mr. Daniell is leaving, for, although he has now and then rubbed people the wrong way, without any intention of doing so.

I trust that your news from Japan will continue improving, and that the business will come off to your satisfaction, and with my homage to Mrs. Carse, and love to your boy, I am, my dear Mr. Carse,

Always cordially yours,

BASIL ZAHAROFF.

(The letter above referred to was thereupon marked "Exhibit No. 45.")

The CHAIRMAN. I offer as "Exhibit No. 46" a letter dated November 16, 1929, containing a request by Mr. Carse of Sir Basil for his help in behalf of one of the Electric Boat Companies' friends in the Navy Department. I read as follows:

One of our friends in the Navy Department, Rear Admiral Andrew T. Long, has been nominated by President Hoover as Director of the International Hydro-



graphic Bureau, located at Monaco, a position formerly held by the American Admiral A. P. Niblack. Admiral Long has been promised the support of a number of the countries represented in the League of Nations, and in talking over the matter with him the names of Spain and Greece have been mentioned, and, without making statements to him, it has occurred to me that it might possibly be agreeable to you to recommend to your friends in Spain and Greece, if they have no other candidate for the position, to support the nomination of Admiral Long, who, you will no doubt remember, has been naval attaché at Brussels and at Paris and commanded the European fleet of the American Navy, and was one of the members at the different Geneva conferences. You have probably met Admiral Long and have formed your own judgment as to his capacity and ability.

(This letter was marked "Exhibit No. 46" and appears in the appendix on p. 342.)

The CHAIRMAN. I ask, Mr. Carse, did you know Admiral Long very well?

Mr. CARSE. No.

Mr. SPEAR. I do.

Mr. CARSE. Mr. Spear does.

The CHAIRMAN. Did you know him well?

Mr. SPEAR. I had known him since my days in Annapolis.

The CHAIRMAN. What was his part in the Geneva Conference or Conferences?

Mr. SPEAR. He attended one of the conferences as one of the technical advisors to our delegation. That was one of the early conferences, in Geneva, as I remember.

The CHAIRMAN. Further on in the letter by Mr. Carse to Sir Basil he says:

In Washington we have been making substantial progress. Our design of new submarine has been accepted by the Department and we are promised an order for two out of a present program of three submarine boats, but I should say in the abstract that such order could hardly be given to us pending the London Conference to be held in January. As, however, it is generally conceded that no adverse action will be taken in connection with submarines at that conference, we expect to receive this order as soon as it can be properly given.

Who, Mr. Carse, conceded or promised an order for these boats?

Mr. CARSE. Well, I do not know that anybody promised, but in the talking that was taking place at that time, it was spoken of that we would get an order for two boats. As it was, we did not, because they went to Portsmouth.

The CHAIRMAN. You were promised these boats?

Mr. CARSE. They had our designs. Our designs had been accepted and were considered very favorably, and so forth. I do not know that we were promised; they did not promise me, but I was told that the general tenor down there was that the two boats would be allotted to us on the design that we had submitted.

Senator CLARK. Who conducted the negotiations in the Navy Department?

Mr. SPEAR. I did in large part. What happened was this: At that time they were considering submarines of a certain size and they wanted to get certain qualities. We got up a design to give them those qualities and then I held conferences with the technical bureau as to the features of those designs which for one reason or another they either wanted or did not want. It was finally settled with all the technical bureaus and we amended the design to suit their wishes. They felt it was a satisfactory design and the indications were that they thought that as long as they had not given us an order for 10 or

12 years, it was time that we did receive an order; and the indications to me were that their intention was to place that order. As a matter of fact, they were never built; those boats were never built at all. Later they decided to reduce the size and they built two smaller boats. We got an order for one and the other was built at a navy yard. So the hopes that we entertained were never realized.

Senator POPE. Upon what did you base your statement here, "It is generally conceded that no adverse action will be taken in connection with submarines at that conference", referring to the London Conference?

Mr. CARSE. I think that is very simple to explain. France was so absolutely and definitely opposed to the abolishment of submarines, that no agreement could be arrived at. The only nation that was strongly in favor of the abolition of submarine boats was Great Britain, because she knew that she could never engage in a war with a major power as long as submarine boats were in existence. They could blockade Great Britain a good deal better than they did the last time.

Senator POPE. It was not based on any conference with our own Navy Department?

Mr. CARSE. No; not at all.

Senator BONE. Mr. Carse, leaving the Government navy yard out of the picture of submarine building, is there any competitive factor in this country? Is there any other outfit building submarines?

Mr. SPEAR. No other outfit is building them. Another outfit has bid upon them, or upon the last two lots and up to about 10 or 15 years ago there was another company in the business, but they have since retired. The Navy did not give out any orders to private industry between 1918 and 1931. We did not receive any orders. In 1931 they asked for bids. We bid and one other concern bid. We were the low bidder, so we got the contract. Last year they also asked for bids; we bid, and another concern bid, and we were again the low bidders and received the contract.

Senator BONE. Can you tell us the name of the concern that bid?

Mr. SPEAR. In 1931 it was the New York Shipbuilding Corporation.

Senator BONE. They build battleships and cruisers and the like?

Mr. SPEAR. They build all kinds of things; Atlantic liners, destroyers, and anything that they are able to get.

Senator CLARK. Did not Bethlehem try to chisel in on this business at one stage of the game?

Mr. SPEAR. They never bid, but at one stage of the game, before we had a hull department of our own, we subcontracted to Bethlehem Shipyard the hulls on some of these boats.

Senator CLARK. Did not Bethlehem threaten to bid on some of these boats that you bid on?

Mr. SPEAR. I heard rumors that they were going to, but they never did.

Senator BARBOUR. In connection with these commissions that have been mentioned, it would help me better to visualize what they were if you were to tell the approximate price of a submarine of the usual size.

Mr. SPEAR. In the United States or abroad?

Senator BARBOUR. No; in the United States.

Mr. SPEAR. Well, since the increase in costs and also the great complexity in design in submarines, they have been built in navy yards for an average of around \$2,900 to \$3,000 a ton. Our prices on them are somewhat less. But that is about the prevailing price. It would depend on how many were built at one time and the design; that is, there is not a definite price per ton that applies to every bid.

Senator BARBOUR. I understand that, but I was wondering, approximately, looking at it from a layman's point of view, how much a submarine would cost.

Mr. SPEAR. Well, I will tell you. The hulls without the machinery on the last two submarines cost a little under \$2,400,000 apiece.

Mr. CARSE. That is on the last three.

Mr. SPEAR. Yes; on the last three. That is the hull and the armament. That is all of it except the engines and the generators and the motors and the gears.

Senator BARBOUR. Those are expensive. So that it would run to about over \$2,500,000 complete.

Mr. SPEAR. I should say that machinery—they have not received bids on machinery yet—but the last bid that they had on machinery was a little less than a million dollars. I should say that the machinery is worth somewhere between \$800,000 to a million dollars.

Senator BARBOUR. So we may say approximately \$3,000,000.

Mr. SPEAR. I should say for that size boat about \$3,250,000, between \$3,000,000 and \$3,500,000.

Mr. CARSE. If it had not been for these foreign royalties that we received from Europe on this foreign business, there would not be any such organization as the Electric Boat Co. with this trained, skilled crew of men, because that is the only thing that has kept us alive.

The CHAIRMAN. Coming back to the case of Admiral Long and this letter which was marked "Exhibit No. 46-A" (and appears in the appendix on p. 343), Mr. Carse on January 22, 1930, wrote Mr. Zaharoff as follows:

MY DEAR SIR BASIL: Your letter of November 29 was duly received and I communicated to Admiral Long that part concerning him and understand he has written to you, word coming to me that he has been promised 65 votes out of 69 necessary to elect.

Do you know whether or not Admiral Long won the appointment at that time?

Mr. CARSE. He did.

The CHAIRMAN. He did get it.

Mr. CARSE. Yes.

The CHAIRMAN. Why did he come to you for help?

Mr. CARSE. He did not come to me. Some of our people spoke to me about it and I said, "Well, I will write Sir Basil and see if he cannot do something."

The CHAIRMAN. You communicated to Admiral Long?

Mr. CARSE. Yes.

The CHAIRMAN. And told him what?

Mr. CARSE. What Sir Basil had said.

The CHAIRMAN. I offer in evidence as "Exhibit No. 47", a letter dated September 20, 1930, to Mr. Spear by Mr. Zaharoff.

(The letter referred to was marked "Exhibit No. 47", and appears in the appendix on p. 344.)

The CHAIRMAN. In this letter, marked "Exhibit No. 47", Mr. Zaharoff says:

I quite agree with you that everything should be and must be done to keep out the Germans, French, and Italians, and with your tact and that of Colonel Fuster and Cervera, I believe that the matter will be quietly piloted our way.

Just what does that mean?

Mr. SPEAR. That meant that we thought we would be successful in maintaining our position in preventing our European competitors from taking any of the business away from us.

The CHAIRMAN. Zaharoff said in that same letter:

The Spanish officers, like many others, endeavor naturally to show that they are inventing, and we should always seem to encourage such ideas while we are sticking to real safety.

That means that you were not accepting all of their thoughts?

Mr. SPEAR. No; they present some thoughts to us. We consider that they are unsound or unsafe and we would not agree to incorporate them in the designs for which we would be responsible. Some of them sometimes have ideas about what they think might be an improvement that from lack of real information on the subject would be wrong. We would not take the responsibility of accepting their ideas.

Mr. CARSE. You have to be careful that you do not offend them.

The CHAIRMAN. I offer as "Exhibit No. 48" a letter dated August 11, 1930, from Mr. Zaharoff to Mr. Spear.

(The letter referred to was thereupon marked "Exhibit No. 48" and appears in the appendix on p. 344.)

The CHAIRMAN. I find in this letter, "Exhibit No. 48", the following:

You know that the Germans are using every imaginable trick to get a footing in Spain, also the Italians and French, but we are keeping our vigilant eye open, yet they may one day get hold of an interested official, and thus cause us much trouble.

Just what was Sir Basil worried about there? What might they do to an interested official?

Mr. SPEAR. I suppose they thought they might get some important official favoring their cause and advocating it which would cause us trouble.

The CHAIRMAN. You don't think that he felt that Spanish officials might be susceptible to considerations that were not altogether confined to the merits of the case?

Mr. SPEAR. I would not like to say what might be in Sir Basil's mind.

The CHAIRMAN. I offer as "Exhibit No. 49" a copy of a letter dated October 25, 1930, to Mr. Spear signed Zedzed.

Mr. CARSE. That is his cable address, his cable name.

The CHAIRMAN. That is Zaharoff's cable name?

Mr. CARSE. Yes; Zedzed, Paris.

(The letter referred to was thereupon marked "Exhibit No. 49", and appears in the appendix on p. 344.)

The CHAIRMAN. In the closing paragraph of this last letter Mr. Zaharoff says:

It is a very long time since I have seen Mrs. Spear and yourself, and I trust you are both well. I had the pleasure of entertaining here Mr. Sutphen, with some directors of General Motors.

Mr. Sutphen, who were these directors in General Motors?

MR. SUTPHEN. Mr. C. S. Kettering, vice president of General Motors and Mr. Codrington, who was president of the Winton Engine Co.

The CHAIRMAN. Does your company, the Electric Boat Co., have any connection at all with General Motors?

MR. SUTPHEN. No.

The CHAIRMAN. None whatsoever?

MR. SUTPHEN. None whatever.

The CHAIRMAN. Does General Motors hold any stock that you know of in the Electric Boat Co.?

MR. SUTPHEN. No.

The CHAIRMAN. I offer as "Exhibit No. 50" a letter dated November 22, 1930, to Sir Basil Zaharoff by Henry R. Sutphen.

(The letter referred to was thereupon marked "Exhibit No. 50" and appears in the appendix on p. 345.)

The CHAIRMAN. I shall not offer the whole letter in evidence, as it seems to go into details concerning the visitation of Mr. Sutphen and the two General Motors officials in plants in Europe during your visit there. But in the second paragraph there is this language:

Knowing of your interest in the Chase National Bank, upon my return I called upon Mr. Wiggan and told him of the very pleasant visit I had with you in Paris, and he was very sorry to learn of your illness.

What is it you knew of Mr. Zaharoff's interest in the Chase National Bank.

MR. SUTPHEN. At the time that I visited with Sir Basil in Paris he asked me about Mr. Wiggan as he had heard that Mr. Wiggan had been in Europe that summer, but had not called on him. He mentioned to me at the time that he was interested in the Chase National Bank and regretted that he had not had a chance to confer with Mr. Wiggan.

Senator CLARK. Mr. Carse, a while ago I asked you if Mr. W. B. Shearer had formerly been a member of your board and you said no. Had he had any other connection with the Electric Boat Co.?

MR. CARSE. No.

Senator CLARK. Do you recall a conversation that you had sometime shortly prior to September 29, 1932, with Mr. N. E. Bates, Jr., of the duPont Co. in regard to some Peruvian business?

MR. CARSE. I remember Bates; yes.

Senator CLARK. He came and talked to you about Peru?

MR. CARSE. Yes.

Senator CLARK. At that time you had a claim against Peru for an unpaid bill and you made an attempt to complete a scheme by which Peru would give you a guano concession; you were to apply that on your indebtedness and also get them some arms. Is that correct?

MR. CARSE. No; that is not correct. Aubry was down in Peru representing us and trying to make some arrangement by which there would be a resumption of payments of our notes. He suggested that they might secure from the Peruvian Government an agreement that we would take guano to supply the Pacific coast on a certain basis. That was the Pacific coast only—California. The Atlantic coast had been given to some airplane manufacturer and the European market had long since been taken care of.

Well, I made an examination, made a study of it, and I got in touch with William R. Grace & Co. who had handled the guano exports from Peru for many years and found that the market in California was very meager and also that the Peruvian Government had already given the rights to some Peruvians down there. So that fell through entirely. So that did not amount to anything at all. It was such a small amount of guano.

Senator CLARK. That has very little to do with what I wanted to ask you at this time. I am now reading from a memorandum of a report from N. E. Bates, Jr., of the duPont Co., to Maj. K. K. V. Casey, director, dated December 29, 1932, which will be properly identified and put in evidence at the proper time. I am now reading simply for the purpose of refreshing your memory and getting your statement as to whether or not this memorandum correctly reports your conservation. After introducing the subject of Captain Aubry, Mr. Bates goes on:

The plan as outlined by Aubry is that the Peruvian Congress would levy taxes on telegrams, cocoa, tobacco, etc.; the proceeds from which would be dedicated entirely to the payment of the \$1,500,000 they expect to raise for the purchase of war materials. In the act will also be included a provision ceding to the Electric Boat Co., a concession to sell guano exclusively in the Atlantic coast of the United States; the guano to come from deposits now controlled by the Peruvian Government.

Mr. CARSE. That is wrong. There was not even any talk of the Atlantic coast. It was only the Pacific coast.

Senator CLARK. Continuing with this report:

Mr. Carse figures that the revenue from the guano concession would amount to approximately \$36,000 yearly. A similar concession is expected to be given to the United Aircraft Co. to whom the Peruvian Government owes \$700,000, for the sale of guano on the Pacific Coast of the United States.

Mr. CARSE. It was just the reverse.

Senator CLARK (continuing reading):

Mr. Carse thought we were manufacturers of arms and ammunition and therefore, would be interested in supplying machine guns and ammunition to the Peruvian Government with a possibility of giving the Government credit under the tax-levy plan suggested by Captain Aubry and which, of course, would mean that payment would depend upon collection of the proposed levies.

Then there are certain other paragraphs not material to what I want to ask you at this time. Then there is a paragraph as follows:

Carse informed me that the famous Mr. Shearer was formerly a member of his board of directors. Captain Aubry formerly represented Vickers in Peru, but Carse understands he is no longer connected with that British concern.

Did you make any such statements as that to Mr. Bates?

Mr. CARSE. Never, never, never.

Senator CLARK. Was Shearer's name discussed between you?

Mr. CARSE. Never. I don't know why I should.

Senator CLARK. I do not know why you should, either. I am just asking you because Mr. Bates, in his report to his superior in the duPont Co., says that you did.

Mr. CARSE. There is absolutely nothing to it. I have only seen Mr. Shearer once in my life.

Senator CLARK. It is your contention that Mr. Bates just gratuitously included that mis-statement in his report to his superior?

MR. CARSE. I do not know where he got it from. There is no reason why I should discuss that with him. I only met him once in my life and that was many years ago.

## RELATIONS WITH PERU

Senator CLARK. Now, Mr. Carse, I want to direct your attention to the company's business in Peru. When did you first know Commander Aubry? When did he first come in contact with your company?

Mr. SPEAR. While he was still in active service as naval attaché in Washington.

Senator CLARK. He was at that time naval attaché at the Peruvian Embassy in Washington?

Mr. SPEAR. Yes.

Senator CLARK. And he was on the active list of the Peruvian Navy?

Mr. SPEAR. Yes. He approached us with certain inquiries as to technical matters and various things he wanted to know.

Senator CLARK. On whose behalf did he approach you—on behalf of the Peruvian Government?

Mr. SPEAR. The Peruvian Government.

Senator CLARK. When did you first employ Commander Aubry as your Peruvian agent?

Mr. CARSE. It was after he resigned. It must have been about 1923.

Mr. SPEAR. I think 1923 or 1924. The records would show it.

Senator CLARK. Was he on the active list of the Peruvian Navy at the time he was representing you as your representative either in Peru or in other South American countries?

Mr. SPEAR. He was not.

Mr. CARSE. He was not; never.

Senator CLARK. Back in 1919 you heard through former President Leguia that he was interested in submarines; and you also had information at that time that Leguia would be back in power within 3 or 4 months, did you not?

Mr. CARSE. I cannot recall.

Senator CLARK. I call your attention to a letter written by yourself to Mr. Spear which I will ask to have marked at this time for purposes of identification "Exhibit No. 51".

(The letter referred to thereupon was marked for identification "Exhibit No. 51.")

Senator CLARK. Your letter reads as follows:

## EXHIBIT No. 51

MARCH 29, 1919.

Mr. L. Y. SPEAR,

*Vice President, Electric Boat Co., Groton, Conn.*

DEAR MR. SPEAR: Referring to your letter of March 24 to Captain Buenano, the captain would like some definite explanation as to the difference between the double-hull and the single-hull submarine, and would also like sketches of them or some general plan so that he could send full information to his people.

Will you kindly have it sent forward as soon as possible and oblige,

Yours very truly,

(Signed) ——— (?) CARSE.

P.S.—Captain Buenano states that President Leguia will be returned to the Presidency in 3 or 4 months and it is he who is asking for the data on submarines, as the sentiment throughout the whole country is to secure land

and naval armaments to protect themselves from Chile. If you have any photographs or pictures of any sort in relation to submarines or their machinery, the captain would like very much to have it so that he could send everything possible to Peru.

Does that refresh your memory as to what information you had received that President Leguia would be returned to power in a few months?

Mr. CARSE. Well, that was 15 years ago, 1919.

Senator CLARK. How long had you known President Leguia?

Mr. CARSE. I did not know him at all.

Senator CLARK. How long had President Leguia been in communication with your company, doing business with your company?

Mr. CARSE. That was back before I came into the company. Mr. Spear would know.

Senator CLARK. Did you not have some relation with President Leguia when he was in power before?

Mr. SPEAR. Yes, sir. When President Leguia was in before he made with us—that was before Mr. Carse came into the company—a contract for I think six submarines, as I recall it. After he made the contract, he changed his mind as to the desirability of acquiring these vessels and that is where I first met Mr. Buenano. He sent Captain Buenano up to see us and asked us if we would not abrogate the contract and return the notes.

Mr. CARSE. I think there were \$252,000 of treasury certificates.

Mr. SPEAR. The first payment had been given us in notes and we decided that if the President did not want what he thought he wanted, it was not good business to try to hold him to a contract and we agreed and returned the notes. After that President Leguia was deposed and was in Europe for a good many years. Personally, I never met him and all of that negotiation was conducted by an American agent that we sent down there who knew Linia pretty well and knew the President. He brought the matter to us and the negotiations, the original negotiations were all conducted through that agent, a man by the name of Chester.

Senator CLARK. As a matter of fact, at this time to which the letter I have just read refers, what you were actually doing was negotiating with a party of revolutionists who were fixing to overthrow the government.

Mr. SPEAR. We were not negotiating with anybody.

Senator CLARK. You were furnishing plans for submarines to be used by Leguia who was at that time attempting to overthrow the Government by revolution.

Mr. SPEAR. He came back at that time and got elected.

Senator CLARK. Do you know what was the situation between the Peruvians and the Chileans.

Mr. SPEAR. There had been ill-feeling there for years over the settlement of a boundary. In fact there was to be a plebescite to decide who owned the country, but it never had been held, and it was an open sore between the two countries. In fact our country sent a commission down to try to mediate the differences.

Senator CLARK. As a matter of fact, at this particular time, 1919–20 Chile had bought some war vessels.

Mr. SPEAR. The Peruvians knew the Chileans had more arms than they had, and they would not trust them.



Senator CLARK. Was it not a common rumor at that time that Chile had purchased some warships through Vickers.

Mr. SPEAR. I could not tell you what was the rumor at that time. That might be, but I do not know.

Senator CLARK. Now, in 1920 you were trying to sell the Peruvians some destroyers, were you not?

Mr. SPEAR. Yes.

Senator CLARK. At \$100,000 apiece?

Mr. SPEAR. I do not recall the price. I would hardly want to say the prices from memory.

Senator CLARK. I offer in evidence a letter dated March 24, 1920, from Mr. Spear to the Peruvian Ambassador.

Signor Pezet was Ambassador at that time.

Mr. SPEAR. I think so.

Senator CLARK. I offer as "Exhibit No. 52", this letter.

(The letter referred to was marked as "Exhibit No. 52" and appears in the appendix on p. 346.)

Senator CLARK. I read from this letter, "Exhibit No. 52" as follows:

Referring to the negotiations inaugurated by you with respect to the sale to your Government of the four torpedo boat destroyers which we have on hand for prompt delivery, we take pleasure in advising you as follows: While we have a number of inquiries for these vessels, we shall be glad, as an accommodation to you, to hold them at your disposal until June 1, 1920.

Were those vessels sold?

Mr. SPEAR. No; they were not.

Senator CLARK. At the same time you were quoting them on submarines?

Mr. SPEAR. I would not trust my memory whether we were quoting them at that time on submarines or not, but I do not think so. Those destroyers were discarded vessels that had been sold by the United States Government for scrap. We purchased them and the Ambassador knew we owned them, and he approached us to get a price on them.

Senator CLARK. You asked \$100,000 for the destroyers and \$130,000 to arm them?

Mr. SPEAR. Something of that sort. We had bought them at a scrap sale from the United States Government.

Senator CLARK. The quotations are stated in this letter of April 1, 1920, which I offer in evidence as committee's "Exhibit No. 53."

(The letter referred to was marked "Exhibit No. 53", and appears in the appendix on p. 346.)

Senator CLARK. I call your attention to this letter dated April 1, in which you wrote Mr. Chapin—he was at that time your Washington representative, was he not?

Mr. SPEAR. Yes; he was.

Senator CLARK. You wrote him this letter I have referred to giving quotations for submarines for Peru.

Mr. SPEAR. Yes.

Senator CLARK. At that time, Mr. Spear, the Peruvians were attempting to buy some submarines from the United States Government, were they not?

Mr. SPEAR. I understand they did.

Senator CLARK. You were informed by Mr. Chapin that the Navy would not sell any submarines to Peru or Chile on the score

this might be encouraging an outbreak of war between Chile and Peru.

Mr. SPEAR. I do not recall the detail of what the reasons were, but I recall that approach was made by the Peruvians to the Government, and it was declined later.

Senator CLARK. I offer "Exhibit No. 54", being a letter dated June 1, 1920, from L. Y. Spear to H. R. Carse.

(The letter referred to was marked "Exhibit No. 54", and appears in the appendix on p. 347.)

Senator CLARK. In that letter, "Exhibit No. 54", Mr. Spear says:

The Ambassador is cabling the Government that the United States has definitely decided as a matter of policy not to supply anything either to them or to Chile on the score that this might be encouraging an outbreak of war between them. It is reported on good authority that the British Government is going to help the Chileans out, and if this is so or believed to be so by the other government, it ought to influence them in favor of our proposals.

Now, it did not make any difference to you whether it was true or believed to be true by the Peruvian Government that Chile was arming?

Mr. SPEAR. Not a bit.

Senator CLARK. Neither one would help you to sell submarines to Chile.

Mr. SPEAR. It would bring them into the market for them if it was true or not.

Senator CLARK. Did you take any steps to keep the United States Government from selling submarines to the Peruvian Government?

Mr. SPEAR. None whatever.

Senator CLARK. If the United States Government refused to sell submarines to Chile or Peru on the ground that it might be encouraging an outbreak of war between Peru and Chile, it indicated a very strong opinion on the part of the authorities in the United States that the sale of submarines would foment a war down there, did it not?

Mr. SPEAR. Not that I know of.

Senator CLARK. Would not that be your deduction from the language in this letter?

Mr. SPEAR. My deduction would be that any government would be very chary of it supplying to either side in that dispute something that might be used in the event of an outbreak of hostilities.

Senator CLARK. The delivery of submarines to either of those countries on the verge of war would be calculated to promote a war?

Mr. SPEAR. I would not say it would be that, but I would say it was calculated to stop it.

Senator CLARK. That has not been the experience of mankind throughout the history of the world.

Mr. SPEAR. My judgment would be that if one side was equipped to defend itself and the other was not, it would not promote a war.

Senator CLARK. Now, when you put out the report that the British Government was arming Chile, you were to that extent using the British Government to help you sell submarines.

Mr. SPEAR. I was not using anything. I was writing a letter to Mr. Carse telling him such information as I had. It was advising Mr. Carse of what I had heard.

Senator CLARK. And now, when did the Bethlehem Steel Co. come into the picture as a competitor?

Mr. SPEAR. I do not know. You will have to refresh my memory.

Senator CLARK. I offer "Exhibit No. 55", being a letter from F. E. Chapin, dated June 3, 1920, addressed to Mr. Spear.

(The letter referred to was marked "Exhibit No. 55", and appears in the appendix on page 347.)

Senator CLARK. In this letter, "Exhibit No. 55", Mr. Chapin says on page 2:

I am enclosing copy of a letter which I sent yesterday to Commander Azevedo after I had talked with Mr. Carse about the activities of Bethlehem. My conversation over the telephone with Mr. Carse was inspired by the activities of Mr. Smith, a vice president of the Bethlehem, who tried to see Commander Azevedo in New York last Thursday, and I think succeeded. Mr. Smith was most persistent, and called the commander up two or three times by telephone, saying they could build submarines and that they had an agent in Rio and they had been building submarines for many years. Of course, I told Commander Azevedo that they were our subcontractors and only built the hulls and some minor parts, but everything was under the direction and supervision of the Electric Boat Company. It would seem to me that Bethlehem is not proceeding in what I would call an ethical manner by trying to butt into our province as builders of submarine boats, and it looks to me as if there might be rather stiff competition if they pursue this course.

Mr. CARSE. That is Brazil.

Senator CLARK. What I asked was when the Bethlehem Steel tried to "butt" into the building of submarine boats.

Mr. SPEAR. This letter appears to be dated June 3, 1920.

Senator BONE. Do they still try to build hulls for the United States Government?

Mr. SPEAR. No.

Senator BONE. Is their equipment capable of doing that?

Mr. SPEAR. It is capable; yes.

Senator BONE. You have stated at that time they were building hulls?

Mr. SPEAR. Yes.

Senator BONE. You had confidence in the ability of the corporation to build hulls?

Mr. SPEAR. Under our supervision; yes, sir.

Senator BONE. What I mean is, they have the equipment there?

Mr. SPEAR. Yes; they have the equipment there, and properly managed they could build a hull.

Mr. CARSE. They had no right to make that offer in 1920, because their contract with us was they would not build submarines until after a couple of years after they finished our work.

Senator CLARK. You afterwards made up with the Bethlehem, and paid half of the expenses of a representative in South America.

Mr. SPEAR. I do not know that we did, but it may be we did.

Senator CLARK. I will come to that in a few minutes, at the proper time, when I come to that correspondence; but right now I will ask this: As far back as 1920, Mr. Carse, your representative in Washington, Mr. Chapin, recognizes the significance of what you submarine companies were doing in South America in promoting war.

Mr. CARSE. I do not know.

Senator CLARK. I should have asked Mr. Spear that question. He advised you, Mr. Spear.

Mr. SPEAR. I do not know whether he did or not.

Senator CLARK. I call attention to a letter from Chapin to you, dated June 3, 1920, which I offer as "Exhibit No. 56".

(The letter above referred to was marked "Exhibit No. 56", and appears in the appendix on p. 348.)

Senator CLARK. Mr. Spear, at the time of the writing of that letter Mr. Chapin had been endeavoring to get the United States Government to send several submarines around South America as a sort of an exhibit of their efficiency, had he not?

Mr. SPEAR. I do not understand the Senator's question as to promoting war?

Senator CLARK. I will come to that later. I say, at that time Mr. Chapin as your representative had been endeavoring to get the United States Government to send a fleet of submarines around the South American coast as a sort of show case of your wares? Is that not correct?

Mr. SPEAR. He says here that he had talked about that subject.

Senator CLARK. I will read that paragraph of the letter, as follows:

DEAR LARRY: I have just left Admiral Niblack; talked with him about sending a fleet of submarines to South America to visit Rio, the Argentine, through the Straits and up the west coast. He has given directions to Captain Galbraith to agitate this subject and see if it cannot be consummated.

Who was Admiral Niblack?

Mr. SPEAR. I think at that time Admiral Niblack was head of the Naval Intelligence.

Senator BONE. Of the United States, you mean?

Senator CLARK. Yes.

Mr. SPEAR. I think so.

Senator CLARK. Then this letter continues as follows:

He believes in it. I brought the topic up by asking if the Department had under consideration the sending of a fleet; if it did, why it could not send a submarine.

He said the Department was opposed to sending a fleet, for the reason the ships were not in good condition and it would take them away from service in the Atlantic or Pacific, but they had thought of sending a division of four ships. Nevertheless, he has taken up the question of sending submarines independently.

He tells me that the whole balance of power has been destroyed by Chile getting six submarines and two warships from England, and that it has caused a good deal of uneasiness on the part of the Argentine, while Peru is absolutely helpless. He said in this connection the Department had recommended that six destroyers be released by the Department, but the Cabinet had sat down most emphatically on the proposition, so there is no chance of that being done at the present time. He said that in his talk with Pezet he told the Ambassador that it had occurred to him it was now a matter of Peru going into the market and buying outright not only with respect to destroyers, but also as to submarines.

That is the Chief of Naval Intelligence advising the Peruvian Ambassador as to what he should do.

Mr. CARSE. It was Chapin advising him.

Senator CLARK. No; he says:

The admiral said that possibly the Department could be of assistance by releasing one of the submarines now building and substituting therefor another to be built by the contractor later on. This would insure quick delivery, but I do not favor the plan very materially because I think the price named by the Navy would be much lower than the one we have quoted to the Peruvian Government. And perhaps even this proposed act on the part of the Department in releasing one of the submarines now under construction would be objected to quite as vigorously by the Cabinet as the proposition to release destroyers.

So it was the position of your company if the Navy was to sell any of these vessels to Peru, that it would sell them at a lower price than you had quoted and therefore would be breaking the market on submarines.

Mr. CARSE. No; that was Chapin's chitchat.

Senator CLARK. He was your representative; was he not?

Mr. CARSE. He was expressing his view. We never coincided with it.

Senator CLARK. Did you want the Navy Department to sell these submarines to Peru?

Mr. CARSE. What difference did it make, if they bought another one from us?

Senator CLARK. If who bought another one?

Mr. CARSE. The United States Navy.

Senator CLARK. Did you have any assurance the United States Navy would buy another one from you?

Mr. CARSE. No; it was just chitchat. The United States would not do what he was talking about.

Senator CLARK. If the United States Government would buy six submarines from you and turn around and sell them to Peru, what was your assurance of that?

Mr. CARSE. They were not talking about buying six submarines. They were talking about buying one boat.

Senator CLARK. This letter said they were talking about selling six submarines.

Mr. CARSE. The British Government sold six, the United States Government did not.

Senator BONE. Does the United States Navy listen to suggestions that they send the Navy or a part of the Navy around the world on a sales expedition for a private corporation?

Mr. CARSE. It was not a sales expedition.

Senator BONE. I am taking this letter as it reads.

Mr. SPEAR. So far as I know that proposition was never put up to them.

Senator BONE. It was seriously suggested that the Navy at the expense of the taxpayers, send a fleet down there to promote the sale of wares of a private company. Was that actually done or actually seriously suggested?

Mr. SPEAR. I do not know that it was ever done.

Senator CLARK. It was suggested by your representative to the Department, was it not?

Mr. SPEAR. I do not know.

Senator CLARK. You were informed by your representative that, that had been done.

Mr. SPEAR. All of the information I have is what is there.

Senator CLARK. He says that he had suggested to Admiral Niblack, and that he was in favor of it and had instructed one of his subordinates to agitate it.

Mr. SPEAR. I believe it was advocating sending four ships down there. That is my understanding.

Senator BONE. Is the Navy trying to promote the creation of larger armaments among these nations?

Mr. SPEAR. Not that I know of.

Senator BONE. And then we carry on peace conferences at Geneva, at the same time?

Mr. SPEAR. I would not think so.

Senator CLARK. What was the occasion of your company having the submarines sent down there, was it not as a showcase?

Mr. CARSE. I never heard of it.

Senator CLARK. You may not have heard of it, Mr. Carse. I am not examining you. I ask Mr. Spear now whether you heard of it or not, and your corporation has assented to it as a statement of your representative.

Mr. CARSE. It was chitchat so far as I know.

Senator CLARK. It is not chitchat when a representative of your company goes to the Navy Department and makes a proposition of this character and he writes about it to your responsible vice president. Do you recall that?

Mr. SPEAR. I do not recall it now, but I no doubt did at that time know of it. I had no recollection of it until you brought it back to my mind.

Mr. CARSE. Your representatives very often bring before you many propositions which you are obliged to turn down.

Senator CLARK. Mr. Carse, if you will read this letter you will see he was not bringing any proposition to Mr. Spear, but that he was reporting that he had taken official action on behalf of your company. It was a report of something he had done as your representative.

Mr. CARSE. It was a question of whether he had the power as a representative.

Senator CLARK. Do you know of any action ever taken to reprove him for the action he reported?

Mr. CARSE. I do not know about it.

Senator CLARK. Mr. Spear, do you know of any action taken to reprove him?

Mr. SPEAR. I do not know anything about it.

Senator CLARK. So that Mr. Chapin's action did stand as the action of the company?

Mr. SPEAR. I do not know whether it did or not. I recall nothing about it.

Mr. CARSE. It never was done, anyhow.

Senator CLARK. Now, Mr. Spear, in 1920, Commander Aubry who was your representative in Peru was instructed by the Peruvian Government to come to Washington to get a loan, was he not?

I call your attention to a letter dated July 16, 1920, which I offer as "Exhibit No. 57".

(The letter referred to was marked "Exhibit No. 57", and appears in the appendix on p. 348.)

Mr. SPEAR. Let me see that to refresh my mind. In 1920 he was not our representative. He was Naval Attaché here, and he was acting for the Peruvian Government at that time.

Senator CLARK. That was before Commander Aubry made his arrangement for you?

Mr. SPEAR. Yes; that was in 1920, and he was naval attaché here at that time, I believe.

Senator CLARK. He was the same man who later became connected with you?

Mr. SPEAR. The same man who, when he retired from active service, entered our employ.

Senator CLARK. When did he begin to be your representative?

Mr. SPEAR. I have just testified that my best recollection is that it was 1923, but I have not looked it up.

Senator CLARK. I know that in 1921 you paid him \$4,000 for expenses in 1920.

Mr. SPEAR. That was for a book that he wrote.

Senator CLARK. It is enumerated here in "Exhibit No. 41" as "Expenses".

Mr. SPEAR. That is what it was, it was a book that he wrote. He delivered some lectures and made up a book, which we thought was very useful to us.

Senator CLARK. That book was sometime later, was it not?

Mr. SPEAR. I have not the exhibit right before me to refresh my memory. The book consisted of a print of a lecture which he had delivered with films in a theater in Lima to demonstrate the superiority of the electric boat over all others.

Mr. CARSE. That was before we paid him. It was in Spanish, and we circulated it all over the Spanish countries.

Senator CLARK. Anyway, Commander Aubry was sent up here for the purpose of floating a loan of \$15,000,000 in this country, and that loan was to be used chiefly for the purpose of armament. Is that not correct, Mr. Spear?

Mr. SPEAR. I could not tell you what it was to be used for. It does not appear to say here.

Senator CLARK. Now, Mr. Spear, on the question of whether or not this man was your agent at this time, I refer you to page 3 of the letter which you have in your hand, this being a letter from Mr. Chapin to your firm. It says:

When you meet Captain Aubry, he may tell you something about the lecture he made in one of the largest theatres in Lima about the merits of the electric boat as compared with other submarine boats. The captain tells me that he had an audience of about three thousand people. His lectures were illustrated by pictures and films which you had furnished him. The President, the Minister of Marine, and other members of the cabinet were present, as well as the members of the Pro-Marine which is a society composed of citizens who are deeply interested in the welfare of the country but more particularly with relation to naval affairs. It appears that Captain Aubry arrived in Lima at a most opportune time. The Minister from Italy had been active with the Society of the Pro-Marine, and a contract had been prepared and was ready for signature, calling for the purchase of three of the Laurenti boats. If the contract had been signed it would undoubtedly have committed the country to that particular type of boat, but owing to the representations made by Captain Aubry the contract was not signed and I judge a good deal of hornet's nest was started which resulted ultimately in the action of the President and his Cabinet determining to order four submarine boats from the Electric Boat Company.

Would you not draw from that, that Captain Aubry was your representative in Peru at that time?

Mr. SPEAR. He was not. He was in the active service of the Peruvian Government. He considered the submarines we built were much better adapted to the Peruvian conditions than the others, and he was acting in his official capacity for the Peruvian Government. He was in no way an agent of ours.

Senator CLARK. So at this time you would have the committee believe that Captain Aubry, a patriotic Peruvian, was going out hiring a hall and giving this lecture with films without any compensation from your company, and just as a coincident shortly thereafter he became your agent, not only in Peru, but in the whole of South America?

Mr. SPEAR. That is what he did, but as I recall it, we defrayed the expenses of publishing that book.

Senator CLARK. You bought some copies?

Mr. CARSE. Quite some time afterwards.

Mr. SPEAR. I think we eventually bought it and published it, and circulated it throughout the Spanish-speaking countries, because it was printed in Spanish.

The CHAIRMAN. Senator Clark being willing, the committee will recess until 10 o'clock tomorrow morning. Let it be understood tomorrow morning, as the committee will meet at 10 o'clock, it will undertake to go through until 1 o'clock and break up the day at that hour rather than earlier.

Until 10 o'clock the committee stands in recess.

(Thereupon the committee recessed until 10 a.m., Wednesday, Sept. 5, 1934.)



# INVESTIGATION OF MUNITIONS INDUSTRY

WEDNESDAY, SEPTEMBER 5, 1934

UNITED STATES SENATE,  
SPECIAL COMMITTEE TO INVESTIGATE  
THE MUNITIONS INDUSTRY,  
*Washington, D.C.*

The hearing was resumed at 10 a.m., in the caucus room, Senate Office Building, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), George, Clark, Bone, Pope, and Barbour.

Present also: Stephen Raushenbush, secretary; and Robert Wohlforth, assistant to chief investigator.

The CHAIRMAN. Let the committee be in order. Senator Clark, you may proceed with the witness.

**TESTIMONY OF HENRY B. CARSE, LAWRENCE Y. SPEAR, AND  
HENRY B. SUTPHEN—Resumed**

**RELATIONS WITH PERU**

Senator CLARK. Mr. Spear, I believe when the hearing adjourned yesterday you had testified that at the time when Commander Aubry, of the Peruvian Navy, had hired a theater in Lima and addressed an audience of some 3,000 people including the President of Peru and the Minister of Marine, in a lecture illustrated by some 50 slides, illustrating the superiority of the products of the Electric Boat Co. over all other submarines, and had later had this lecture published in book form which he circulated at his own expense to some extent, and at no cost whatever to your company.

Mr. SPEAR. That is my understanding.

Senator CLARK. How long after this lecture was it that this beautiful exhibition of friendship was rewarded by your company giving him a contract?

Mr. SPEAR. I am not sure of the date.

Senator CLARK. About how long? I do not mean to be exact.

Mr. SPEAR. You mean when he sent the first contract?

Senator CLARK. No; when you made the first contract with Commander Aubry, when he became your representative?

Mr. SPEAR. I think it was 1923. The record will show, and I may be wrong, but I think the record will show it was July 1923.

Senator CLARK. I am not asking for the exact date. As I understand, the commander had published these books on his own account and you paid him for 2,000 of them at, roughly speaking, \$2 apiece.

Mr. SPEAR. That is my general understanding.

Senator CLARK. That was on the suggestion of Mr. Chapin?

Mr. SPEAR. Yes.

Senator CLARK. In addition to that Commander Aubry sent out several hundred copies of the book containing the lecture, on his own account?

Mr. SPEAR. That I do not know anything about. I did not recall anything about it offhand until you reminded me.

Senator CLARK. You knew at the time?

Mr. SPEAR. Probably I did; but I do not remember now.

Senator CLARK. To refresh your memory on that, I call your attention to a letter from Mr. Chapin to yourself dated September 21, 1920, which I will ask to have marked "Exhibit No. 58."

(The said letter referred to was marked "Exhibit No. 58", and appears in the appendix on p. 350.)

Senator CLARK. I read from this letter, "Exhibit No. 58", as follows:

I saw Commander Aubry this morning. He is very much pleased that Mr. Carse, as well as your self, approves the proposed purchase of his article at \$2 per copy. He tells me that by October 20, and perhaps earlier, he will deliver to you 1,000 copies, and by November 10, 840 copies additional. Perhaps these deliveries can be made earlier, but in the meantime he would like to have you send him a check for \$2,000 so that he can remit to the printers in Lima. The remaining \$2,000 may be forthcoming when the final copies are delivered.

The Commander tells me that he left instructions in Lima for the distribution to the Members of Congress and Government officials of possibly 1,000 copies. In addition to that number he sent several hundred copies to his friends in Buenos Aires.

Of course, he is not making any charge for those copies.

If I understand, he was doing that as an act of charity to the Electric Boat Co.

Mr. SPEAR. All I know about it is what is in this letter.

Senator CLARK. And now, I want to recur for just a moment to the letter of June 3, which we had here yesterday, the letter in which Mr. Chapin describes his interview with Admiral Niblack.

Mr. SPEAR. Can I get that again?

Senator CLARK. I can read enough to refresh your memory. This is Chapin speaking, and he says:

He (Admiral Niblack) tells me that the whole balance of power has been destroyed by Chile getting 6 submarines and 2 warships from England, and it has caused a great deal of uneasiness on the part of the Argentine, while Peru is absolutely helpless.

Are you familiar with the fact in connection with the submarines which Chile got from England?

Mr. SPEAR. I think that was a piece of misinformation myself. I do not think they did get them.

Senator CLARK. Is it not a fact that what Chile got was manufactured in the United States?

Mr. SPEAR. No; I do not know that.

Senator CLARK. Is it not a fact that in the early days of the war Chile was having a warship constructed in England, and when the war started the British Government seized this Chilean warship and used it for their own purposes in the war; and that after the war, in compensation for the seizure of that warship, the British Government did arrange to have certain submarines made for Chile, and they were made in this country?

Mr. SPEAR. Not after the war.

Senator CLARK. When was it done?

Mr. SPEAR. That was done during the war, when the United States entered the war. The British Government ordered from us and the Bethlehem Co. some submarines, and we built 10 of them in the United States.

Senator CLARK. Did you build those ships for the Chilean Government?

Mr. SPEAR. No; for the British Government. If you will permit I will tell you this about it. We being at war, of course, the ships could not be delivered and when they were finished they were taken to the Boston Navy Yard and immured by the United States Government, and when the United States entered the war the British Government and the Chilean Government made some kind of a trade, and the Chilean Government then acquired 5 or 6 submarines. But this has nothing to do with the statement of Admiral Niblack, because that occurred in 1917.

Senator CLARK. You stated you thought this information that Chile had received these warships was erroneous?

Mr. SPEAR. Yes; I was under the impression we were talking about something that had not happened 3 years before. My impression was that was an erroneous impression of Admiral Niblack. I did not recall that Chile acquired any ships for some years after that.

Senator CLARK. So that this whole occasion of arming Peru, and of the revolution in Bolivia on the basis of the arming against Chile was based on an erroneous rumor?

Mr. SPEAR. That is my impression. I do not say that is a statement of fact. Chile had the ships we had just referred to, and it is possible, of course, that is what Admiral Niblack had in mind.

Senator CLARK. This order from Peru you were negotiating in 1920 was expected to be a fairly large order, was it not? You referred in one of your letters to it probably running between eleven and twelve million dollars.

Mr. SPEAR. My impression is that we were talking at that time, if I am right about this, about 6 or 8 boats in a program.

Senator CLARK. How many boats would eleven or twelve million dollars pay for?

Mr. SPEAR. That would depend on the size entirely.

Senator CLARK. I refer you to a letter dated July 20, 1920, which I will ask to have marked "Exhibit No. 59", the letter being from yourself to Mr. Carse.

(The letter referred to was marked "Exhibit No. 59", and appears in the appendix on p. 350.)

Senator CLARK. This letter, "Exhibit No. 59", reads as follows:

Commander Aubry spent yesterday with me here, accompanied by Commanders Freyer and Causey of the United States Navy. The latter two gentlemen are going to Peru probably next week to practically take charge of the Peruvian Navy.

That was the American Naval Commission to Peru by which the American Government allowed certain officers of the United States Navy to enter into contracts with Peru and other South American governments for practically taking charge of their Navies for the

purpose of administration and training, and these two referred to were to be members of the American commission to Peru.

Mr. SPEAR. They were to be on that commission; yes.

Senator CLARK. Proceeding with the letter, it says:

Commander Aubry seems to have made a great success of his visit. The Government has decided to order from us four 900-ton submarines and one submarine tender of about 3,200 tons displacement. Their Minister of Marine plans to be here in September to sign the contracts. I understand they have some financing to do, but they seem perfectly confident of being able to take care of that, so that we will not be called upon to extend any credit.

They want as soon as possible final and fixed prices for this construction, including guns, ammunition, torpedoes, and everything else that goes with the ships.

Owing to the presence of the United States officers during our conference here, I was unable to get details as to the situation with regard to the destroyers, but I expect to secure these tomorrow when I shall meet Commander Aubry again in New York.

Now, Mr. Spear, why was it you felt freer to deal directly with the representatives of the Peruvian Government than you did in the presence of the United States Naval Commission who were just setting out for Peru?

Mr. SPEAR. That was a matter for the Peruvians at the time.

Senator CLARK. If the United States Navy were to take charge of the Peruvian Navy, they were entitled to know everything that went on?

Mr. SPEAR. They would know everything that went on.

Senator CLARK. But you did not feel free to discuss it in their presence?

Mr. SPEAR. No; I was under the impression they would not approve of the idea—I do not know whether this is so—but what I thought was that they would not approve of the idea of taking these old boats that had been sold for scrap, and having them reconditioned by us. That is probably it.

Senator CLARK. Then that letter goes on:

My understanding is that the U. S. Navy Department gummed this game by making a written offer to supply four modern oil-burning destroyers with complete armament at \$100,000 each.

That was considerably under the price you were quoting to the Peruvians?

Mr. SPEAR. I think that is what we did quote without armament.

Senator CLARK. Reading further, this says:

Subsequent to this foolish proceeding, I understand that the Cabinet took the matter under consideration and revoked this action.

By that you mean the Peruvians?

Mr. SPEAR. I presume so.

Senator CLARK. Reading further:

Our friends, however, were not officially informed of this Cabinet action and so, of course, the offer served to prevent a deal with us on our boats. As I understand it, Aubry now proposes to get official confirmation as to Cabinet action and hopes then to be able to push this deal through by cable.

Mr. RAUSHENBUSH. In the last paragraph it is mentioned that the total order should run from 10 to 12 million dollars.

Senator CLARK. Yes. In the last paragraph you say:

I am arranging to meet the Newark Bay people in New York tomorrow to go into the question of the cost of the tender. Present indications are that

the price for this will be somewhere between two and a half and three million, so that the total order should run between eleven and twelve million dollars.

Is that correct?

Mr. SPEAR. Yes.

Senator CLARK. Now, to pay for all of this armament procurement, Peru was at that time, through Commander Aubry, endeavoring to float a loan in this country through the sale of its securities?

Mr. SPEAR. I think so.

Senator CLARK. Mr. Sutphen, you handled the negotiations with Commander Aubry, did you not?

Mr. SUTPHEN. No.

Senator CLARK. I call your attention to a letter dated July 29, 1920, which I asked to be marked "Exhibit No. 60."

(The letter referred to was marked "Exhibit No. 60", and appears in the appendix on p. 351.)

In that letter, "Exhibit No. 60", you say, Mr. Sutphen:

DEAR SPEAR: Fred Chapin, Commander Aubry, and the Peruvian Ambassador called at the office this morning and we had a long talk and took lunch together.

I conferred with Mr. Cochran after luncheon regarding the loan situation and he turned me over to a Mr. Monroe who is secretary of the South American banking group here in New York, of which the Morgan firm acts as chairman, and which includes the City Bank, the First National Bank, and Kuhn & Company, etc., etc.

Mr. Monroe did not give me any encouragement whatever. He said sometime ago Peru had made a similar request of the City Bank, he thinks within a month or two. At that time they intended to buy some of the American war vessels such as destroyers, submarines, etc., and the City Bank turned it down, as they were not interested in the matter, due to Peru's poor financial position. Its national debt is approximately \$34,000,000, and as Mr. Monroe explained, to add 50% to the national debt to purchase war vessels would be considered very inconsistent, considering the financial position of Peru and how she has asked almost everything she owns.

Do you recall that now?

Mr. SUTPHEN. I do recall it now, but that was 14 years ago and I did not recall it at first.

Senator CLARK. Reading further this says:

I got the impression from the Ambassador at the beginning of our conversation that we would not receive much encouragement from the New York group of bankers, and his deductions were certainly correct.

As you are going to see Chapin tomorrow, I think you ought to tell him that in the opinion of the American bankers it is not a very opportune moment to present the matter and that unless something unexpected turns up I think it would be better not to go further with this banking group. Upon Mr. Carse's return we can all talk it over and see if we have any new plan to suggest. In the meantime I do not think we should present the matter further to the bankers. Mr. Monroe will report to Mr. Cochran and I in turn will have a talk with Mr. Cochran the first of the week.

It appears there has been quite an agitation in Bolivia, as you know, and a revolution occurred there recently and in the opinion of the bankers it has been instigated largely by Peru to have Bolivia join with her in opposition to Chile.

So that this unfounded rumor of armament on the part of Chile not only caused Chile to seek to add 50 percent to its national debt for the purchase of armament but also caused the revolution in Bolivia for the purpose of forcing Bolivia into the alliance. Is that not correct? That is the statement in your letter.

Mr. SUTPHEN. Apparently I had that information at that time.

Senator CLARK. Reading further from this letter it says:

So far I can only report that the banking situation does not look at all promising to float a loan for Peru of \$18,000,000 in the United States for the purchase of submarines.

Mr. Cochran personally would like to see anything accomplished that would help us along, but from what Mr. Monroe said it appears to me that Peru's financial position is not an attractive one to the banking houses in New York.

Fred might report to the Ambassador when he sees him in Washington that we are working on the case and will know something more definite when Mr. Carse returns.

I will be very glad to do anything further that you can suggest.

So that it was not only part of your business to sell armament, Mr. Sutphen, but also your business to finance these South American securities by sale to the public so that they might purchase armament?

Mr. SUTPHEN. I do not think that is quite the case. The significance of that was to ascertain if we had any suggestions as to the matter of a loan Peru might make in the United States. We naturally thought of our banking friends who could be approached on such a subject, but we have never taken a prime position in obtaining a loan for Peru.

Senator CLARK. Your company pursued the matter further after the first negotiations to see what could be done.

Mr. SUTPHEN. In an entirely friendly way, because we were not bankers.

Senator CLARK. I call attention to a letter from Chapin to Carse, dated August 7, 1920, which I ask may be marked in evidence.

(The letter referred to was marked "Exhibit No. 60-A", and appears in the appendix on p. 352.)

Senator CLARK. I will ask Mr. Carse to read this and see if this does not show the further trend of negotiations. I will read only the last paragraph myself.

On page 2, Mr. Chapin says to you, Mr. Carse:

I believe we should do everything we possibly can to encourage and aid the ambassador, and should keep him advised from time to time of the progress made and the nature of the objections raised, so that he may see that we are dealing fairly and openly with him.

I shall take occasion to see the ambassador at the earliest possible moment. I think he ought to be told your viewpoint as to the attitude of the bankers and the reasons which probably control them, also the influence which W. R. Grace & Co. may exert.

Now, what was that answer, Mr. Carse—do you recall?

Mr. CARSE. Did I answer this?

Senator CLARK. We haven't got your answer to it, or at least I have not. Did it have anything to do with oil concessions in Peru?

Mr. CARSE. Why, anybody's salespeople or agent or whatever you may call them, are constantly putting forward to the executives all sorts of plans and propositions. They seem to feel they have to do something to justify their existence, and they do not seem to bother very much whether the offer they have received is strong, or has any assurance, so these suggestions and propositions come forward from agents like Chapin was. He was not an agent; he was simply a man down at Washington here to keep us in touch with different matters to save us traveling back and forth from New York to Washington. Now, his letters as you have read them here are filled with a lot of

suggestions about this, that, and the other thing, as though they were settled facts, when they are only suggestions of things that might be accomplished.

Senator CLARK. Now, Mr. Carse, that may all be true, but he refer in this letter, in the extract which I have just read, to a viewpoint expressed by you with reference to W. R. Grace & Co. Let me read it again:

I think he ought to be told your viewpoint as to the attitude of the bankers and the reasons which probably control them, also the influence which W. R. Grace & Co. may exert

I can readily understand from what you have written that W. R. Grace & Co. would fail to exert their present influence were they controlled by biased or partisan motives.

That, Mr. Carse, is something you passed on to him. [Reading:]

At the interview which I hope to have with the Ambassador very soon I shall sound him out with regard to the possibility of American companies obtaining oil concessions, and as to whether the revenues arising from such concessions could not be devoted to the purposes of our impending contract.

Did that suggestion come from you in this letter?

Mr. CARSE. I do not think it came from me, because I do not know anything about any oil concessions; who would care to have them or anything else. I do not know anything about the oil business. I have not the slightest comprehension of it. I do not know where that idea could have come from.

Senator BONE. W. R. Grace is a British line, is it not?

Mr. CARSE. No, sir; they are a New York house.

Senator BONE. Are they located in New York?

Mr. CARSE. New York City; yes, sir. They have very heavy interests all down the west coast of South America, in Peru and Chile, and run lines of steamships, and they have manufacturing concerns and farming concerns and everything practically.

Senator BONE. They run a big intercoastal line, I know.

Mr. CARSE. Yes; and also down the west coast of South America.

Senator POPE. Do they have oil concessions?

Mr. CARSE. I do not know. I do not know anything about the details of their business at all.

Senator BONE. They have connections which supply a good deal of freight to their boats, do they not?

Mr. CARSE. Yes, sir; they do.

Senator BONE. So that they originate a great deal of their own cargo?

Mr. CARSE. Yes, sir; they originate a great deal of their own freight.

Senator CLARK. Mr. Carse, just for the purpose of refreshing your memory as to who was the originator of this matter of oil concessions, I call your attention to a letter dated August 6, 1920.

Mr. CARSE. I asked if you had that letter and you said "no."

Senator CLARK. I have the exhibits misnumbered, Mr. Carse. Of course, the letter dated August 6, 1920, precedes the last exhibit by 1 day.

Mr. CARSE. That is right. It is 14 years ago.

Senator CLARK. I will ask to have this marked "Exhibit No. 61." (The letter referred to was marked "Exhibit No. 61", and appears in the appendix on p. 352.)

Senator CLARK. In that letter of August 6, 1920, Mr. Carse, which is from you to Mr. Chapin, you said:

There is one thing that occurs to my mind, and that is the oil in Peru——

Mr. CARSE. That second paragraph, how about that? Would your mind reading that first?

Senator CLARK. I will come to that in just a moment. I now desire to go to the question of who originated the suggestion about the oil concessions. The last paragraph on page 2 of the letter from you reads as follows:

There is one thing that occurs to my mind, and that is the oil in Peru and whether some arrangement could be worked out with some of the large oil companies in this country for concessions in Peru, for which they would be willing to advance money. If you could find out from your friends the status of the oil lands I would be glad to broach this point to some people here who might be interested.

So that, so far as that is concerned, the suggestion came from you and did not originate with Mr. Chapin?

Mr. CARSE. That is your supposition.

Senator CLARK. You certainly mentioned it, did you not, in your letter of August 6, 1920?

Mr. CARSE. That is right.

Senator CLARK. It was not simply a fly-by-night proposition, submitted by one of your agents, but was mentioned to him by the president of the company, who is the responsible head of the company.

Mr. CARSE. Yes; that is simply a suggestion, if anything like that be done.

Senator CLARK. It was simply a suggestion that you inveigle some of the oil companies to supply funds for the purchase of armaments?

Mr. CARSE. Senator, I do not like the word "inveigle", because you do not "inveigle" the large oil companies into anything.

Senator CLARK. I think that is probably a fair criticism, Mr. Carse. In other words, you wanted to interest the large oil companies in financing an armament program for South America?

Mr. CARSE. I was willing to present any proposition the government might approve with regard to any oil companies which might be interested.

Senator CLARK. And you were willing to have Mr. Chapin suggest to the Peruvian Government that that might be done, because that is what you suggest in this letter?

Mr. CARSE. If they wanted to borrow money or put up assets for borrowing money. The second paragraph of that letter I think is pertinent, Senator.

Senator CLARK. I was coming to that in just a moment, Mr. Carse. You are discussing the difficulties here of floating this loan through the bankers.

Mr. CARSE. I knew it could not be done.

Senator CLARK. Yes.

Mr. CARSE. I had tried it back in 1910.

Senator CLARK. You say:

Whenever a borrower is not able to secure the funds he wishes he is apt to ascribe his non-success to adverse interests, but while undoubtedly any



group of bankers approached in relation to a loan on the West Coast of South America would consult the members of W. R. Grace & Co., and would undoubtedly be influenced by their opinion, if W. R. Grace & Co. did not give an unbiased business opinion that could be substantiated by facts they would very quickly lose their status in the business and banking world. Undoubtedly that organization is better acquainted with affairs on the west of South America than any other organization in this country, and while they have their own interests to protect there is no question that their minds are open to take on any new business that indicates a safe return.

The difficulty here as pointed out by Mr. Monroe to Mr. Sutphen is the lending of a large sum of money to a comparatively weak country to prepare for conflict with a much stronger country, and the armament, which this money could purchase would not insure victory as the other nation has much stronger armament and would tend more to bring conflict to a point than if they did to purchase the armament.

Apparently you disagreed at that time, Mr. Carse, with the view expressed yesterday by Mr. Spear, that the purchase of armaments in Peru would tend to prevent hostilities rather than bring them about.

Mr. CARSE. I did not believe there was any large opportunity of making any sale to Peru. In our business we have followed up, very, very many clues or channels, some of which led to business and some of which did not.

Senator CLARK. Mr. Carse, in this letter which I have just read, you expressed the flat view that the purchase of these armaments by Peru was more likely to bring about hostilities than to prevent them, did you not?

Mr. CARSE. That would seem so.

Senator CLARK. Which is at direct variance with the view expressed by your associate, Mr. Spear, yesterday, and that the purchase of those armaments would tend to prevent hostilities.

Mr. CARSE. I think that was expressing the belief of the bankers.

Senator CLARK. Did you agree with that point of view?

Mr. CARSE. Well, I really do not think—I do not know what I did 15 years ago—but I do not think that that is a sound point of view, because if one country has quite a navy and another country has none at all, the second fellow cannot be very “sassy” about anything that happens. And, as it developed in Peru, President Leguia, when he came in, had always the idea of a navy, and when he came back he planned in course of time to get six submarine boats.

Senator CLARK. As a matter of fact, he planned to get 10 ultimately, did he not?

Mr. SPEAR. It finally came down to six.

Mr. CARSE. It finally got down to where his program was for six boats of this size, which he did build, but that occurred some time later. We built them two boats, and then we built them two more boats, and we gave them good boats. They are still running, and they have made record trips of 10,000 miles, and these are considered not only by Peruvians but United States submarine officers—

Senator CLARK. I think Mr. Carse, the qualities of the boats are really beside the point which we are getting at now. You were looking at that matter from purely a material standpoint?

Mr. CARSE. Of course.

Senator CLARK. You say further in this letter, “Exhibit No. 61”:

Naturally, if Peru were badly defeated the persons who advanced them money for the armament could not expect any great liberality from the victor.

Mr. CARSE. That is the bankers' view.

Senator CLARK (reading):

Our business of course is to sell armament, but we have to look at the other side of the question as well.

Mr. CARSE. Of course, why should you want to sell some stuff and not get paid for it?

The whole Government is urging in every way the extension of foreign commerce and yet you criticize us for trying to sell things to foreign governments.

Senator CLARK. I do not desire to enter into an argument with you at this point, Mr. Carse, but it might be said very briefly that there is a contention in this country that some of the efforts of armament salesmen to sell arms are undesirable and may in the future cost the United States Government in taxes to support a war, and in lives of its citizens, a great deal more than can possibly be gained by the small profit which you would make in extending the commerce of the United States.

Now, Mr. Carse, I will direct your attention to a letter dated October 25, 1920, which I will ask to have marked "Exhibit No. 62."

(The letter referred to was marked "Exhibit No. 62" and appears in the appendix on p. 353.)

#### PERUVIAN LOAN

Senator BONE. Mr. Chairman, before the Senator goes to "Exhibit No. 62", may I digress for just a moment so that I may ask a question of the witness?

If my memory serves me correctly, the Peruvian Government, subsequent to this time, did float a very large loan through New York bankers in this country, did it not? This is just so much history, but just for the sake of the record. It has nothing to do with this inquiry.

Mr. CARSE. We had nothing whatever to do with it.

Senator BONE. I am well aware of that. I mean the Peruvian Government did subsequently float a large loan in this country, and as I recall it, those Peruvian bonds were under consideration in the recent Senate inquiry, which showed that they were absolutely no good and proved to be "duds" and are now in default, so far as the interest is concerned. That is correct?

Mr. SPEAR. That is correct.

Senator BONE. I do not know the extent of that default, but it was a very sizeable one, in any event.

Mr. CARSE. That had nothing whatever to do with our transaction.

Senator BONE. I am well aware of that. That was a subsequent transaction, but it has to do with conditions discussed here as to Peruvian finances.

Senator CLARK. Mr. Carse, this letter dated October 25, 1920, from Mr. Chapin to yourself had further to do with the floating of this loan in the last paragraph.

By the way, do you know anything about the transactions to which Mr. Chapin refers, by which the United States Shipping Board paid \$1,100,000 in cash and a further payment of \$900,000 for the purchase of some Peruvian ships?

Mr. CARSE. I do not know anything about it, except I have heard that Peru held up some German ships that were at Port of Callou at the beginning of the war.

Senator CLARK. You do not know why the United States Shipping Board was buying ships at the time they were glutted with ships in this country?

Mr. SPEAR. This was during the war.

Senator CLARK. They took over ships during the war?

Mr. SPEAR. It was a subsequent settlement for ships they wanted.

Senator CLARK. What do you understand by this last paragraph, Mr. Carse, in Mr. Chapin's letter, in which he says:

I think the Ambassador has in mind that this deposit could be placed with some New York bank, which might become instrumental in floating the loan needed for the carrying out of the naval program.

Mr. CARSE. I suppose he thought that if he had \$2,000,000 deposited in a bank, it might make that bank regard the credit of Peru stronger.

Senator CLARK. Sort of "rigging" the market for bonds, in other words?

Mr. CARSE. They floated two or three loans before they floated this big loan to which Senator Bone referred. They floated a couple of loans, 7, 8 or 10 million dollars through some bond house, I think. We had nothing whatever to do with that. We did not get any of that money. Our money came from certain specific taxes.

Senator BONE. I guess the bankers got most of that money, did they not?

Mr. CARSE. I do not know. They spent a great deal down there on public works, so I am told. I have never been there.

The CHAIRMAN. What makes the Senator think that the bankers have got most of it?

Senator BONE. Some of my friends bought some of this beautiful paper from Peru and have kept it for souvenirs.

Mr. CARSE. The bankers turned the money over to the Peruvian Government.

Senator CLARK. Part of it. They got a very substantial commission.

The CHAIRMAN. I understand the bankers did not hang on to many of the bonds but sold them to the public.

Senator BONE. The folks were urged to consult their bankers as to investments, and when they consulted with their bankers, that ended everything, their savings and everything they had managed to accumulate.

Mr. CARSE. I am not acquainted with that.

Senator BONE. You have heard about that, have you not?

Mr. CARSE. I certainly have.

Senator BONE. There have been intimations concerning that in this country.

Mr. CARSE. I think all of us have known something personally about similar things.

Senator CLARK. Mr. Carse, it is not particularly important, but you had a communication from time to time, either directly or through your agents, with the American Naval Mission to Peru?

Mr. CARSE. I do not think I had directly.

Senator CLARK. I mean your company.

Mr. CARSE. I think probably Mr. Spear could answer that.

Senator CLARK. Do you recall a letter dated November 16, 1921, which I will ask to have marked "Exhibit No. 63," from Charles Gordon Davy, commander, United States Naval Mission to Peru, and Commandante Director of the Peruvian Naval College, soliciting an advertisement from you for a magazine published by the Peruvian Naval College?

Mr. SPEAR. I did not recall it until I saw this [examining paper].

(The letter referred to was marked "Exhibit No. 63" and appears in the appendix on p. 354.)

Senator CLARK. This letter, "Exhibit No. 63", will refresh your memory on that, Mr. Spear, will it not?

Mr. SPEAR. I do not remember it.

Senator CLARK. In which it was made a matter of national pride to print this advertisement in the Peruvian naval magazine. I direct your attention to the last paragraph of that letter, which reads as follows:

I have talked this matter over with our commercial attaché in Peru and with my other American friends, and they assure me that we are going to hear from you. American prestige demands.

Did you respond to that appeal from our diplomatic service that American prestige demanded that you insert an advertisement in this Peruvian magazine?

Mr. CARSE. Yes; we had an advertisement in that magazine "Revista de Marina." We put it in. I am not certain what size it was.

Senator BARBOUR. Do you remember if other people advertised in the same magazine?

Mr. CARSE. Yes, sir; quite a number of other people, a number of different shipbuilding concerns. I have not seen it for some time, and I guess we have stopped it.

Senator BONE. I gather from this correspondence that the New York bankers were well aware of the financial condition in Peru at that time and were dubious about their ability to float a loan. Is not that true?

Mr. SUTPHEN. That is correct, Senator.

Senator BONE. They were fearful of the inability of Peru to pay any bonded debt of that character at that time?

Mr. SUTPHEN. I do not know what they were afraid of, but they were not interested.

Senator BONE. It must have been due to the financial condition in Peru.

Mr. SUTPHEN. Probably.

Senator BONE. The bankers were doubtless aware of that when they floated their big loan in the United States, which we have been discussing.

Mr. SUTPHEN. That was in 1930.

Senator CLARK. Mr. Sutphen, the National City Bank floated a loan of \$18,000,000 for Peru in 1922, did it not?

Mr. SUTPHEN. Mr. Carse referred to the earlier loans. I do not remember the amount, Senator. The National City Bank did not.

Senator CLARK. Who did float the loan in 1922?

Mr. CARSE. White-Weld & Co., I think, brought out the loan.

Senator CLARK. The Seligman Co. did not float the first \$18,000,000.

Mr. CARSE. No, sir; I think it was White-Wells, with a group of other bond houses. I do not know the amount. I think there were two. I think it was 8-percent or a 7½-percent loan.

Senator CLARK. That aggregated 18 million dollars, or about that, Mr. Carse?

Mr. CARSE. I should think about that.

Senator CLARK. And those securities were, of course, sold to the people in the United States?

Mr. CARSE. Yes, sir.

Senator CLARK. Shortly after that you received the first payment in 1924, to be exact, did you not? That is, you received your first payment on your contract with Peru for 2 submarines, 24 torpedoes, and a submarine base?

Mr. CARSE. Yes; but it did not come out of that money, the bonds. That came out of a fund, that is the first payment, came out of a popular subscription fund in Peru that had been made up for the purpose of securing some naval vessels, some submarine fund, or something of that nature.

Senator BONE. Had a great deal of sentiment for naval defense been generated there in the meantime?

Mr. CARSE. It had been going for submarines and this fund had accumulated in that way. They were going to use it at one time—and I think it was shown here—for the buying of some submarine boats from Italy.

Senator POPE. Was this United States naval mission down there at that time?

Mr. CARSE. When did they go? They were there when we got the order.

Senator CLARK. They went there in 1920 or 1921, did they not, Mr. Carse?

Mr. SUTPHEN. About that time.

Mr. CARSE. Sometime around that time, because they passed upon all the details of our contract specifications and so forth. Is not that so?

Mr. SPEAR. Yes, sir.

Senator POPE. You were in very close touch with them all the time?

Mr. CARSE. We were not.

Senator POPE. Your agents?

Mr. SPEAR. They were responsible to the Government to see that they got proper material, and they were the people to scrutinize the specifications and the contract and to take care of it for the Peruvian Government.

Mr. CARSE. The Peruvian Government did not give the contract until after the American mission had approved the plans and specifications.

Senator CLARK. The first payment was \$461,254.15, was it not?

Mr. CARSE. I think so.

Senator CLARK. I offer in evidence as "Exhibit No. 64" on that point a letter signed by Mr. Spear, addressed to the Minister of Marine at Lima, Peru.

(The letter referred to was marked "Exhibit No. 64", and appears in the appendix on p. 355.)

Senator CLARK. Mr. Carse, without going into the details of Peruvian finance, and out of which particular fund the loans were paid for, the fact remains that you sold them submarines and got paid for them and the American people bought Peruvian bonds and got "stuck." Is not that the result?

Mr. CARSE. I do not see any connection at all.

Senator CLARK. Perhaps not, but that fact remains, does it not?

Mr. CARSE. We have not got paid yet.

Senator CLARK. I understand you have not been paid completely for some of your later orders.

Senator BONE. I am puzzled a little about one thing, Mr. Carse. There was testimony in this record to the effect that when you supplied plans to foreign governments for submarines, and equipment of that character, you did not supply them with what you considered the latest type and model, because you have an understanding with this Government that you will not supply to a foreign government anything of that kind.

Mr. CARSE. That was not said, Senator. What Mr. Spear said——

Senator BONE. Perhaps I overstated it, but that was my impression.

Mr. CARSE. That we did not furnish them the copies of plans and designs that we were building for the United States Navy.

Senator BONE. Here we have a picture of this Government sending a naval mission down to little Peru and telling the people down there how to build up-to-date submarines.

Mr. CARSE. They could not build them there.

Senator BONE. Or telling them what sort of plans and specifications to prepare for submarines. Now they were handing these Peruvians antiquated plans?

Mr. CARSE. No.

Senator BONE. Manifestly they were not going to suggest to Peru that they have the latest type of submarine that this country had.

Mr. CARSE. The United States Government did not furnish the plans.

Senator BONE. I have a note here that the American naval officials approved the plans.

Mr. CARSE. Yes; certainly.

Senator BONE. They must have approved a set of plans then which were not what they would consider up-to-date for this Government. Were they "slipping" the Peruvians something? That is a vulgarity, but were they "slipping" the fellows down there something?

Mr. SPEAR. Let me answer. That is a technical question.

Senator BONE. It is hardly fair to give a technical answer to a lawyer about a thing as to which he is not wholly familiar.

Mr. SPEAR. I think I can make it clear.

Senator BONE. You can give a by-and-large answer on it.

Mr. SPEAR. The conditions under which the United States considered that they wanted to use submarines affects the designs of the

vessels. It has to be of certain quality for their work. The work which the Peruvian submarines were designed to do, from a military standpoint, is different from the latest United States boats. So that the two things are not parallel at all. You see, if the United States had said to us, "We want a boat for this purpose, to do so-and-so", at that time, and had said, "What are your suggestions", the suggestions would have been the same as we made to the Peruvians in general, except that we would have put in the particular things which the United States Government always wants. But the uses of the two things are entirely different and therefore their qualities are different and the designs are different.

Does that answer your question, Senator?

Senator BONE. In a way, yes; but I still am unable to understand why the United States Government sends a naval commission around telling foreign powers how to build good submarines.

Mr. SPEAR. They did not do anything of the sort. They considered them very fine submarines for the purpose.

Senator BONE. Is that also in the interest of promoting trade?

Mr. SPEAR. No.

Senator BONE. Why does our Government go to the expense of sending naval officers around the world on ventures of that character? Can you tell us? Is that part of our national program? We might as well let the country know about these things.

Mr. SPEAR. There was a time, and I do not think it now exists. I think they have stopped it.

Senator BONE. I doubt if the great majority of the people are aware of that.

Senator CLARK. It is a fact that the Secretary of the Navy stated at the time Congress passed the act to authorize the naval mission to various South American countries that one of the purposes of it was to sell armaments and to induce them to install American equipment.

Mr. SPEAR. I was about to say that part of the policy at that time was close connection with South America, and if we got into trouble they wanted to have things which they knew about and could use, and thought were all-right. That was a part of their policy and I was about to say in answer to Senator Bone that that was true, when you brought it out. That was the answer that I was going to give you. That was a known fact.

Mr. CARSE. This Government paid the expenses of the missions, the salaries of the men.

Senator CLARK. As a matter of fact, they drew salaries from the American Government at the same time, and in the case of Peru they were paid \$8,000 a year apiece while they were down there?

Mr. CARSE. Something of that nature. I do not know.

Senator CLARK. So that it was really a very nice thing for the American naval officers who were sent down there?

Mr. CARSE. Surely.

Senator BONE. The fact that the Peruvian Government wanted to do something did not relieve the taxpayers of this country from paying the expense at the same time.

Mr. CARSE. I do not know what arrangement they made.

Senator BONE. The thing which I am getting at is: We are using the Navy as a sales agency. And that is the interesting feature of this thing, and I am rather inclined to think, since this is a private venture, it might be the part of wisdom for the Government to refrain from that expenditure, at least if it is going into the thing as a public policy, and that the people should be advised, so that the people will know about it. The people have the right to know about the policies and weigh the value and merits of the administration on what it is doing.

Mr. CARSE. It seemed to me it was more a gesture of good will to the South American countries.

Senator BONE. It could hardly be said to be a gesture of good will—building submarines, battleships, and shipping TNT into the country—could it?

Senator CLARK. The American Naval Mission got thrown out about the time Leguia was thrown out, did it not?

Mr. CARSE. I guess everybody was.

Senator BONE. In connection with this activity, we are sending men to Geneva and assuring the world that we are trying to promote peace and bring about disarmament. That is what I am trying to get at. On the one hand we are using a Government agency to promote the sale of battleships, munitions of war, and so forth, and with the other hand we are making a gesture of peace at Geneva.

Mr. CARSE. Senator, we have always considered that the submarine boat was the greatest means of doing away with war that ever existed.

Senator BONE. Well, a submarine blew the *Lusitania* out of the water, and I do not think that promoted peace, do you?

Mr. CARSE. No; but that was done by the Germans, who stole our patents.

Senator BONE. But that is beside the point. A submarine was actually the thing that immediately brought about war.

Mr. CARSE. We have never built a submarine boat that was not used for defense.

Senator BONE. And that submarine may have been built with the use of an American patent.

Mr. CARSE. It was a patent which they stole.

Senator CLARK. I will ask you to look at a letter dated October 27, 1924, which I will ask to have marked "Exhibit No. 65", from Commander Aubry at Lima, to Mr. Spear.

(The letter referred to was thereupon marked "Exhibit No. 65", and appears in the appendix on p. 355.)

Senator CLARK. Mr. Spear, I will ask you to look at the top of page 2, paragraphs 6, 7, and 8, in which Commander Aubry says:

Now, I must inform you that Ackerson wired to Admiral Woodward—

Admiral Woodward at that time was head of the American naval mission to Peru, was he not?

Mr. SPEAR. He was.

Senator CLARK. I will repeat that.

Now, I must inform you that Ackerson wired to Admiral Woodward on the 21st saying that Mr. Harriman was willing to reopen negotiations for a loan based on national-defense taxes and for naval construction. In his wire



Ackerson requests Admiral Woodward to communicate to the President in order to have his personal opinion, and in case he should approve, he will come by first steamer.

Do you know who Harriman was?

Mr. SPEAR. Yes.

Senator CLARK. Who was Harriman and what was the proposition, if you can tell us briefly, Mr. Spear?

Mr. SPEAR. Mr. Harriman was Mr. W. A. Harriman, who, for a number of years, interested himself very actively in all kinds of shipping and shipbuilding matters. He has since retired, I believe, after some sad experiences, from that branch of the business.

Mr. Ackerson, to whom he refers, was one of Mr. Harriman's men, assistants, whom he had sent on a trip to South America to see if he could find any enterprises in which Mr. Harriman might be interested; in other words, to see if he could drum up any business of any kind in these various things in which Mr. Harriman was interested.

Senator CLARK. Do you know what the proposition was that Harriman wanted to submit to President Leguia?

Mr. SPEAR. No; I do not know anything about it. I may have heard something about it later, Senator.

Senator CLARK. This letter does not disclose entirely what the proposition was.

Mr. SPEAR. I think it was on the theory that Mr. Harriman might be interested in some kind of proposition, if it was based on special taxes and not based upon the general credit of the Peruvian Government. That is the impression that I get from the paragraph you just read.

Senator CLARK. And he was using an American admiral as a go-between for the purpose of negotiating a loan which would be used by Peru for armament purposes; at least, that is Commander Aubry's statement, is it not?

Mr. CARSE. He was trying to.

Senator CLARK. That is what I said.

Mr. SPEAR. Yes; he was advising the admiral.

Senator CLARK. He did use the admiral as a go-between.

Mr. CARSE. You do not know whether Admiral Woodward did what he requested or not.

Senator CLARK. The next paragraph clears that up. [Reading:]

President Leguia's answer, communicated by Admiral Woodward to Ackerson, was to the effect that President Leguia was willing to reopen the negotiations with a view of obtaining a loan up to \$12,000,000, to carry on half of the proposed naval scheme.

8. We are expecting Ackerson to come any moment, and I think this time something will be done in regard to the loan. The sad point is that if the scheme is carried through and Harriman provides the money, they will be the ones to get the largest share of the \$10,000,000 which will be allotted to the Navy. . . .

What did he mean by that?

Mr. SPEAR. I think Mr. Harriman at that time owned a shipyard or controlled a shipyard, the old Bristol Yard which was created during the war to build merchant ships. I think he was interested in getting business for that.

Senator CLARK. And, of course, if he put up the money, he would expect them to buy ships from him instead of from you; is that it?

Mr. SPEAR. Certainly.

Senator CLARK. Continuing with this paragraph:

The sad point is that if the scheme is carried through and Harriman provides the money, they will be the ones to get the largest share of the \$10,000,000 which will be allotted to the Navy, getting, therefore, his three destroyers, leaving only a margin for us, if we fight well, for one more submarine; because the remaining money will have to be taken for more submarine; because the remaining money will have to be taken for the completion of the payment of the two submarines, base and also mines and aeroplanes that Woodward wanted. I am looking forward for a pretty good scrap, and at least if the worst come, I must get 1 submarine and 50 torpedoes.

As a matter of fact, there had been a considerable controversy going on for some time in Peru, had there not, Mr. Spear, as to whether or not this money that they were going to spend for armaments should be spent for destroyers or for submarines?

Mr. SPEAR. There had been.

Senator CLARK. And that was part of the backstage politics that went on in connection with these contracts, was it not?

Mr. SPEAR. There was undoubtedly a difference of opinion. Some people thought one would be better, and some thought the other.

Senator CLARK. And the fellows who sold destroyers had their representatives down there assuring the public of Peru and the naval officers of Peru that what they had to have in order to keep out of the clutches of Chile was destroyers, and you had your representative down there assuring them that what they had to have was submarines; is that correct?

Mr. SPEAR. Everybody was trying to promote their own business.

Senator CLARK. Everybody was trying to sell their own product; yes. Now, in that same letter, Mr. Spear, Commander Aubry proposed to you, did he not, that he get himself appointed the Peruvian representative to the Geneva Disarmament Conference? I direct your attention to paragraph 11.

Mr. SPEAR. Where does that appear, Senator?

Senator CLARK. The paragraph no. 11, at the bottom of page 2.

Mr. SPEAR. I see it.

Senator CLARK (reading:)

It is very important that you should let me know the date at which you are going to launch the subs for many reasons, the main one being that Admiral Woodward is very much interested for obvious reasons; either myself or my wife will have to take the sponsors to the States; and then I am planning to be appointed by the Government, if you permit, delegate for Peru in the disarmament conference that is going to take place in Geneva in June 1925. I feel that I can do something good for Peru there, as well as for the cause for the submarines in South America. My flag will be "No quotas in submarines" construction in South America, and classify it as a "defensive weapon."

At that time, of course, Mr. Spear, Commander Aubry was your paid representative in South America, was he not?

Mr. SPEAR. Yes.

Senator CLARK. And he was really presenting a proposition to you for you to pay his expenses to this disarmament conference, was he not?

Mr. CARSE. If he had gone, he would have had to resign as our representative, or else his Government would not have given him an official appointment.

Senator CLARK. Well, he says in the next paragraph:

In this respect, not only do I require your opinion but also your authorization I request in this respect as soon as possible, because I will have to make some initial work here outlining a plan for the Government in case I decide to go; which, otherwise, I will not have to make.

Evidently he expected you to pay his expenses, did he not, Mr. Carse?

Mr. CARSE. His expectations were not realized.

Senator CLARK. I understand, but you took it that he was putting a proposition up to you to pay his expenses, did you not?

Mr. CARSE. I do not know.

Senator CLARK. In the next letter, from Mr. Carse to yourself, Mr. Spear, dated November 19, 1924, there is an indication that Mr. Carse was perfectly willing for Commander Aubry to act as a delegate to the disarmament conference for all purposes of disarmament except the submarines, but was not willing to pay for it. I offer that letter as "Exhibit No. 66."

(The letter referred to was marked "Exhibit No. 66", and appears in the appendix on p. 357.)

Senator CLARK. The letter reads as follows:

DEAR MR. SPEAR: Your favor of the 17th instant to hand in regard to Peruvian business, and I can see no objection on our part to Aubry serving as delegate to the Disarmament Conference, only I hardly think we should pay his traveling expenses, plus \$15 per diem.

Mr. CARSE. Well——

Senator CLARK. Now, Mr. Carse, do you know whether Commander Aubry actually served as the Peruvian delegate to the Disarmament Conference?

Mr. CARSE. I do not think he did; not so far as I know. I never heard of what went on over there.

Senator CLARK. In other words, when you would not pay his expenses and \$15 per day, he did not want to go?

Mr. CARSE. We were not taking any part in attempting to influence a world conference. We have not got quite that amount of conceit.

Senator CLARK. Mr. Spear, you had some controversy, did you not, as to whether these submarines for which you received contracts from Peru should be built in this country or in England, did you not?

Mr. SPEAR. In connection with the hulls.

Senator CLARK. And there was some objection on the part of the——

Mr. SPEAR (interposing). Not a controversy, Senator.

Senator CLARK. Well, there was objection on the part of the American Naval Commission to your having the hulls built in the yards of Vickers & Co. in England?

Mr. SPEAR. That is my recollection.

Senator CLARK. They raised some objection, and Aubry had a very difficult time in obtaining a very grudging and reluctant consent.

Mr. SPEAR. I do not know about that; it may be so.

Senator CLARK. Just to refresh your memory, Mr. Spear, I should like to refer to a letter to you from Mr. Aubry.

Mr. SPEAR. I cannot remember those details, Senator, as you can with the letter in front of you.

Senator CLARK. I understand that, of course. I am just trying to refresh your memory on these points, Mr. Spear. I am now going to refer to a letter from Mr. Aubry to yourself, dated at Lima on the 22d of March, 1924, which I will ask to have marked "Exhibit No. 67."

(The letter referred to was thereupon marked "Exhibit No. 67" and appears in the appendix on p. 357.)

Senator CLARK. I refer you particularly to page 3, of that letter, the first paragraph which reads:

Now that I have your long cable of the 19th accepting the proposal as per my detailed cable message of the 14th, I feel quite at ease. Nevertheless, there has been for Woodward a very sore point and that is the one regarding the partial construction in England to which the President agrees entirely; \* \* \*

By the President he means Leguia, does he not?

Mr. SPEAR. Yes, sir.

Senator CLARK (continuing reading):

but that Woodward did not look upon with sympathy, because—as I explained in my previous letters—he wanted to have all done in the States. You can suppose that I did not consult with Woodward as to this point, but in his presence I told the President that for the financing aspect of the matter we would have to make the hulls at our associates' yards in Barrow, of course, very much to the surprise of Woodward. \* \* \*

By "associates" there he meant Vickers, did he not?

Mr. SPEAR. Yes.

Senator CLARK (reading):

So when Woodward wrote with his own hand the cable that I sent you on the 14th inst., he put "partial construction in England permitted but not preferred." Of course, that is all we needed. I have to do my best to give him the chance of getting even, because he has been of great help altogether.

In other words, having outwitted Admiral Woodward at one point, he wanted Admiral Woodward to have an opportunity to beat him in some matter to even up. Is not that what you gather from the language of that paragraph?

Mr. SPEAR. No. I would not use the word "outwitted", Senator.

Senator CLARK. He talks here how he had used Admiral Woodward, how he had outwitted Admiral Woodward; he did not communicate this fact to him until it was too late for Admiral Woodward to stop what was done. What do you understand he meant when he said, "I have to do my best to give him a chance to get even, because he has been a great help altogether"?

Mr. SPEAR. I think it is very clear. The admiral did not like that idea and Commander Aubry had sense enough not to put the question up to him, when he knew that he did not like it.

Senator CLARK. What did he mean by saying that he was going to let Admiral Woodward get even?

Mr. SPEAR. He meant that Admiral Woodward would have the final say about it and dictate what the final message should be on the subject. I think that is what he meant.

Senator CLARK. That is not what he said. He said:

So when Woodward wrote with his own hand the cable that I sent you on the 14th instant, he put "partial construction in England permitted but not preferred." Of course, that is all we needed.

Then he goes on to say that he would give Admiral Woodward a chance to get even, because he had been of a considerable help in the matter.

Mr. SPEAR. The whole question arose in this way. May I elucidate it a little?

Senator CLARK. I should be glad to have you do so.

Mr. SPEAR. It arose in this way. There always was the question of the ability of the Peruvian Government to pay for what they wanted to order and that meant first that prices had to be kept as low as we could keep them; and second the financial consideration might enter into it. At this time, before we took that order, our plant did not have a hull yard. We built the engines and the torpedoes and the machinery of various kinds and prepared the plans but we had to get our hulls at that time subcontracted for. Owing to the cheapness of construction in England, we could subcontract for that hull there a good deal cheaper than we could in the United States.

Senator CLARK. That is what Aubry meant when he made his reference to the financial aspects?

Mr. SPEAR. Not entirely, Senator. I was going to finish. This, I believe, I am correct in saying. At that time the question of how they were going to do all this was not quite settled in our mind, as to whether they were able to or not. We felt that the Vickers firm could be called upon, if they got a contract with hulls, to assume their share of any financing that had to be done.

Senator CLARK. Are you through, Mr. Spear?

Mr. SPEAR. I am through for the moment, Senator.

Senator CLARK. So far as labor was concerned, in fact so far as gross outlay was concerned, the hulls were the principal parts of the cost of the submarine, were they not?

Mr. SPEAR. Not the hull proper. That is not the principal part.

Senator CLARK. I thought you said yesterday that the cost of the hull was something over \$2,000,000.

Mr. SPEAR. "Hulls" is a very large term. That means all kinds of equipment that goes into the ship, which was not contemplated in this case.

Senator CLARK. What part of the ship were you having manufactured by Vickers?

Mr. SPEAR. We were suggesting that they manufacture just the bare hull.

Senator CLARK. Did you actually have those hulls made in England?

Mr. SPEAR. No; it did not turn out that way. We constructed the ships entirely ourselves in our own yard.

Senator CLARK. This Admiral Woodward to whom we have been referring is Admiral Clark B. Woodward, is not that his name?

Mr. SPEAR. Yes.

Senator CLARK. At that time the head of the Peruvian mission?

Mr. SPEAR. He was at that time chief of the Peruvian mission.

Senator CLARK. He was also of service to you at that time, was he not, in connection with a proposition which was advanced for purchase by Peru of certain vessels from the Swedish Government?

Mr. SPEAR. I do not remember that.

Senator CLARK. That is in that same letter that is before you, Mr. Spear.

Mr. SPEAR. What page is that on, Senator?

Senator CLARK. It begins at the bottom of page 1. The language is as follows:

We were, for a few days, indirectly associated with them for all intents and purposes and, therefore, in a very bad position which was considerably aggravated by the offer made by the Sweden firm named "Kockus" of 6 submarines complete—2 of 800 tons and 4 of 530 tons—built for the Germans during the war and which are at present in the Swedish yards of Maol. They have been offered by the chargé d'affaires of the Swedish Government here on the name of his Government for the sum of £1,000,000. payments to be made in any way the Government would choose. Of course, I felt a good deal excited then about this, and that is the reason of my cablegram of the 8th inst., as the President had told me—on my explaining to him that that was very unfair and bad for Peru due to the fact that we did sign the Treaty of Versailles—that he would buy those units because Peru needs to have some submarines and he could not obtain them advantageously in the States nor in England. Of course, such a purchase could not have eventually been consummated because I would have planned the same methods that we did plan in Argentine, and Woodward, who had been very nice throughout all these proceedings, would have stopped it; but, anyhow, it did come in a very unfortunate moment, as the President was quite upset due to the interference of the guarantee trust in all his schemes.

Now, Mr. Spear, I will ask you to refer to the bottom of page 4, where it says:

The only thing that I cannot attend, or better arrange at all as you desire is that relating to the local commissions \* \* \*

What does he mean by those local commissions?

Mr. SPEAR. I know nothing about it, except what is in the letter. I presume he felt there were people there he had to have employed.

Senator CLARK. He had not communicated to you before about those local commissions?

Mr. SPEAR. I do not think so, not that I know of.

Senator CLARK. What does he mean by the language—

The only thing that I cannot attend, or better arrange at all as you desire is that relating to the local commissions. I have not dared to propose it to the interested parties because I am sure that this would be even dangerous at this special stage of the negotiations. I have to give commission to three persons, and two of them, whom I have consulted with, have accepted as a great concession to receive the commissions distributed in three equal parts: The first from the first payment, the second from payment no. 6, and the third from the last payment. As I think this perfectly fair, I am going to wire to you accordingly. The commissions that I have distributed according to your authorization are \$15,000 per boat, that is to say after you receive your first payment of \$400,000 you will please send me \$10,000 to attend to this.

What were those special commissions, Mr. Spear?

Mr. SPEAR. I do not know.

Senator CLARK. You authorized them, did you not?

Mr. SPEAR. We authorized the amount, \$15,000.

Senator CLARK. What did you understand was to be done with the \$15,000?

Mr. SPEAR. I understand that Aubry considered it necessary to carry through the business, to pay some commissions to some associates. The details of this, I do not know, Senator.

Senator CLARK. As a matter of fact, Mr. Spear, those special commissions represented bribery, did they not?

Mr. SPEAR. Not that I know of.

Senator CLARK. In other words, you know that bribery is an element on which all of your South American business is based, do you not?

Mr. SPEAR. I would not say that. But I will say that there is a general impression that what we would call bribery and which they do not is pretty general practice in most South American countries. That has been my information and experience.

Senator CLARK. It was your opinion, was it not, that bribery was the basis of all South American armament selling, was it not?

Mr. SPEAR. I would not call it bribery. But it was my opinion that you could not do business with South America without paying a good many commissions. I do not know whether it was bribery or not. I have heard of some cases of direct bribery.

Senator CLARK. Mr. Carse, what did you understand was to be done with these special commissions that were paid for this Peruvian business to which the commander referred?

Mr. CARSE. I do not know what he was going to do with it.

Senator CLARK. You simply authorized it without making any effort to find out the necessity for it or what was to be done with it?

Mr. CARSE. Yes; it was a moderate commission.

Senator CLARK. Did you know what was to be done with this money, Mr. Sutphen?

Mr. SUTPHEN. I do not know.

Senator CLARK. What did you understand he meant when he said that these people had to be paid in order to get the business?

Mr. SPEAR. I understood just what he said, that the business would be interfered with, or something, if the commissions were not paid.

The CHAIRMAN. Was this commission referred to here included in the record, in the evidence that was offered for the record as revealing the total of the commissions paid?

Mr. SPEAR. Of all the commissions paid——

The CHAIRMAN (interposing). Through Mr. Aubry?

Mr. SPEAR. Of all commissions paid. They were all included in the record, yes.

Senator CLARK. You mean the special commissions that Aubry informed you he was to pay out, were included on your books?

Mr. SPEAR. Everything we paid to Aubry was included in that statement, yes.

Senator CLARK. Mr. Spear, I will ask you to look at a letter from you to Commander C. W. Craven, managing director of Vickers Limited, Barrow-in-Furness, dated March 3, 1927, which I will offer in the record at this point.

(The letter referred to was thereupon marked "Exhibit No. 68.")

Senator CLARK. You were on more or less confidential terms with Commander Craven, were you not?

Mr. SPEAR. Yes; I have known him quite well.

Senator CLARK. Paragraph 3 of that letter, dated March 3, 1927, is as follows:

This is an appropriate time for me to tell you that none of us here have ever met our Chilean representative and consequently we cannot in any way vouch for his reliability.

This was at a time when you were in association with Vickers on Chilean business, was it not?

Mr. SPEAR. At a time when some business was pending in Chile which we were discussing.

Senator CLARK. I will read the whole letter and perhaps it would clear that up. [Reading:]

MARCH 3d, 1927.

EXHIBIT No. 68

Commander C. W. CRAVEN,  
*Vickers Limited,*

*Barrow-in-Furness, England.*

MY DEAR CRAVEN: 1. Referring to the cables exchanged between us on Feb. 21st and Feb. 22nd with regard to the possible sale of two "L" type boats for quick delivery, I have just cabled you as follows:

"Reference cables Feb. 21st and Feb. 22nd relative L type suggest prepare estimate immediately. Writing."

2. The country in question is Chile and the business in its present aspect started with a cable from our representative there asking if we could furnish two boats for immediate delivery larger than 900 tons and stating that the boats could be second-hand provided that the design was modern. For reasons with which you are already familiar, and I think that as the cards now lie, it will be best, for the time being at least, to continue to talk of nothing but British construction, hence my cable to you of Feb. 21st with reference to the possibility of making quick delivery of two "L" boats.

Why was it better for an American boat company to continue to talk only of British construction, and steaming up a sale for British boats, instead of American boats, Mr. Spear?

Mr. SPEAR. We were at that time still building two boats for Peru. That was when the feelings between these two countries were rather exasperated. They had not composed their differences up to that time and we did not think it would look very well for us to be dealing with the Chileans the same time that we were dealing with the Peruvians. That was the main reason. In addition to that, we had had some experience with the Chileans in years before that had not been so happy and that had left rather an unpleasant impression in my mind. I was not so very keen about going through again the experience that I had had with them before.

Senator CLARK. So that you preferred to tell the Chileans that the best deal they could make would be with your associates, Vickers, out of whom you would get a commission?

Mr. SPEAR. Yes; we had no boats that would meet the conditions.

Senator CLARK. Continuing with this letter:

As soon as I received yours of the 22nd of Feb., I cabled our agent as follows:

"Nothing available immediate delivery. Best delivery new construction England thirteen months using available machinery parts already inspected by British Admiralty. Cost probably about £300,000 each. If funds available and inquiry really serious will arrange formal proposal by our British licensee Vickers provided your commission acceptable. Cable commission required." to which I am just now in receipt of the following reply:

"Offer both to Chilean Commission and Legation London offering forward delivery with premium. Advise me when bid made size price so that work here for immediate decision. Commission 5."



3. This is an appropriate time for me to tell you that none of us here have ever met our Chilean representative and consequently we cannot in any way vouch for his reliability. We all know, however, that the real foundation of all South American business is graft and it may very well be that he knows the proper people to pay in Santiago. At any rate, I am passing the thing along to you for such action as you may think it proper to take, having in view your own separate negotiations. If you should decide to submit a tender now for two "L" boats, with premium for early delivery, you will, of course, have to reserve our 5 percent royalty as well as the 5 percent commission referred to in the cable; on the other hand, if your decision is in the negative, you will have to be careful in the future if you should, on your own account, offer the "L" type, since under such circumstances our Santiago man might very well come forward with a claim for commission.

Senator POPE. Who wrote that letter, Senator?

Senator CLARK. Mr. Spear, to the head of the Vickers Co. [Continuing reading:]

4. Please cable me your decision and action so that I can advise Santiago. In conclusion, I would like to add a little unsolicited and perhaps superfluous advice which is that I would not be too modest about the price and would cover into it a substantial amount in excess of the 10 percent above referred to, my own experience being that at the last minute something extra is always needed to grease the ways.

Now, by "Greasing the ways" you meant such things as these special commissions which were referred to in Commander Aubry's letter, did you not?

Mr. SPEAR. Yes; that is what I meant. I meant special expenses that always crop up.

Senator CLARK. "Special expenses." In other words, graft and bribery to officials of those countries?

Mr. SPEAR. Not necessarily to officials, Senator. They have a custom down there of taking care of their friends.

Senator CLARK. "An old Spanish custom?"

Mr. SPEAR. An old Spanish custom, yes; of taking care of their friends through Government business. You will always find a certain number of people that they say you must employ, and so forth. That is the way.

Senator CLARK. Such as the son of the President of Peru, for instance?

Mr. SPEAR. Well, it might be anybody, you know, whoever their political friends are, they take care of them by asking people to employ them, or people who are going to do business with the Government.

Senator CLARK. I will just finish this letter by reading the postscript.

P.S.—While as indicated above, I do not think that price is the main consideration, in this job, if the amount of commission asked should for any reason be the controlling element, I will of course, pass along to Santiago any counter-proposal you might elect to put forward.

Senator CLARK. I will get back to this Chilean matter later. Now, referring to this sale of submarines to Peru, Mr. Spear, you had come difficulty in getting by the American Naval Mission on your plans and specifications, did you not?

Mr. SPEAR. I do not recall any great amount of difficulty. I think there were some changes they wanted made, as I remember it.

Senator CLARK. Did not the Commission complain you had reduced the capacity of the boat without reducing the price? For

instance, I will refer you to a letter from Commander Aubry, dated March 31, 1924, which letter I will ask be marked "Exhibit No. 69."

(The letter referred to was marked "Exhibit No. 69", and appears in the appendix on p. 360.)

Senator CLARK. At the bottom of the first page of this letter, "Exhibit No. 69", it says:

The reduction of the submarines speed to a minimum of  $8\frac{3}{4}$  miles also is a sore point because Woodward told me that he could not understand improving the qualities of the boats by reducing the main features.

Mr. SPEAR. I won't be sure about this, Senator, but I think this is the situation. I think, as I recall it, that the specifications were accepted of the design and quality of the boat, and I think that was 9 knots submerged. When we get to a contract we always keep something up our sleeve to be sure we can meet the contract requirements.

Senator CLARK. Woodward complained about reducing the general capacity of the boat without any reduction of price.

Mr. SPEAR. As I see here the question he is referring to is whether the submerged speed should be 9 knots or  $8\frac{3}{4}$ . Do you see anything else—I think the boat actually did finally make 9, as we thought it would, but we did not want to guarantee that.

Senator CLARK. You also had some controversy with Woodward on the question of whether these boats were to be delivered in England or in the States. That is in paragraph 1 of the letter. Apparently you had been making an effort to deliver the boats in England, which would mean an additional cost of about \$50,000 on the Peruvian Government to bring the boats across.

Mr. SPEAR. That is probably correct.

Senator CLARK. This letter shows Woodward had been endeavoring to accept delivery in England and the Government declined to do that.

Mr. SPEAR. I do not recall that.

Senator CLARK. Then there was some discussion about a certain type of gun, the Davis submarine gun.

Mr. SPEAR. I think I proposed some special type of gun and they did not want it.

Senator CLARK. On which Woodward had not made up his mind.

Mr. SPEAR. He eventually made up his mind he did not want it.

Senator CLARK. Aubry promised you he would be able to manage, and you would not have to furnish the gun included in your price of the boat.

Mr. SPEAR. I do not think we ever proposed to furnish the gun in that price.

Senator CLARK. What does he mean by saying, "Therefore I think I shall be able to arrange so as to have the gun not included in the price."

Mr. SPEAR. That is what he means.

Senator CLARK. It meant you would not have to pay for the gun.

Mr. SPEAR. That is the idea, we would not supply the gun. It was a separate matter and if they wanted it they could order it from us and we could buy it and put it on the ship.

Senator CLARK. Now, this letter indicates that your representative, Commander Aubry, thoroughly realized that he was selling armament to countries where he was busy drumming up hostilities.

Mr. SPEAR. I could not tell that; I do not know.

Senator CLARK. I read from the letter at the bottom of page 2, the following:

The fact that if I bring with me the contracts for Peru, as I expect I will, it would be a great blunder going to Argentine, for instance, via Chile (in this business we have to be tactful and a little diplomatic); and so in regard to Brazil as well as to the Argentine now that the affairs are going to take place at the same time. I will have to be very careful concerning my activities with any one of these countries respecting the others.

What he meant, he was trying to sell to all of these countries which might be in hostilities with each other at any time, and he was trying to keep each one from finding out he was dealing with the other. Is that not what you find that paragraph to mean?

Mr. SPEAR. I think it perfectly natural, sir, where these people are perhaps not on the best of terms with each other, if he went to one then to the other, and dealt with them simultaneously, he would get a bad reception.

Senator CLARK. Yes, he could not sell Brazil when he was dealing with Argentine and vice versa.

Mr. SPEAR. I do not think he would wish them to know it, naturally, as a matter of ordinary business prudence.

Senator CLARK. Now, in 1924, in connection with this order you became very much dissatisfied with the price of hulls which was quoted you both by Bethlehem and Vickers, did you not, and considered the possibility of establishing a plant of your own to build hulls?

Mr. SPEAR. Yes, sir.

Senator CLARK. I refer you to a letter dated July 29, 1924, to Mr. Carse, which we will have marked "Exhibit No. 70."

(The letter referred to was marked "Exhibit No. 70", and appears in the appendix on p. 362.)

Senator CLARK. What do you mean by saying on the second page of that letter you want to keep Bethlehem in line? In paragraph 5 you say the following:

Of course, in the face of the above figures, there is only one answer so far as this particular job is concerned.

That was to have them manufactured by England?

Mr. SPEAR. Yes.

Senator CLARK. Continuing, the letter, it says:

Insofar as future competition from Bethlehem is concerned, I have been treating them in this matter with the greatest consideration and there would be no possible excuse for hard feelings if they do not get the job, and certainly they would be less disturbed by our doing it than if we gave it to some other American yard. Moreover, with this equipment in hand, I would not fear their competition in the future and, if necessary, I think we could keep them in line by arranging to give them any excess of Atlantic coast work over our own capacity as well as all Pacific coast work.

Why was it necessary to keep Bethlehem in line?

Mr. SPEAR. Because they had ambitions then to enter into the submarine business.

Senator CLARK. In other words, you wanted to keep them out of competition?

Mr. SPEAR. Yes.

Senator CLARK. Now, about a year later Bethlehem was bidding against you for guns?

Mr. SPEAR. For Peru?

Senator CLARK. Yes.

Mr. SPEAR. I think they did.

Senator CLARK. You were bidding on guns and ammunition as well as submarines?

Mr. SPEAR. I believe these were guns to go on the boats.

Senator CLARK. You not only furnished boats, but you furnished armament for the boats whenever you could get the order?

Mr. SPEAR. As I remember, it was a separate order.

Senator CLARK. I am calling your attention to a letter dated October 19, 1925, from Commander Aubry to yourself, which I ask to be marked "Exhibit No. 71."

(The letter referred to was marked "Exhibit No. 71", and appears in the appendix on p. 363.)

Senator CLARK. In this letter he says:

In this respect, I may state to you that the Bethlehem proposal by wire to the Minister of Marine for the same guns and ammunition was \$67,000. I have the cable in my hands, so the figures that they have given to you, as per your letter of Sept. 17th, para. 2, differs very much from the ones they quoted to the Government.

In other words, Bethlehem told him they were going to submit one bid and actually submitted another?

Mr. SPEAR. Either that or it may have been otherwise. I will have to look it up, but it may have been the figure they referred to Bethlehem was the price to us. We were not building guns, but only just getting what the Peruvian Government wanted, and we had to buy from somebody who made them. It may have been that, but I don't know which it was, the letter will explain it.

Senator CLARK. Then Aubry goes on and says:

The \$3,000 local commission authorized by you were necessary in order to do away with some sore feeling of some political friends of the Department that are trying to introduce Bethlehem into our small Peruvian market.

That is the same sort of commission we were discussing a while ago, and people were trying to bring Bethlehem in to bid, and you concluded it was cheaper to buy off, than to fight them?

Mr. SPEAR. We did not want anyone of these political people working for somebody else.

Senator CLARK. I also call your attention to paragraph 6 on page 2 of the same letter, which reads as follows:

Now, regarding your letter of the 22nd Sept., to Admiral Woodward, the admiral sent a wire immediately to the Navy Department asking if he could obtain an expert for the mission. He has not yet received any reply, but the admiral authorized me, today, to wire you asking for the names you mention at Para. 3, in order that, as soon as he has a reply from the Department, he will request by cable the expert whom you will recommend. For your guidance, the admiral is intent to have that expert as the real inspector; that is to say, his technical authority will be above the one of Commander Monge.

Now that meant Admiral Woodward was willing to recommend to the Department any submarine expert you recommended to him?

Mr. SPEAR. I think so.

Senator CLARK. And that expert you placed with the American Naval Mission to operate would actually be the inspector of the submarines which you sold to the Peruvian Government?

Mr. SPEAR. That was the intention; yes.

Senator CLARK. That was the intention for you to appoint the man to inspect the submarines you sold to Peru?

Mr. SPEAR. Yes; we wanted a competent man.

Senator CLARK. That was your only reason?

Mr. SPEAR. I have had some disastrous experience with incompetent inspectors that did not know anything about it, and it is an exceedingly difficult matter.

Senator CLARK. It always makes for harmony if the concern which is furnishing the goods also names the inspector to inspect the goods, does it not?

Mr. SPEAR. Good relations between the two were very essential and proper.

Senator CLARK. If the man doing the inspection is in the employ of the man making the goods, he is apt to make a good report.

Mr. CARSE. The goods speak for themselves.

Mr. SPEAR. I think it is important to have people experienced in their business as inspectors. If you do not you will have all sorts of difficulties.

Senator CLARK. You said you made your contract with Aubry about the middle of 1924?

Mr. SPEAR. That is my recollection.

Senator CLARK. It was renewed when?

Mr. SPEAR. My recollection is he served us some time, then he went back into the active service. After resigning our service he went back into the active service which is permissible under the law, and went to Paris as naval attaché. And when that was over he came back to our employ. That is a fact, isn't it?

Mr. CARSE. He resigned his office with the Government and came back to us.

Senator CLARK. I have a memorandum agreement for services that Commander Aubry entered into the 14th day of October 1925. That was evidently from correspondence, not his original contract, but a renewal.

Mr. SPEAR. I could not say without looking it up.

Senator CLARK. Correspondence in the record indicates he had been your representative for several years prior to 1925.

Mr. SPEAR. I think he was.

Senator CLARK. So this was evidently a renewal contract in 1925, or a new contract, and what I was trying to get at is whether this memorandum agreement is in general terms the same as the original agreement, or involves a modification. This paper is the power of attorney, and is not what I thought it was. What I thought I was handing you was the memorandum agreement, and I will now show you this memorandum contract dated January 24, 1929, and will say briefly this memorandum provides for a salary of \$6,000 a year plus \$1,000 a year for office expenses and for traveling expenses, and for commissions that might be agreed upon, and for 3 percent on submarines, torpedoes, and ammunition. Was that substantially the original contract, or did that involve a modification?

Mr. SPEAR. Without looking at the original contract I could not tell you, but my impression would be that at first Commander Aubry represented us only in Peru, and later on that was extended to all South America; and it is quite possible a modification may have been made in our arrangement.

Senator CLARK. What compensation did he originally get, do you recall?

Mr. SPEAR. I do not recall.

Senator CLARK. Do you recall, Mr. Carse?

Mr. SPEAR. Wouldn't it show in one of those exhibits?

Senator CLARK. I do not believe it does in any exhibit I have.

Mr. CARSE. It was only on a commission basis, at first.

Senator CLARK. You did not pay him a salary at first?

Mr. SPEAR. I do not remember whether we did or not. I think it does show in that statement everything paid to him.

Senator CLARK. I offer this power of attorney as "Exhibit No. 72."

(The document referred to was marked "Exhibit No. 72", and appears in the appendix on p. 365.)

Senator CLARK. I offer the memorandum agreement as "Exhibit No. 73."

(The document referred to was marked "Exhibit No. 73", and appears in the appendix on p. 366.)

Senator CLARK. Now, Mr. Spear, I direct your attention to a letter from Battle Creek, Mich., from Commander Aubry dated July 10, 1926, which I offer as "Exhibit No. 74."

(The letter referred to was marked "Exhibit No. 74", and appears in the appendix on p. 366.)

Senator CLARK. In the first paragraph of this letter, "Exhibit No. 74", and in a question with a regard to which I desire to ask you, it happens to deal with a Brazilian question. I mention it because a part of the letter also deals with Peru. Commander Aubry mentions the fact you were making bids for the construction of Brazilian vessels to be constructed in Belgium.

Mr. SPEAR. Where is that?

Senator CLARK. It is in paragraph one. It says you could probably meet them in London, and offers to give you letters of introduction to the Brazilian Commission in London.

Mr. CARSE. That is Argentine.

Senator CLARK. Yes, pardon me. That is Argentine. It says, "I think your idea of tendering for building in Cockerill, Belgium, is a very good idea."

Mr. SPEAR. Yes; that is right.

Senator CLARK. Why was it necessary to build these vessels in Belgium instead of the United States?

Mr. SPEAR. It was a matter of price. We were told the price had to be very low, and it was impossible to construct what they wanted if we constructed the vessels here. So we proposed to construct the vessels there with parts constructed in our own plant here, because it was the only way in which it could be done.

Senator CLARK. You had a standing contract with Cockerill in Belgium?

Mr. SPEAR. At that time Cockerill was our licensee; yes, sir.

Senator CLARK. You had a regular contract with Cockerill as to the division of the overhead and other matters?

Mr. SPEAR. We had a contract governing the whole matter of how the cost was to be paid and how it was to be determined and what our responsibilities were and what theirs were—a contract to permit such construction if it became necessary or desirable, there.

Senator CLARK. At this time you were trying to float further Peruvian loans through the Chase National Bank?

Mr. SPEAR. This has nothing to do with the Peruvian situation, this is the Argentine.

Senator CLARK. I understand. but it mentions Argentine and Peruvian both in the same letter. When he comes to paragraph 3, he takes up the Peruvian matter when he says:

Now regarding the most interesting part, in my opinion, of your letter, I am very glad that you are pushing this question of financing the new Peruvian orders with the assistance of the Chase Bank.

So, I say you were negotiating at that time a further loan for the Peruvian Government with the Chase Bank?

Mr. SPEAR. I presume so.

Mr. CARSE. I took Mr. Aubry over to the Chase Bank and introduced him and stated he would like to discuss with them the possibility of some kind of a Peruvian loan, and they took it up and referred it to their department.

Senator CLARK. So that at this time, Mr. Carse, in 1926 you were attempting to float this loan?

Mr. CARSE. I think it must have been at this time.

Senator CLARK. Was Aubry representing at that time the Peruvian Government or the Electric Boat Co.? This letter clearly indicates he was the representative of the Boat Co. at that time, and was he also, in addition to being your representative, trying to negotiate loans on behalf of the Peruvian Government?

Mr. CARSE. He was trying to find out whether he could take back to the Government some possibility of borrowing money here.

Senator CLARK. Did he have any authority to represent the Peruvian Government in such negotiations?

Mr. CARSE. No; he was just asking them if they would consider it, and they turned it down.

Senator CLARK. Do you mean as your representative Commander Aubry went to the Chase National Bank and asked them if they would loan money to the Government of Peru?

Mr. CARSE. Yes; I would not say he was our representative, but I think it was in his own personal capacity.

Senator CLARK. He was your representative at that time, wasn't he?

Mr. CARSE. Yes; but he also still had his personal capacity. He was a person, we did not own him body, boots, and breeches.

Senator CLARK. There seems some doubt about that from this letter. In what capacity did he go to the Chase National Bank?

Mr. CARSE. He went there to see whether they would be interested in considering making the loan to Peru.

Senator CLARK. You say at that time he had no authority to ask for a loan to the Government of Peru?

Mr. CARSE. Not at all. They turned it down anyway.

Senator CLARK. Now, on October 11, 1926, Mr. Spear or Mr. Carse, you received a cablegram from Mr. Aubry at Lima, in code, and which, decoded, I offer as "Exhibit No. 75."

(The cablegram referred to was marked "Exhibit No. 75" and appears in the appendix on p. 368.)

Senator CLARK. This cablegram, Exhibit No. 75 ", decoded, reads as follows:

Signed today financial contract for two more submarine and I will sign 13th October construction contract for the same. I will communicate details on Wednesday evening. Indispensable that the company remit us by cable 12,000 dollars of which 10,000 referred to in our telegram 14th September and your reply 18th September and 2,000 for expense incurred in contracts. Signed AUBRY.

What did that \$12,000 represent, Mr. Spear?

Mr. SPEAR. I don't think I can tell you. Possibly we may find some record of it.

Senator CLARK. You cabled that \$12,000?

Mr. SPEAR. I don't know.

Senator CLARK. There is a notation on the bottom of this cablegram taken from your files, "\$12,000 remitted Aubry, Oct. 14th."

Mr. SPEAR. I don't know that.

Senator CLARK. That was another way of greasing the way to get the contract.

Mr. SPEAR. I have no recollection of that.

Senator CLARK. You have no recollection of what you cabled that \$12,000 to Aubry for?

Mr. SPEAR. No; I didn't handle it.

Senator CLARK. Did you handle it, Mr. Carse?

Mr. CARSE. It was handled in our office.

Senator CLARK. Do you know what it was for?

Mr. CARSE. No; it was one of those special commissions. I don't know what it was.

Senator CLARK. As a matter of fact you would prefer not to know what it was?

Mr. CARSE. Certainly.

Senator CLARK. Do you know what it was for, Mr. Sutphen?

Mr. SUTPHEN. No, sir.

Mr. SPEAR. There were some legal fees, some lawyer's fees we had to pay down there in drawing the contract that were paid out of that. Just how much they were I could not tell you, but he employed counsel to guide him in making these contracts and those fees were paid.

Mr. RAUSHENBUSH. Are you pretty sure that was not handled separately?

Mr. SPEAR. I am not sure. It may have been handled entirely separate but I do not recall.

Senator BONE. May we digress at the moment to ask if the American Naval Commission went to Argentine?

Mr. SPEAR. I don't think so.

Senator BONE. To what countries did this Commission or these various commissions go?

Mr. SPEAR. To Brazil and Peru.

Senator CLARK. They were separate commissions in each case?

Mr. SPEAR. Yes, sir.

Senator BONE. My reason for asking is this: What reaction was there, if you can tell us, on the part of other South American countries at this very open and obvious aid, comfort, and assistance this Government was giving those two South American countries?



Mr. SPEAR. I could not answer it. I am under the impression—I may be wrong—but I am under the impression that simultaneously the Chilean had an English commission, and what their reaction was to the appointment of those two American commissions, I do not know.

Senator BONE. Were all of the major powers engaging in attempting to stimulate the building of greater navies in South America.

Mr. SPEAR. I do not know.

Senator BONE. And to fire their imagination and stimulate them to the building of greater navies?

Mr. SPEAR. I do not know what that was but what I think it was, was to have what they were buying, bought in this country.

Senator BONE. Where was the sudden stimulus to get these people to buy battleships and submarines?

Mr. SPEAR. I do not know that there was a stimulus.

Senator BONE. It seems to have been inspired by the builders?

Mr. SPEAR. No; I do not think so.

Senator BONE. The Government was not selling their own ships?

Mr. SPEAR. No; my understanding is the Navy asked the Government to appoint the commission.

Senator BONE. There must have been some agitation down there.

Mr. SPEAR. I naturally suppose they must have given some consideration to their political situation and their defensive situation, but it does not necessarily follow that somebody led them into doing it.

Senator BONE. Do you think the agents of your firm and other firms manufacturing munitions and battleships and the like had anything to do with stimulating this agitation?

Mr. SPEAR. Not to my knowledge. We hope to negotiate business if we can get it, but I have no knowledge as to what may have taken place in an attempt to influence public opinion.

Senator POLE. Weren't these missions very favorable to your getting the business of those countries?

Mr. SPEAR. I do not know that they were. I should think they were not, because I think they knew a great deal more than our Navy people did down there and were able to protect their governments against anybody who wanted to ask an unfair price or sell an inferior article.

Senator CLARK. Senator Bone and others who may be interested in this, we have a study in course of preparation covering the entire activity of the naval missions to South America which I will later on offer, and we can go into that in more detail.

Mr. SPEAR. This is a matter on which we have not direct knowledge, and it is only indirectly that we know the details of it. We had some contact with them in connection with negotiations and that is all of the contact we have had in the matter.

The CHAIRMAN. Mr. Spear, speaking generally now, how far could the Electric Boat Co. have gotten as respects business in South America without such aid as came from the State Department, the Navy Department, and your activities with money which you do not pretend to know definitely how it was spent—how far could you have gotten without resort to those influences?

Mr. SPEAR. The only orders we did succeed in getting were the Peruvian orders. We competed for the Argentine orders and we competed for the Brazilian orders. In Brazil they had this angle that has been mentioned, and of course we had our diplomatic representative, and so forth. We were naturally trying to get all of the help from anybody who might help us, but we did not succeed. So it boils down to whether or not the interest the United States Government took in it was of a decided effect in the Peruvian order. That is what your question really boils down to.

The CHAIRMAN. Are you wanting to say you might have gotten further if our State and Navy and Commerce authorities had not exercised any influence?

Mr. SPEAR. No; I think they were helpful, but I do not think they were the deciding factor.

Senator BONE. One may assume, Mr. Spear, that the activities of these major powers, England, the United States, Italy, and other countries that were exercising a political influence in South America to secure orders for their companies had a tendency to make South America one great armed camp. That would be the result, would it not, when they were each attempting to stimulate the purchase of munitions of war.

Mr. SPEAR. It would naturally result in more armament if they were interested in it, but whether you should call it an armed camp or not, I could not say.

Senator BONE. Well, we have Bolivia and Paraguay giving an exhibition now which more or less resembles war, have we not?

Mr. SPEAR. Yes; very closely. I do not know that I could qualify as an expert in answering your question, Senator.

Senator CLARK. Mr. Carse, on this second order of submarines you were compelled to take Peruvian notes as part of your compensation in the amount of \$1,000,000; were you not?

Mr. CARSE. The plan was to provide that we take notes payable so much a month, extending over a period of years.

Senator CLARK. And you made an arrangement by which you issued your company notes with these Peruvian notes as collateral?

Mr. CARSE. We did for a short period of time when we were waiting to collect some other money.

Senator CLARK. And those notes were sold to smaller banks throughout the country, were they not?

Mr. CARSE. I do not know. I sold them to Becker & Co. of Chicago.

Senator CLARK. I direct your attention to a letter from you, marked "Confidential", longhand note, dated April 21, 1920, addressed to Mr. Pedro Larranaga, at Lima, Peru. He was Commander Aubry's uncle, was he not?

Mr. CARSE. Yes.

Senator CLARK. And he was connected with some of these special missions from time to time.

(The letter referred to was marked "Exhibit No. 76", and appears in the appendix on p. 368.)

Senator CLARK. In the third paragraph of the letter of April 21, 1927, "Exhibit No. 76", you stated:

We have finally arranged with a very reliable firm here, Messrs. A. G. Becker & Co. of Chicago, for a loan to this company for one year of one

million dollars secured as collateral by \$1,300,000 of the Peruvian notes in our possession, and their lawyers drew up very elaborate papers, trust deeds, etc. in connection therewith, and they wished a lawyer's opinion as to the legality of all the steps taken in relation to the loan and the aspect of the notes.

You had previously asked him about a lawyer, Dr. Calderon?

Mr. CARSE. Yes, sir.

Senator CLARK (continuing reading):

We had our counsel give his opinion, which the bankers accepted with the understanding however that we had cabled you and that we would receive the lawyer's opinion and file it with them, so that they would be able, in selling our notes to small bankers throughout the country, to say that they had this legal opinion, which seems necessary in connection with all bond and note issues. The commission we paid to the bankers was fairly substantial, somewhat more than the interest which the notes carry within themselves, but we considered it well to develop the market for these so that in the future such obligations might be more readily disposed of.

In other words, you were willing to suffer some loss at that time in order to develop a market for Peruvian securities in this country?

Mr. CARSE. No, because we needed the money——

Senator CLARK. What did you mean by the last sentence which I have just read, which reads as follows: "But we considered it well to develop the market for these so that in the future such obligations might be more readily disposed of?"

That was accepting a loss on your part to develop the Peruvian market?

Mr. CARSE. We were willing to pay a little bit to start the commercial paper, but those things are all paid off. The notes paid themselves off. They matured so much a month. Nobody lost anything from those notes.

Senator CLARK. Somebody may have lost something by developing a market in this country for Peruvian securities, might they not? A good deal of money was lost in this country by the purchase of Peruvian obligations, was it not?

Mr. CARSE. Not on our undertaking.

Senator CLARK. You state that one of the purposes was to develop the Peruvian market?

Mr. CARSE. Was to develop a market.

Senator CLARK. For such obligations?

Mr. CARSE. Yes, sir. For our paper——

Senator CLARK. Secured by Peruvian notes?

Mr. CARSE. Such obligations, meaning obligations of any government for the same purpose.

Senator CLARK. Mr. Spear, I will direct your attention to a letter——

Mr. CARSE. There were all sorts of propositions as to credit.

Senator CLARK. I will direct your attention to a letter from Commander Aubry, dated at Lima, Peru, May 12, 1927, which I will ask to have marked "Exhibit No. 77."

(The letter referred to was marked "Exhibit No. 77" and appears in the appendix on p. 369.)

Senator CLARK. "Exhibit No. 77" first refers to Argentine business. It says:

We will have the order for three submarines to be built in France \* \* \*

Why was it necessary to build those submarines in France, Mr. Spear?

Mr. SPEAR. The same reason as when we were talking about building in Belgium, plus a preference expressed by somebody in the Argentine government that they would rather see them constructed in France, if it was possible. Somebody expressed that preference. I do not know who.

Senator CLARK. It was immaterial to you where you manufactured them as long as you got the profit?

Mr. SPEAR. I could not get it at all unless I built them in that country.

Senator CLARK. Who got the business?

Mr. CARSE. The Italians got the business.

Senator CLARK. So far as the labor interests were concerned there was really a conflict between French labor and Italian labor?

Mr. SPEAR. Yes, sir.

Senator CLARK. American labor had no interest in it at all?

Mr. SPEAR. Only to some extent, because we made the plans and some of the machinery and shipped it over there, but the hull work was done there.

Senator CLARK. On page 2 of that letter, Mr. Spear, we come directly to Peru. I will read the heading. [Reading:]

No. 2. Peruvian Business. I acknowledge the receipt of yours of the 12th, 14th, 18th, 19th, 21st, and 26th April.

Regarding yours of April the 12th, about Juan Leguia's visit to you and the construction of the larger boats for Peru, I spoke last night, at length, with the president—

Juan Leguia was the son of President Leguia of Peru, was he not, Mr. Spear?

Mr. SPEAR. He was.

Senator CLARK. He had been a commander in the Peruvian Navy, had he not?

Mr. SPEAR. He was in the flying corps.

Senator CLARK. He is referred to here as a commander.

Mr. SPEAR. I think he was an admiral, but he got that title.

Senator CLARK (continuing reading): .

\* \* \* and he told me that he has not instructed, commissioned, or requested his son Juan Leguia to act in any capacity whatever in regard to this and whatever he might do will be entirely in harmony with what he promised me in October last; that is, to increase the national defense funds and buy armaments for the army, which are required very badly, and order two more "R" boats. He promised me that at the end of June next he will be entirely prepared to discuss the matter thoroughly with me, as he expects to have by that time the financial scheme accomplished, which will very likely permit the withdrawal of the bonds issued by the National Defense Act (that is our bonds), and then contract two more boats on a capitalized cash basis.

What had been the conference between you and Juan Leguia on which you advised Mr. Aubry on April 12th? Do you recall?

Mr. SPEAR. All I remember about it is that young Leguia came to see me with the suggestion that somebody had told him that they ought to have bigger submarines for Peru. I remember that part of it, but whatever else he had in his mind or talked about, I could not tell you, because I do not remember, Senator.

Senator CLARK. Did he talk to you about a special commission?

Mr. SPEAR. No; he did not.

Senator CLARK. Did you not arrange to pay Juan Leguia a special commission?

Mr. SPEAR. I never arranged to pay Juan Leguia a special commission.

Senator CLARK. Did you, Mr. Carse?

Mr. CARSE. No; but I gave him a retainer on the understanding that he go to Venezuela and endeavor to secure some business for us in Venezuela. He claimed Gomez was so close to his family he could get some business in Venezuela.

Senator CLARK. Did you not arrange to pay Juan Leguia \$20,000 on the Peruvian boats?

Mr. CARSE. No, sir.

Senator CLARK. Your company did not?

Mr. CARSE. No, sir.

Senator CLARK. We will come to that in a moment.

Then Mr. Aubry goes on in this letter of May 12, 1927, "Exhibit No. 77", as follows [reading]:

He told me that he has not discussed the matter over with Admiral Howe . . .

Admiral Howe had at that time become head of the American Naval Mission, had he not?

Mr. SPEAR. Yes, sir; head of the American Naval Mission.

Senator CLARK (reading):

He told me that he had not discussed the matter over with Admiral Howe because he was perfectly aware that the Admiral did not want any more subs, but destroyers, and he added, smiling:

"But you and I, we do not want any destroyers but subs, and, therefore, why should we discuss the matter with Howe when we have the opinion of his predecessor which is in line with ours."

In other words, the Peruvian Government was paying these American naval officers to come down and supervise the building of a navy, and then you were arranging to go around the head of the American Naval Mission because you knew he was favorable more to destroyers than to submarines?

Mr. SPEAR. We were adhering to that because his predecessor liked submarines.

Senator CLARK. You did not want to take a chance on the head of the American Naval Mission reversing that view?

Mr. SPEAR. We did not want it reversed and did not discuss it with him.

Senator CLARK. This was an arrangement between President Leguia and your predecessor, Mr. Aubry?

Mr. SPEAR. Does it say that?

Senator CLARK. He refers to a private conference between him and President Leguia and goes on with a remark—

Mr. SPEAR. You are correct. That is what the letter says.

Senator CLARK. He says:

My opinion, my dear Mr. Spear, is that I shall be able to do something here, probably in July, that is I shall be able to obtain, I think, an order for 2 more "R" boats; now what I request is that you should send me a price on cash basis, that is an independent contract entirely from the last one, including 50 torpedoes and ammunition, guns, etc. You can quote a price only a little lower than the last ones, and I will also try, as we are speaking

about available cash, that the first payment should be very large, say 40% of the total contract price.

You have also to consider the usual commissions plus the one for J. L.

Does not he mean Juan Leguia by "J. L."?

Mr. SPEAR. If he means Juan Leguia, he must have had some arrangement with Juan. I did not have any arrangement with Juan.

Senator CLARK. You apparently had another matter on with the Peruvian Government at that time because in paragraph 3 of this letter Mr. Aubry says:

Regarding your enquiry about the Callao Port improvements, before having a talk with the President upon my arrival I went through the different departments of the Government and obtained all the data concerning the past and present projects of improvements, but I stopped this activity as soon as I spoke with the President, last night. He told me that this matter is already committed with a gentleman named Mr. Clark, in which our old friend Chester has a hand to accomplish such an undertaking; and, therefore, he could not promise anything at all in this respect. In other words, my dear Mr. Spear, there is nothing to do in regard to this matter. Somebody else will have the job, whatever Mr. Juan Leguia may have told you.

What did that refer to?

Mr. SPEAR. Mr. Juan Leguia tried to interest us in taking up this port construction, and I told the fact to Aubry.

Senator CLARK. Do you also construct ports as well as manufacture submarines?

Mr. SPEAR. We did not. We never have done that kind of work at all. It would have been a matter of getting some engineering firm who was familiar with it to do it.

Senator CLARK. You would simply have acted as a broker in the matter and gotten a commission?

Mr. SPEAR. That would have been the size of it, if we had taken it on.

Senator CLARK. Who is "our friend Chester", to whom Mr. Aubry referred?

Mr. SPEAR. He is the gentleman I told you about yesterday who negotiated the old contract, years ago, with President Leguia, during his first incumbency in office, which was subsequently canceled and was never issued.

Senator CLARK. Now, Mr. Carse, a loan for Peru was floated through J. & W. Seligman & Co. on December 16, 1927, was it not?

Mr. CARSE. I think about that time.

Senator CLARK. That happens to be the date. And on December 21, 1927, a loan was floated by them for \$50,000,000 and on October 24, 1928, a loan for \$25,000,000 was floated by them and the National City Bank?

Mr. CARSE. Yes, sir.

Senator BONE. What were the totals of those loans?

Mr. CARSE. That was \$75,000,000.

Senator CLARK. \$90,000,000.

Mr. RAUSHENBUSH. Some of that I think was refunded.

Senator CLARK. I think part of that loan was to refund the first loan.

Senator BONE. What was the net of the new indebtedness?

Mr. CARSE. Part of that was sold in Europe. I am not certain. There was first, as I understand it or recall it, a sale of \$50,000,000 of bonds, and then there was a sale of \$25,000,000, and then there

was a sale of \$10,000,000, I think, or \$15,000,000, in Europe, a separate part. The contract of Seligman and the City Bank with the Peruvian Government was to take a loan of \$100,000,000, a 6-percent loan, which was not secured by any taxes, of any kind, but simply on the faith of the Government. All the other obligations of the Peruvian Government were secured by specific duties or taxes, and the idea of this \$100,000,000 loan was to be in part a refunding loan, to retire all of the outstanding bonds, to retire all of the notes which we held, which were specifically secured by definite taxes, so that there would only be this one loan of \$100,000,000 outstanding. They figured that the annual interest charge and amortization would not be much more or any more than the existing yearly payments, and they would have a difference of about \$15,000,000 to spend on public improvements.

Senator CLARK. Juan Leguia was here in 1928? He was negotiating the sale of these notes with the City Bank, was he not?

Mr. CARSE. I believe he was; yes, sir.

Senator CLARK. At that time a proposition was taken up to repay the notes which you held under these loans?

Mr. CARSE. The act of Congress of Peru authorizing this \$100,000,000 bond issue specifically stated the things that were to be redeemed, and our notes were specifically stated in this act of Congress, but they were not taken up.

Senator CLARK. You accepted the plan, and for their own reasons it fell through. Is not that what happened? You told them that if the Peruvian Government wanted to do it, it was perfectly agreeable to you?

Mr. CARSE. Oh, yes. I went down to see the bankers to ask them when they expected to take up the notes, so that we could make a calculation of interest, and I was simply told that this issue which they were bringing out—I was told so in both cases—I was told that the head of the treasury of Peru had not included our notes in the obligations which were to be redeemed, and that apparently we would have to wait until the balance of the loan was negotiated, which never occurred.

Senator CLARK. I offer as "Exhibit No. 78" a letter from Mr. Henry R. Carse to Commander Aubry, being dated February 6, 1928.

(The letter referred to was marked "Exhibit No. 78" and appears in the appendix on p. 371.)

Senator CLARK. Now, Mr. Carse, I direct your attention to a letter from Mr. Larranaga, which I will ask to have marked as "Exhibit No. 79", addressed from Lima, Peru, to the Electric Boat Co.

(The letter referred to was marked "Exhibit No. 79" and appears in the appendix on p. 372.)

Senator CLARK. "Exhibit No. 79" announced the arrival of R-3 and R-4 submarines and says that he has already started on the work of getting 2 additional boats ordered. He says:

I had an interview with Commander Juan Leguia lately, and he told me to inform you that his father had assured him repeatedly that not only would an order be placed for two more submarines, but for several additional units by and by, since the Government's scheme is eventually to complete a flotilla of ten submarines.

This scheme of building 10 submarines down there really took form after they got all this American money in their pockets, did it not?

Mr. CARSE. Apparently it did.

Senator POPE. Who was the writer of that letter?

Senator CLARK. This was from Commander Aubry's uncle, who was also an agent for the Electric Boat Co., was he not?

Mr. SPEAR. He was taking care of it.

Senator CLARK. It is from Carlos Lopez Larranaga.

Mr. SPEAR. While Mr. Aubry was naval attaché for Peru in Paris.

Mr. RAUSHENBUSH. Was not he connected with the treasury down there?

Mr. SPEAR. Not this Larranaga.

Mr. RAUSHENBUSH. There were two Larranagas?

Mr. CARSE. He was not connected with the treasury.

Senator CLARK. I direct your attention to a letter from you to Mr. Larranaga, dated December 11, 1928, which I will ask to have marked "Exhibit No. 80", in connection with these additional submarines to be filled.

(The letter referred to was marked "Exhibit No. 80" and appears in the appendix on p. 373.)

Senator CLARK. In the letter marked "Exhibit No. 80" you claim some credit for having extended the credit of Peru in this country in banking circles, because of the fact that your notes, secured by Peruvian notes, had been sold to some of the smaller bankers throughout the country, do you not?

Mr. CARSE. Yes, sir.

Senator CLARK. I direct your attention to the next to the last paragraph on page 1.

Mr. CARSE. That is right.

Senator CLARK. It reads:

We believe that we have done a great deal to extend the credit of Peru in banking circles in the United States, because the notes, which we issued and secured by the deposit of a portion of the Peruvian notes in one of the trust companies in New York City, were in different denominations, so that they were sold not only to large institutions in cities like Chicago, St. Louis, New York, and Boston, but also to some of the small banks throughout the country. To do this, however, has cost us more than the interest which was included in the notes.

Mr. CARSE. Those were our notes.

Senator CLARK. I understand that, but you claim some credit with Peru for having extended their Peruvian credit in this country by your sale to small banks, do you not?

Mr. CARSE. You know we usually claim quite a lot of credit.

Senator CLARK. Yes, sir. I am not blaming you, Mr. Carse, but to that extent you were instrumental in "palming" off these later Peruvian bonds in the United States?

Mr. CARSE. I doubt it very much.

Senator CLARK. That was one of the incidents of the armament trade?

Mr. CARSE. I doubt it very much. Those notes were for a period, running along and maturing so much a month, regular commercial paper. They were all met at maturity and that was the end of it. We got our money from the Navy Department.

Senator BONE. Those notes being met at maturity would rather tend to satisfy the average buyer of that type of security that Peru's



credit was good, would it not, Mr. Carse? Would it not tend to lull the American people, the buyer, into the belief that that type of security was safe and sound?

Mr. CARSE. I think it was more on our security, our obligation.

Senator BONE. You were not underwriting those bonds, were you, the Electric Boat Co.?

Mr. CARSE. Certainly.

Senator BONE. You did not guarantee payment of them?

Mr. CARSE. We did not guarantee payment of them, but we issued our obligations and attached and deposited with the trust company as a general security for our notes, those Peruvian notes, but the only thing that the buyer had was our notes. He did not see any Peruvian stuff, but our notes were sold on the basis of our financial statement.

Senator CLARK. What did you mean by saying in this letter, which I just read, Mr. Carse, that you had done a great deal to extend the credit of Peru in banking circles?

Mr. CARSE. Perhaps I was claiming a little undue credit.

Senator CLARK. I will read that again, Mr. Carse, in view of your last statement that the buyer did not know anything about Peruvian credit.

Mr. CARSE. No.

Senator CLARK (reading):

We believe that we have done a great deal to extend the credit of Peru in banking circles in the United States, because the notes, which we issued and secured by the deposit of a portion of the Peruvian notes in one of the trust companies in New York City, were in different denominations, so that they were sold not only to large institutions in cities like Chicago, St. Louis, New York, and Boston, but also to some of the small banks throughout the country. To do this, however, has cost us more than the interest which was included in the notes.

Mr. CARSE. Some of our notes in different denominations and not the others. They were secured by collateral. We described it on the notes.

Mr. SPEAR. The buyer who bought knew what the collateral was.

Mr. CARSE. It was described on our note that they were secured by certain Peruvian notes.

Senator CLARK. That naturally extended Peruvian credit in this country.

Mr. CARSE. It may be.

Senator CLARK. Mr. Carse, I understand you and Mr. Spear and Mr. Sutphin said a moment ago that you did not know anything about any payment to Juan Leguia. I will ask you to refer again to that memorandum or contract with Commander Aubry, dated January 24, 1929, which has heretofore been marked "Exhibit No. 73." Paragraph 4 of this contract with Commander Aubry, dated January 24, 1929, provides:

Commander Aubry's personal commission on Peruvian business in submarines, torpedoes, and ammunition shall be three per cent (3%). Commissions on the other business in Peru as may be agreed upon in advance in each case. On Peruvian submarines R-5 and R-6 the company had accepted and now confirms the following additional commissions (payable through Commander Aubry) based on a price of One million two hundred fifty thousand dollars—(\$1,250,000) per boat, viz:

Twenty thousand dollars per boat to J. L.

Five thousand dollars per boat to Senor Larranaga.

Five thousand dollars per boat to a certain third person agreed to with Mr. Spear.

Who was "J. L."?

Mr. CARSE. Juan Leguia.

Senator CLARK. This contract was entered into by your company, was it not?

Mr. CARSE. No; it never was.

Senator CLARK. What is this contract?

Mr. SPEAR. That order was never received, Senator. We never received that order.

Senator CLARK. You stated a moment ago, Mr. Carse, that you had never arranged to pay Mr. Juan Leguia any commission on Peruvian business.

Mr. SPEAR. I think he said he never did pay him any.

Senator CLARK. He said he had no negotiations with Juan Leguia and never arranged to pay Juan Leguia any commissions on any Peruvian business.

Mr. CARSE. This is not signed.

Senator CLARK. Was it signed?

Mr. CARSE. I do not know. I do not recall it.

Senator CLARK. Was not that the contract which was entered into with Commander Aubry in 1929?

Mr. CARSE. It is a draft of a contract. Whether it was signed or not, I do not know.

Senator CLARK. \$20,000 per boat would be \$40,000 on the order. This draft also states that \$5,000 per boat was to be paid to a certain third person agreed to with Mr. Spear. Mr. Spear, who was that third person?

Mr. SPEAR. I do not remember.

Senator CLARK. You have no recollection of the third party with whom you had agreed with Commander Aubry to pay \$5,000 per boat?

Mr. SPEAR. No, sir; absolutely no recollection of who the person was.

Senator CLARK. Are you in the habit of making payments of that sort, of that magnitude, without any recollection whatever of it?

Mr. SPEAR. A matter of recollection is one thing. In all those commission matters we simply took the position that Aubry was handling this business and we did not deal with anybody but Aubry. I have no doubt—

Senator CLARK. You knew at that time who the certain third party was?

Mr. SPEAR. I imagine I did but I could not state.

Senator CLARK. It states it was agreed to with you.

Mr. SPEAR. Yes; agreed to the amount, but I do not know whether I agreed to the person. I really do not remember, Senator. If I knew, I would tell you.

Senator CLARK. Do you have any recollection about agreeing to the commission of \$40,000 on two boats for Juan Leguia?

Mr. SPEAR. I do not remember it. I cannot remember those things.

Senator CLARK. At that time also, Mr. Spear, you arranged that Aubry should also represent Vickers-Armstrong in Peru, as far as it did not conflict with your business?

Mr. SPEAR. We agreed to it. He wanted to do it and get more income, and we agreed as long as it did not conflict with us that he could.

Senator CLARK. In this contract the payments contemplated would involve a payment to Aubry of \$75,000 on a 2½ million dollar order and you express in the contract a willingness to pay \$70,000 more if necessary to get the business.

Mr. SPEAR. Whatever the figures are.

Senator CLARK. Yes.

Mr. SUTPHEN. And we never got the business.

Mr. SPEAR. That is correct; we never got the business.

Senator CLARK. The only thing was that you did not get the order; you could not get it. But these were things you were perfectly willing to do if you could get the order.

Mr. SPEAR. Yes; we were willing to pay that amount of money to get the order.

Senator CLARK. Mr. Carse, in 1931 you were expressing the greatest confidence in the stability and good faith of the Peruvian Government so far as finances were concerned, were you not?

Mr. CARSE. Well, I believed in them then.

Senator CLARK. I offer as "Exhibit No. 81" a letter from Mr. Carse to Mr. Aubry dated March 14, 1930.

(The letter referred to was marked "Exhibit No. 81", and appears in the appendix on p. 374.)

Senator CLARK. In "Exhibit No. 81" Mr. Carse says in the second paragraph:

We have heard rumors of a new loan to be made by your Government but have not been able to trace it down as to whom the principals here might be. It however, is and will be entirely agreeable to us to hold the notes we have and accept payment on their respective due dates rather than to have them cashed at a discount, because we have full faith in the stability, the good faith and integrity of the Peruvian Government.

That was your attitude at that time, was it not?

Mr. CARSE. I wanted to keep a stiff upper lip. I think the suggestion was probably made that we could get our notes cashed at some substantial discount. I did not want to show too much eagerness to accept a heavy discount. That is the basis of that letter. This is simply to Aubry. This is not a public statement.

Senator CLARK. Yes, sir; but in August 1930 your friend Leguia was forced out by the Peruvians, was he not?

Mr. CARSE. Yes. Well, that happened over night.

Mr. SPEAR. I do not remember the dates.

Senator CLARK. It was in 1930. The file indicates that it was August 1930.

Mr. CARSE. You will note what I say in this letter:

We have also received from the Contabilidad a copy of the budget of the Peruvian Government for 1930 in which the amount to be paid to us on the notes is included. \* \* \*

Senator CLARK. And shortly after that, about a year after that, you took up through Mr. Joyner, who by that time had become your Washington representative, with the State Department, the matter of Peru running behind with their debts, did you not?

Mr. SPEAR. Yes; I think it was discussed.

Senator CLARK. And you were informed by the State Department through Mr. Joyner that Peru was running behind about \$2,000,000 a month at that time, according to the information.

Mr. SPEAR. I do not recall; whatever the amount was.

Senator CLARK. I offer as an exhibit a letter from Mr. Joyner to Mr. Carse, which I will ask to have marked "Exhibit No. 82."

(The letter referred to was thereupon marked "Exhibit No. 82", and appears in the appendix on p. 374.)

Senator BONE. Do you know whether other South American countries, Mr. Spear, were at that time going behind in their efforts to balance the budget?

Mr. SPEAR. I do not know.

Mr. CARSE. I do not know the particulars of their finances.

Mr. SPEAR. I think that they all went to pot at about the same time.

Mr. CARSE. Chilean bonds had always been very high credit in the United States and all over the world. Bolivia had an issue of 8-percent bonds that had been selling around 110. Brazilian bonds had never defaulted. Different issues sold all over the world. They had a great market all over, in London and in Paris. In fact, Europe has always been the market for South American loans. Argentine bonds, for instance, were the soundest credit in South America. They all slumped very badly when this depression came.

Senator BONE. Do you associate this armament race in South America with the collapse of the Government credit there?

Mr. CARSE. I do not think so. The armament race down there, the armament purchases here in South America have not amounted to anything in particular.

Senator BONE. Well, they led to a great many refinancing operations.

Senator CLARK. Where did Bolivia and Paraguay get the armaments with which they are carrying on the war now?

Mr. CARSE. I do not know. That is powder and shell. I am referring more to boats. Boats are really property.

Senator BONE. Bolivia and Paraguay are both engaged in a warfare that must be frightfully expensive to countries of that type.

Mr. CARSE. I suppose that is correct.

Senator BONE. And I think we may all assume that it would naturally constitute an almost impossible burden on those countries.

Mr. CARSE. Yes. I think Bolivian bonds are selling at practically nothing. I do not know whether Paraguay has any bonds outstanding, or not. They may have some in Europe. I never heard of them.

Senator BONE. They probably will issue bonds, as a result of this war, if they can find anyone to buy them.

Mr. CARSE. If they can sell them; yes. But naval vessels are not wasted like shells and explosives and such things.

Senator BONE. That may be true, but you never heard of a naval vessel producing \$1 of revenue for any country in the world, did you, Mr. Carse?

Mr. CARSE. Well, you have to have police.

Senator BONE. I am well aware of that. What I am getting at is that a big navy is a very expensive thing.

Mr. CARSE. A big navy is.

Senator BONE. Any kind of a navy.

Mr. CARSE. But take submarine boats for the smaller nations; they are certainly the only defense they have.

Senator CLARK. That seems to be at variance with the opinion of Admiral Howe, the head of the American naval mission in Peru, as disclosed in the letter which was read a few minutes ago.

Mr. CARSE. Yes; but those four submarines that Peru has came in might handy during that Tacna Arica dispute.

Senator BONE. Did they utilize them in warfare?

Mr. CARSE. No; but they were there to defend their harbor.

Senator BONE. But suppose none of those countries had had any large armaments. What position would they have been in?

Mr. CARSE. The only country that really had large armaments was Chile.

Senator BONE. If one nation had no battleships at all and another nation with whom they were in controversy had no battleships, they would be in precisely the same position as though each one of them had 50 battleships, all things being equal.

Mr. CARSE. Yes.

Senator BONE. That is what I am getting at. This race for armaments, continually adding and adding more armaments, means that the one that has more battleships than the other will have an advantage. There is always an incentive on the part of the smaller nation to add to its navy. Where is this thing going to end? Perhaps you could enlighten us before you leave the committee room just where this is going to lead us if it continues. Manifestly, if your agents go to South America and say to Peru, "Chile has 2 more submarines and 2 more battleships than you have and you should add to your navy so that you will have 2 more than they have", the same argument could be made to Chile, that they should increase their navy to a point where it is larger than the navy of Peru. We are not doing violence to logic in discussing it in that fashion. That is true, is it not?

Mr. CARSE. Senator, I do not think that Captain Aubry was the man who put the idea into the mind of Peru to have submarine boats. President Leguia was about to go back into office in the coming election. He was a man who had had a world-wide acquaintance. He had lived in England, and all that sort of thing. He considers—not Aubry—but he considers that the Peruvian Government for its safety should have some submarine boats. How to get them was the problem.

Back in 1910 they made a contract with the Electric Boat Co. to build some submarine boats and they gave them as a first payment \$250,000 of Peruvian Government gold notes to start the work. Then there was a change in the administration and some other fellow was elected. They stopped it. A representative of the Peruvian Government came up to see the company. That was before I was connected with the company, but I was acquainted with what was going on because I had been looking into the matter of finances. He said that the Government had decided not to build these submarine boats which they had ordered, and wanted to know on what

terms and conditions the company would return to them the \$250,000 of treasury gold notes which they held.

The company studied the matter over and estimated that their expenses up to that time in sending a man down there, drawing plans, and so forth, would amount to \$25,000. So on payment by the Peruvian Government to the Electric Boat Co. of \$25,000, they surrendered the \$250,000 of Treasury notes.

That led to a very kindly disposed feeling in the minds of the Peruvians toward us, and in the course of time, when President Leguia came back into office by election, not by revolution, he favored in everything, of course, the Electric Boat Co.

In addition, President Leguia was strongly pro-American, pro-United States. So that when offers came from other sources, he would not give them consideration. He was very strongly in favor of everything built in the United States. He was a very strong friend of the United States.

All of these letters which have been read here from Aubrey—why, as I said before, salesmen try to sell things and in trying to sell them they will bring forward all kinds of florid propositions and make florid statements. So that you just have to sprinkle a little salt on them sometimes and not take them entirely too seriously.

We were in business rightfully, because we were the original designers and patentees of the things absolutely necessary to construct a submarine boat.

The United States Government is usually very slow in taking up new inventions. Mr. Rice went over to Europe and took up with Vickers this matter and they presented it to the British Admiralty and the British Admiralty thought they saw a future in it and gave Vickers an order for 5 or 6 boats to start with.

So, in the course of years, it has developed until it is really a very complete machine at the present time.

But we have always considered and have always preached that for small countries it was a means of defense from aggression by large countries.

I think if you will check it out, you will find that to be the history of submarine boats. There is not a submarine boat that we have built or that has been built on our licenses, that has not been used for defensive purposes.

It is true that the Germans, a little late in the war started building submarine boats, simply taking all our plans and patents out of the Patent Office where we had filed them. Some of the patents had been allowed and some had been rejected. But the information got to the German builders, and they built boats which they did use for offensive purposes.

Senator CLARK. Mr. Carse, after a submarine has been constructed and has gone into the hands of any nation, it can be used for defensive or offensive purposes as they may choose.

Mr. CARSE. Yes; but—

Senator CLARK (interposing). You have no control over how a submarine may be used after you have sold it.

Mr. SPEAR. It depends on the type of submarine it is.

Senator CLARK. I understand that some types cannot be readily used for offensive purposes?

Mr. SPEAR. The smaller ones cannot be used for that purpose. You have to get right next door to the fellow almost before it can be used for anything but defensive purposes. These great big ones that they used to build 10 years ago, those could be used for offensive purposes.

Senator CLARK. This correspondence shows that you always tried to sell the largest ones that you could?

Mr. SPEAR. No; I think not. We were trying to give the customer what he thought he wanted.

Mr. RAUSHENBUSH. Mr. Carse, at the beginning of your reply to Senator Bone's question, which dealt with the matter of who started and kept going the armament race in South America, in that connection I want again to call your attention to an exhibit put in yesterday in which your representative, Chapin, reports Admiral Niblack, who was head of the naval intelligence, on that subject. I am quoting again from Exhibit 56. He says:

He tells me that the whole balance of power has been destroyed by Chile getting six submarines and two warships from England, and that it has caused a good deal of uneasiness on the part of the Argentine, while Peru is absolutely helpless.

Then, after that, according to this letter, Admiral Niblack, in talking with the Peruvian Ambassador told the Ambassador, that it had occurred to him it was now a matter of Peru going into the market and buying outright not only with respect to destroyers, but also as to submarines.

We brought out later in the testimony, I believe, that these were the submarines that Chile got which started this whole armament race going and they were built originally for the British Government, although built up here in the United States. So it was the submarines built by your company which really started this armament race. Then Peru had to build up and Argentine had to build up and the whole race got going as a result of this unbalancing of power. Is not that true, according to Admiral Niblack, anyway?

Mr. SPEAR. According to Admiral Niblack; yes.

Senator BONE. Mr. Spear, power in South America is not balanced now, is it?

Mr. SPEAR. No; it is very unequal.

Senator BONE. Well, will they ever be able to get it in balance with all of these commissions going down there and with every private munitions outfit in the world trying to unbalance it just as rapidly as possible? How in the world are we ever going to have any sort of international comity and peace with not only private munitions concerns, but the governments of the world, the naval powers that ought to have more sense than to do a thing like that, going down there urging these countries in South America to each outrun the other in this race to be in a commanding position.

If Peru, for instance, should get more submarines than Chile, then Admiral Niblack might very well say, "Well, the balance of power no longer exists and we have got to see that Chile gets more submarines." That is right, is it not? There is nothing wrong with that logic, is there?

Mr. SPEAR. No.

Senator BONE. I think we can all agree on that. But where is this going to end? Every peace conference blows up because we

have gentlemen like Mr. Shearer and other interested parties over there, seeing that it does blow up.

Where are we to finally get when our peace conferences are thwarted and made a mere futility?

Is the world to end with that sort of a picture? Today practically every organized government, every civilized government in the world is wondering what is going to happen.

Mr. SPEAR. I think so far as naval matters are concerned, they have made quite a little progress toward the idea of not having these open races, as you describe. We have made a good deal of progress by fixing limits in treaties, such as now governs this country.

Senator BONE. Today the world is almost an armed camp. The great nations of the world today are maintaining greater armies than ever before and spending more money on them.

The CHAIRMAN. There never has been as much money spent by all the powers as is being spent now for that purpose.

Senator BONE. President Hoover pointed that out in 1928 in his appeal for international understanding and peace and after 6 years we are in a worse position than when President Hoover made his appeal.

Mr. SPEAR. It is a very unfortunate state of affairs, unfortunate to my mind, but it dates back to these enmities and animosities that have existed so long. There are political questions in Europe on which they cannot agree, do not seem to be able to agree. I think it is a political question.

Senator BONE. Mr. Chairman, I have one other question that I think is very pertinent, that I should like to ask at this time. How do business men, the men who are really dominating the economic life of this country and of other countries, expect to have any security for themselves and their property if this condition continues? Because the world today is in no shape to stand very much more of this frightful expense. It becomes a practical matter, not a political question. It is not a question for curbstone oratory or anything of that sort. It is a question that involves the very financial integrity of all of the countries of the world.

How can you, as a business man, feel secure in your person and property if this sort of program continues? I would like to have an expression from you. I think the country would like to know how you business men feel.

Mr. SPEAR. I should say, Senator, if the present armament outlook continues in the world, until they get the whole world embroiled in a war, assuming that to be possible again—I do not know enough about it, but assuming it to be so—I should say that the answer to that would be that everybody's security, everybody's property all over the world would be injuriously affected.

Senator BONE. It would be destroyed, would it not?

Mr. SPEAR. It would be, very nearly.

Senator BONE. It is conceivable that our civilizations would crash and carry with them everything that we consider worth while.

Mr. SPEAR. I do not myself believe, Senator, that in the present condition of the world, with the results of the war and this unfortunate false boom that occurred in this country after the war—



do not believe myself that the world could reasonably survive at this time another great war. I think it might crash everything that exists, as we know it, in the western countries.

Senator BONE. It would engulf and destroy possibly all our western civilization.

Mr. SPEAR. I should say that is not an exaggerated statement. That is my personal opinion, Senator.

Senator BONE. I think you share that with all thoughtful people, Mr. Spear, that this would not only jeopardize and endanger, but possibly destroy, our western civilization.

Senator CLARK. With the development of poison gas and other types of offensive armament, it would almost certainly mean that another great war would be very much more disastrous and destructive than the last one; would it not?

Mr. SPEAR. They are all the time, Senator, endeavoring to improve both the offensive and defensive weapons. As to gas, I do not agree with you, because the experts all say that that is a question of people feeling about a thing in a way not justified by the facts. In fact, the statistics show that of the casualties in the war due to gas that reached the hospital only 3 percent died, whereas of the casualties that reached the hospital on account of gunshot wounds and shell fragments, something like 25 percent died.

Senator CLARK. I heard before the conclusion of the armistice the head of the American Chemical Warfare Service addressing the General Staff College stated that they had developed a gas which would obliterate a great civilian population back of the line, if they desired to use it for that purpose.

Mr. SPEAR. Perhaps they have; I do not know anything about it. I do not know anything about it particularly, but I do know some of the people have talked to some of the people in the Army who do, as a matter of general interest. I find that their opinion is that the gas danger has been very largely exaggerated. Also, the idea that it is inhuman, that it is not humane as compared with these missile weapons is a mistaken one, in their judgment. They say that what they want to do is to put the other man out of business. They do not necessarily want to kill him. They would like to put him out of business and make it necessary for one of his own fellows to take him back in a train and hospitalize him and have to take care of him. They do not want to kill, but they want to put them out of business so that they cannot account for any resistance to them for the time being.

Senator BARBOUR. Mr. Spear, I think that the thing in which the committee is interested, certainly as far as I am concerned, with respect to the activities of yourself that have been traced by Senator Clark through this correspondence is, whether that was an effort to get business that was going to be let by Peru and the other countries, or whether you stimulated additional armament business. Perhaps that may not be a fair question?

Mr. SPEAR. It certainly did not stimulate any additional business. I mean, we wanted to get business, but we understood the situation in Peru that the President wanted these things and naturally we did not discourage him. The inception of this was not with us.

Senator CLARK. What did one of these gentlemen mean when he wrote that Juan Leguia told him that his father had promised him

that he was going to build a flotilla of 10 submarines? What did Aubry mean when he said that Leguia had promised him—they use the term “promise” again and again—promised him that as soon as he could get some cash in there he was going to buy a lot of submarines?

Mr. SPEAR. That is a natural word for Aubry to use. But, answering Senator Barbour’s question, we certainly did not inaugurate the idea. We did not put it in President Leguia’s mind that Peru needed submarines. He arrived at his own conclusion. The approach originally came from Peru, directly from them. We had nobody down there whatever, no connections with them. I think that answers Senator Barbour’s question.

Mr. RAUSHENBUSH. But he arrived at his conclusion after Chile had gotten this fleet; is not that so?

Mr. SPEAR. It dated back in his mind, I think, to 1910. Chile at that time had no submarines.

Senator CLARK. Was not this scheme for sending a fleet of submarines from the United States Navy down one South American coast and up the other for the purpose of encouraging the use of submarines, making South America submarine minded?

Mr. SPEAR. I could not say what was in the minds of the Navy Department.

Senator CLARK. I am not referring to the mind of the Navy Department. I am speaking about what was in the mind of your representative when he proposed that to the Navy Department.

Mr. SPEAR. Well, the poor man is dead now and I cannot tell you. I should assume that he thought it would be a good advertisement and that if they had any plans they would consider us. I would not attempt to say what was in Mr. Chapin’s mind when he did this thing.

The CHAIRMAN. Lieutenant, did your Electric Boat Co. have any representative observing or present at the conference in Montevideo last winter?

Mr. SPEAR. No, sir.

The CHAIRMAN. Did you have any reports upon it at all?

Mr. SPEAR. I never saw one that I remember.

Mr. CARSE. No, sir; nothing at all.

The CHAIRMAN. There is pretty good authority, that may or may not be developed, indicating that while statesmen were at work on one side of the curtain trying to accomplish understanding and peace and to get together in those South American countries, on the other side of the same curtain at work were representatives of munitions makers writing orders that were occasioned by such fear and suspicion as they were able to build up in the minds of neighboring countries down there. Have you had any information of that at all?

Mr. SPEAR. I have never had any information of that, Mr. Chairman. Certainly, we did not. We had nobody there and had no reports from anybody.

Mr. CARSE. We have never had anybody representing us in any shape or form at any armament conference, anywhere in the world.

The CHAIRMAN. You were not then a party to the “Ante” that supported Mr. Shearer and others at the Geneva conference?

Mr. CARSE. We were not.

The CHAIRMAN. Senator Bone raised an interesting point that we might develop for a moment or two. He asked you, as a business man, what your reaction was to going to war, what you felt would be the security of your property; not only of your lives, but of your property. You responded that you did not think it would be very secure.

Is there any assurance at all that in time of war any industry related in any degree to the manufacture of munitions would be spared the injury that might be heaped upon other business?

Mr. SPEAR. I think during the period of the war it would be natural to assume that whatever plants there were that could produce what the Government wanted would be kept busy as long as the war lasted.

The CHAIRMAN. That is not what I meant.

Mr. SPEAR. I am sorry; I did not get your point.

The CHAIRMAN. Did you have any assurance that your plant at Groton, for example, would not be the target of any foe that might be ours in that war?

Mr. SPEAR. We have no such assurance.

The CHAIRMAN. Are you aware of the alleged agreement that existed between the munitions makers of Germany and of France that their plants should not be the target of opposing armies?

Mr. SPEAR. I have heard of some such thing or saw some such thing in the paper.

The CHAIRMAN. Do you know of any munitions plant in either country that was destroyed or damaged during the 4 years of the World War?

Mr. SPEAR. I do recall that the French bombed the Krupp plant when they got big enough bombers. They also bombed some at Dusseldorf. This is just from memory of what happened as I read it during the war. So that I think there were occasions when such plants were attacked.

The CHAIRMAN. As a concern manufacturing submarines or machinery that would enter into the making of war, you have no security at all that your plant would not be as subject to attack as any other piece of property?

Mr. SPEAR. No; I should assume that it would be more so. That is, if the enemy were able to reach it. I mean, if I were the enemy I would like to destroy anything in my enemy's country that I thought could produce weapons.

While we are on this topic, Mr. Chairman, I would like to add that we touched here on the question of these international conventions. Not only have we never sent anybody there, but people have offered to go and represent us there and we have declined to have them at all.

Senator CLARK. Were you ever invited to kick in on Shearer's expenses?

Mr. SPEAR. We were never invited to pay him. But we were indirectly approached, as I recall, to see whether we would agree to employ Mr. Shearer and we said we would not.

Senator CLARK. Who approached you?

Mr. SPEAR. I do not recall.

Senator CLARK. Do you remember, Mr. Carse?

Mr. CARSE. They did not approach me.

Mr. SPEAR. It was an indirect approach. It was not Shearer and it was not any of the people that did employ him. Somebody spoke to me and said, "I understand this man is going over there. Would it interest you?" And we said it would not. We did not want to have anything to do with it.

Mr. CARSE. They did not approach me.

Mr. SPEAR. They approached me, but it was not Shearer or any of the firms that eventually were foolish enough to employ him. It was some intermediary who asked if we would be interested, and I said we would not.

Senator BONE. What in your opinion blew up that conference and made it a futility?

Mr. SPEAR. The Geneva Conference?

Senator BONE. Yes; at which Mr. Shearer appeared?

Mr. SPEAR. I do not think Mr. Shearer had any more to do with it than I did.

Senator BONE. There were some very smart long-headed business men who hired him.

The CHAIRMAN. He feels that he did.

Mr. SPEAR. I know he does, but I do not think so. The Senator asked my opinion, which I am perfectly willing to give. I have studied this pretty closely, because I have been interested in it, but my judgment is that it blew up because of the inability of the American Government and the British Government to reconcile their differences as to cruiser construction, the two countries having a different conception of what they needed cruisers for. Each one was convinced that if it took the other's viewpoint, it would be doing the wrong thing. In the end, I think that did it.

Another reason was that the Europeans did not believe that no matter what they did there, the United States Government would go ahead and do anything in the cruiser line.

I prophesied that when that happened, as soon as Congress authorized some cruisers, we would have our British friends sitting on the front door step and asking for another conference. You will recall that Congress did authorize eighteen 10,000-ton cruisers.

The CHAIRMAN. When was that, 1928?

Mr. SPEAR. No; it was earlier than that. It was before the London conference. Whether it was a coincidence or not, before these ships were built, but so long as Congress had declared it to be the policy of the country to build a cruiser fleet, immediately another conference was held. Our European friends decided, "Well, perhaps those people will do something; we had better get a conference and get an agreement rather than stand off on the theory that they will not."

So I think the sequence of that, in my judgment, was this: that they did not agree on the technical conditions, and the further fact that the British and the Europeans were convinced that the United States did not propose in any case to go ahead and build any ships. But what we were after was to get them to stop, which was true, so far as that is concerned; we wanted to get them to stop.

Those two things, I believe, were responsible for the failure of the Geneva Conference. I am fortified in that conclusion by the

fact that as soon as the United States Government moved, there was immediately a willingness on their part to hold another conference, which they finally did agree upon, for these other classes of ships. You will recall that the Washington Conference touched only battleships and airplane carriers.

Senator BONE. One of the distressing things in this is the addition of armaments and the building of ships.

Mr. SPEAR. Like everything else in the world it has its good and bad sides. They all knew the armaments and what they are entitled to.

The CHAIRMAN. And what they have got.

Mr. SPEAR. And what they have got; yes.

And then they get into these arguments that creep out into the papers and stir up some unfortunate ill feeling that had not existed before they sat down at the table.

The CHAIRMAN. It is now 1 o'clock and we will take a recess until 2 o'clock, for lunch.

(Thereupon a recess was taken until 2 p.m.)

#### AFTER RECESS

The hearing was resumed at 2 p.m., pursuant to taking of recess.

The CHAIRMAN. The committee will be in order. Senator Clark, do you want to proceed?

Senator CLARK. If I may.

Mr. Spear, Senator Bone was asking questions when we adjourned, and I will now proceed.

Senator BONE. If I may, I would like to ask one question. Mr. Spear, there was one question I wanted to ask this morning, and forgot, in connection with these military and naval South American commissions. Can you advise the committee what other countries, if any, that is the major powers, sent military or naval missions to the South American countries of the same character as ours?

Mr. SPEAR. My recollection about that, Senator, is that the British had a naval mission in Chile; the French had a military commission, but whether that was in Peru, I don't recall. I am not certain about this either, but I think the Italians also had a commission in one of the countries.

Senator CLARK. When Chile had the general training of the Columbian Army?

Mr. SPEAR. I do not know who was responsible for that. I think they had a German general. I think I have seen in the paper they had a retired German general in charge of the Army.

Senator BONE. It would appear then that it has been a common practice for the major powers to do that?

Mr. CARSE. They were existing before the United States appointed their commission to Peru.

Senator BONE. Then we merely followed suit?

Mr. SPEAR. I think that was so, Senator.

Senator CLARK. Mr. Carse, in 1932, Peru endeavored to sell four of the boats they had purchased from you to China, did they not?

Mr. CARSE. No; they had stopped payment on our notes, and the suggestion was made that we might be willing to take back some of

those boats and give them the notes in payment. That suggestion was made, I think, by Captain Aubry, and the idea was we might possibly sell them to China. But when Aubry took it up with the Peruvian Government to see if they would approve, he was very nearly mobbed by his naval associates for even dreaming of ever disposing of any of the submarine boats of Peru, so that ended it.

Senator CLARK. You went far enough to have your representative, Mr. Joyner, take it up with the State Department?

Mr. CARSE. I may have.

Senator CLARK. And found that the State Department viewed it unfavorably.

Mr. CARSE. That may be true, but the Peruvians would not even dream of it.

Senator CLARK. I read from a memorandum from the State Department files which will be properly identified at the proper time, this being a memorandum of S. J. Hornbeck, as follows:

Mr. Grummon, State, brought in Mr. Joyner, vice president, Electric Boat, to see Mr. Hamilton and subsequently Mr. Hornbeck.

Joyner reported that his company had a lien of about 20% of the purchase price on 4 destroyers sold to Peru, and now in use. Electric Boat now informed that Peru proposed to sell the destroyers to Chinese Government and so pay off the lien.

Mr. Joyner stated that he personally did not favor the transaction for fear of possible complications between the United States and Japan or between Peru and Japan. He inquired whether this Department cared to express any view in the matter.

\* \* \* Mr. Hornbeck said to Mr. Joyner that the Department was not in a position to express officially either approval or disapproval but that, expressing a personal view, a sale of such vessels to China would seem to him very much like a sale to a child of something useless to it and that, speaking unofficially, he would hope that such a transaction would not be consummated. Mr. Joyner said that he thought it would not be.

Was that the end of that matter so far as you were concerned?

Mr. CARSE. That was the end of it.

Senator CLARK. Now, Mr. Carse, in 1933, you advised the board of directors of your company that there was an understanding that Aubry would be agent for Remington Arms, Colts, and Elco, as well as your company, and at that time there was an arrangement of some sort between your company and Colts, Remington, and Elco, was there not, as to the sale of munitions?

Mr. CARSE. There was not any arrangement.

Senator CLARK. There was an understanding, I believe your minutes say—let me read from the minutes from a meeting of January 17, 1933, which copy of minutes I offer as "Exhibit No. 83".

(The copy of the minutes referred to above was marked "Exhibit No. 83", and appears in the appendix on p. 374.)

Senator CLARK. Reading from this "Exhibit No. 83", being the minutes of the board of directors of the Electric Boat Co. of date January 17, 1933 it says that after the president advised that certain things having to do with the credit to Peru, as follows:

And also reciting understanding with the Remington Arms Company, Inc., the Colt's Patent Fire Arms Mfg. Co., and the Elco Works of Electric Boat Company, for certain materials to be furnished, the payment for which is to be made with part of the above mentioned 7% bonds.

What was that understanding and with what munitions did that have to do?

Mr. CARSE. Our payments on our notes had been stopped for some time and Captain Aubry in Peru had been very active in endeavoring to secure resumption of those payments. About that time, I think, this trouble arose between Peru and Colombia about Loreto, and the Peruvians, because of the action of the Colombians wished to secure armaments of different kind. They wanted to secure, I think, a supply of rifles. Their army was very inadequately furnished with arms, and they discussed the question of whether we could arrange to secure them arms, but we could not see any way we wanted to advance more money when they were not paying what they owed us, so they appointed one of their senators, Senator Badani who came from Iquitos.

Senator CLARK. Came from what?

Mr. CARSE. He came from that place that is on the upper Amazon. He came to New York accompanied by Captain Aubry; because Badani did not speak English very well.

Senator CLARK. Was Aubry acting at that time for you or for the Peruvian Government?

Mr. CARSE. Acting for us. He acted as interpreter. They had in mind securing a certain number of rifles and a certain number of machine guns and they also thought they would like to have some shallow launches for use on the upper Amazon; and that is where the Elco comes in. Of course we did not know anything about arms or ammunition, so we immediately got in touch with the Remington Arms people, and they brought in the duPonts. We did not know it but it seems that duPont does not make ammunition, it only makes the powder, and the Remington Arms make the guns, and somebody else, or they, make the cartridges. We got into this conference, and the question arose as to how the thing was to be paid for and they had proposed that they would increase the taxes applicable to our notes and apply that on the other thing, but no one wished to take anything but cash. So I think we were just at a plain standstill. Then some member of either duPont or Remington brought forward the idea that they, for the part they were to furnish would accept notes running over a number of years, if the Peruvian Government would deposit in escrow from their gold holdings an amount sufficient to pay those notes if they were not redeemed immediately from current revenues, as provided.

This money was to be deposited in some large bank which was not named, and we did not even discuss it with the bank to see whether they were willing to accept such a trusteeship; and it was to be held in escrow until all of the notes or bonds or whatever they might be termed, were paid. That seemed to Senator Badani something that would meet the approval of the Peruvian Government, so we said if it was accomplished in that way we would be willing to exchange notes that we held for some of these new obligations secured by the deposit of gold. Then that memorandum proposition was drawn up and given to Senator Badani. What was the date of that memorandum?

Senator CLARK. This minute of your meeting of directors is dated January 17, 1933.

Mr. CARSE. Then, I think he sailed among the last days of December prior to that, and we never heard any more from it.

Senator CLARK. Mr. Carse, was the Electric Boat Co. to receive a commission on the armament purchases from Colt and Remington, and of course you controlled Elco?

Mr. CARSE. Yes; Elco is ours.

Senator CLARK. Were you to receive a commission on the other arms purchased from Colt and Remington?

Mr. CARSE. No; we were not getting anything. I could not say just now offhand whether there was a commission, but it was not going to us.

Senator CLARK. There was a commission to Aubry, which, according to the minutes, you were to pay out of the funds received by you, but he was also to represent Colt, Remington, and Elco?

Mr. CARSE. Well, he did, and I suppose he would get a commission, because the Remington people at that time appointed him their agent in Peru. He went down and got no orders, and they canceled it.

Senator CLARK. I am just trying to get at what the arrangement was and not the final upshot of it. It would appear from those minutes as I read them, that Aubry was to represent Remington, Colt Fire Arms Co., and Elco, and yourself, and was to receive as compensation a commission on all of the business sold, which you were to pay, and you were not paying the commission of companies who sold other than yourself, such as Remington and Colt, without some arrangement with them?

Mr. CARSE. That would simply pass through us. We would not make anything on it.

Senator CLARK. Who was Jose Virello Obrege?

Mr. CARSE. He was a lawyer down there who was Aubry's lawyer.

Senator CLARK. During the disturbance of 1933 down in Peru, your company asked the State Department to make inquiry for the safety of Captain Aubry, to see if he had been killed in any of these troubles.

Mr. CARSE. We had not heard from him in some time, and we were worried.

Senator CLARK. You got the State Department to do that, and they did it?

Mr. CARSE. Oh, that is done every day in the week.

Senator CLARK. Did your company ever try to induce the State Department to interfere for you in the matter of an international loan in Peru, which threatened to weaken your financial position in that country?

Mr. CARSE. I don't know of any international loan; I do not recall anything of that.

Senator CLARK. Did you ever hear of Mr. Joyner doing that?

Mr. CARSE. I could not say. If you will let me know just what you have in mind, I might know of any international loan that was proposed. There has been a lot of talk off and on about a new loan and getting some oil companies to go down there and make them a big loan and clean up everything, but it was just gossip. I hear so many of those things; I do not pay any attention to them.

The CHAIRMAN. Mr. Sutphen, yesterday you inserted in the record a statement revealing your connection with certain oil companies. Have your companies had any interest in South America?



Mr. SPEAR. I think you are mistaken, Senator; it was myself.

The CHAIRMAN. Yes; I believe you were a director in the oil companies, Mr. Spear.

Mr. SPEAR. Yes, sir. These are small companies that operate a few wells out in eastern Kentucky. They are not big enough fry to go to South American countries. I wish they were.

The CHAIRMAN. You would be glad to go down there?

Mr. SPEAR. No; I wish these companies I own some stock in had something of more value than they have got.

Senator CLARK. Mr. Carse, I again refer to the State Department's document to which I referred a moment ago where it says:

June 14, 1933. Copy of letter, Henry R. Carse, president Electric Boat, to S. J. Joyner, quoting from cable and letter from Aubrey in Lima.

Aubrey's cable, June 13, 1933: "Indispensable now that ambassador should be instructed to act."

Aubrey's letter, June 9, 1933, says in part:

The Congress passed last night in secret session a law voting 30 million dol (about six million dollars United States currency) for national defense. The money will be provided by the National Reserve Bank and Congress has given authority to use as a guaranty any of the taxes in existence, therefore, they might mortgage internally for this loan these taxes which have already been pledged to us that are embodied in the national defense funds.

It is desirable therefore for you to obtain support from the State Department at Washington in instructions by cable to the ambassador at Lima for him to make a prerepresentation to the Government as to the fairness of the full payment of their debt to us. This is the right moment to act and the ambassador and myself are entirely in agreement with my friends. We can obtain full payment or at least one-half in cash and the other half in a Treasury draft—the national defense funds which have been pledged in payment of our notes to be liberated in exchange. This is the best proposition and I believe only needs the push that the ambassador can give, as I have powerful friends who are in favor of this adjustment.

You were trying at that time to get the State Department to interfere to help collect your debts from Peru?

Mr. CARSE. No; that is not what I did.

Senator CLARK. Did Mr. Joyner act under your instructions?

Mr. CARSE. What did Joyner do?

Senator CLARK. This memorandum states:

Joyner showed Grummen the above letter and asked State to instruct the ambassador. He "hinted" at the possibility of a sale of another submarine and further armaments, but said this would have to be for cash. Promises to send full information.

Before he left I asked Mr. Joyner whether he was familiar with the Department's policy announced early in the year that "in case of the possible armed conflict between two States it is the policy of this Government to refrain from placing its facilities at the disposal of either country." He said that he had not heard of the policy and was glad to learn of it. I told him that I feared that representations such as his company desired would conflict with that policy.

Even after receipt of full information in the premises it would seem difficult in the circumstances for the Department to authorize representations on behalf of these creditors of the Peruvian Government, who have been supplying it with armaments, when it has taken no such action on behalf of other creditors.

That is what the proposal transmitted through Joyner amounted to, that you wanted the Government of the United States to use its influence to collect a debt for armament, beyond what it was doing for other citizens of the United States.

Mr. CARSE. No; we didn't do that. Aubry, of course, was using every effort he could in every way to collect the amount due us.

Senator CLARK. Yes; and Joyner was cooperating with him.

Mr. CARSE. As soon as he sent us from Lima a cablegram telling me there was such a state of affairs, and if our State Department will do so and so why so and so will be accomplished, I sent that thing to Joyner and told him to take it around to the State Department to see what they had to say about it, not considering myself that the State Department was going to do anything at all.

Senator CLARK. You just tried them out to see how far you could get them to go?

Mr. CARSE. Why shouldn't I do that. Supposing I turned Aubry down and did not do it, and he would say I had it all fixed, if you had done so and so you would have gotten the money, now where is my commission. I had that to send out, but there was not really in my mind any idea it would be successful.

Senator CLARK. You just sent Joyner over to see how far he could get, and the State Department let the matter drop.

Mr. CARSE. They are going to the State Department all of the time with things like that.

Senator BARBOUR. There is one thing that occurs to me from the evidence here, that it is a difficult thing for your company to sell submarines to a South American Republic?

Mr. CARSE. Yes; we only succeeded in Peru, because of the United States' attitude.

Senator BARBOUR. Now, that presupposes that somebody else is trying to sell submarines to them?

Mr. CARSE. They have. The Italians have sold to Brazil.

Senator BARBOUR. But you would not have any difficulty if you were the only people who could do it? If you did not have to exert the effort which has been described to us of late, as far as America is concerned, you would not get that business?

Mr. CARSE. No, sir; not at all.

Senator BARBOUR. It would go to somebody else?

Mr. CARSE. Surely.

Senator CLARK. Approximately at the same time, Mr. Carse, you were asking the State Department to help you through the ambassador to send certain river gunboats to Peru, were you not?

Mr. CARSE. I do not think so.

Senator CLARK. I quote from a telegram from the State Department, also contained in this memorandum to which I have referred from the State Department, signed by Mr. Phillips, who is now Under Secretary of State, to the Ambassador to Peru, dated June 30, 1933:

Joyner \* \* \* requested that we instruct you to support the company's efforts to obtain contract for construction of new gunboat. He was informed that the Department could not appropriately take such action. He was informed that if he should submit in writing to the Department this latter phase of the question, i.e., alleged infringement of rights, the Department would give appropriate consideration to it.

Do you have any recollection of Joyner being given instructions to make such a request of the State Department?

Mr. CARSE. I do not know. He might have gone around to see what the State Department thought about it.

Senator CLARK. Did you ever notify Aubry that the State Department had also objected to the ambassador intervening in this matter?

Mr. CARSE. I do not think so, sir.

Senator CLARK. Here is a communication under date of July 5, 1933, from the ambassador to the State Department, which reads as follows:

Please cable whether I may speak orally and informally to the President, whom I expect to see on business very soon, in the sense last part my dispatch number 2869 (June 12th having to do with this matter). Aubry understands from his principals department has no objection to informal inquiry regarding settlement of old debt.

Did you instruct Aubry to that effect?

Mr. CARSE. I must have.

Senator CLARK. You have no recollection?

Mr. CARSE. I have no recollection. England uses its ambassadors all around the world to help collect debts due its people, and other governments do. You take a Peruvian down in Lima and he thinks that all we, for instance, would have to do would be to ask our State Department and our State Department would advise our ambassador, the same as the British.

Senator CLARK. He thinks all the American ambassador has to do is to act as a collecting agency for armament companies?

Mr. CARSE. The same as the others. He sees the British ambassador going around collecting, which he has done during the last year or two, right down in Peru, and he cannot see why our ambassador cannot do the same. Of course I understand differently. I understand that our State Department will not take any action toward collecting any obligations.

Senator BARBOUR. Who were the other manufacturers of submarines?

Mr. CARSE. Vickers have built submarines for Chile and the Italians for Argentine and Brazil.

Senator CLARK. You built some submarines for Chile, too, during the war?

Mr. SPEAR. They were built for England.

Senator CLARK. I know they were built for England, but did you not promote them?

Mr. SPEAR. They finally got into Chilean hands.

Senator BARBOUR. I want to ask you a question in connection with the point of view as to which I think the committee is anxious to know, which is whether you are promoting the use of submarines which you make, or whether you are trying to get submarine business which is going to be placed either with you or somebody else?

Mr. SPEAR. That is the situation. We try to get the business which develops.

Senator BARBOUR. That means that there must be somebody else who will get it if you do not?

Mr. SPEAR. Yes, sir; there are four or five European concerns who specialize in this. In fact, they have made a great many more for South America than we have had and have been more successful than we have in obtaining contracts.

Senator CLARK. Mr. Carse, finally in October 1933, last year, you did enter into a contract for two river gunboats for Peru at \$450,000 each, did you not?

Mr. CARSE. Yes, sir.

Senator CLARK. Did Vickers profit on that?

Mr. CARSE. Not that I know of.

Senator CLARK. Do you know, Mr. Spear?

Mr. SPEAR. Not to my knowledge. I think not.

Senator CLARK. That was just about a month after the commission of the League of Nations had taken over policing Leticia, was it not?

Mr. CARSE. I could not tell the date.

Senator CLARK. Shortly after?

Mr. CARSE. I know they wanted some boats there, and their first inquiry was to see whether we could buy for them some second-hand yachts similar to those vessels which Colombia had bought up in this market, and we had some yacht brokers canvass the market and found that there were very few, if any, which would suit their requirements. Most of them had 12- to 15-foot draft, and what they wanted was something from 3- to 5-foot draft. It was absolutely impossible to find anything with 3- or 5-foot draft in the market that could make the voyage from here to the Amazon River. So that we made some sketches and so forth and sent them down and came to a sort of general understanding and Aubry came up, accompanied by a representative of the Peruvian Government, Commander Ontaneda.

Senator POPE. For how many of those South American countries have you done business?

Mr. CARSE. Peru.

Senator POPE. Alone?

Mr. CARSE. That is all. We have tried to do business with others. We did way back in 1911 or 1912. We built a boat for Chile, which Chile rejected and demanded the money back, which had been paid on account. That was up in Puget Sound. While they were demanding their money back people up in British Columbia, just before the declaration of war, thought they would like to buy it, and so we sold it to them and got the money and paid Chile back the money they had advanced.

Senator BARBOUR. Mr. Spear, do you know how many South American republics have submarines?

Mr. SPEAR. Yes, sir; Peru, Chile, Argentina, and Brazil.

Senator BARBOUR. And so far as your company is concerned, you have only sold to Peru?

Mr. SPEAR. That is all. The British have sold not so very long ago, in recent times, some rather large boats to Chile, built especially for them, and Argentina has purchased boats from Italian builders, and so has Brazil.

Senator CLARK. Those Chilean boats were the ones you got 10,000 pounds apiece for, were they not?

Mr. SPEAR. I do not remember what we got. We got our license fee on them, whatever was agreed to.

Mr. CARSE. So that they came up and we entered into a contract with this representative of the Peruvian Government to build these

two boats. They were built of steel, with a 4-foot draft. They drew 4 feet of water because they wanted to use them on the upper waters of the Amazon, and they were finished on time and delivered and accepted and sailed.

Senator CLARK. When were they delivered? Do you know? These boats were built at Groton, were they not?

Mr. SPEAR. Yes, sir. My recollection is early in June, Senator.

Senator CLARK. One was launched April 5 and another April 12, were they not?

Mr. SPEAR. Yes; I think they were delivered about June 9.

Senator CLARK. My notes show they sailed some time in May, but that is immaterial. That was after a state of hostilities had developed between Peru and Colombia, was it not, Mr. Carse?

Mr. CARSE. There was not any fixed state of hostilities.

Senator CLARK. There was a state of hostilities existing, a known state of hostilities existing at that time, was there not?

Mr. CARSE. No, sir, it was quiet.

Mr. SPEAR. I think they had all agreed to a truce. There was no state of hostilities, for otherwise those boats could not have sailed.

Mr. CARSE. The boats are at Iquitos now.

Senator CLARK. Was not there a boundary dispute between Peru and Colombia over Leticia?

Mr. SPEAR. Yes, sir. Over a treaty which was made between the two countries with regard to the upper Amazon River belonging to Peru, which was ceded to Colombia, but it was inhabited by Peruvians. These people on their own account, not in connection with the Colombian Government, arose and drove the Colombians out of Leticia and they raised a terrible issue because the Colombians did not want to go back on their native sons and yet they knew the legal situation was not favorable to Peru.

Senator CLARK. Do you know whether that uprising was before or after the so-called Leticia incident, in which the American Naval Mission to Peru was involved?

Mr. SPEAR. I did not know they had been.

Senator CLARK. You are familiar with that incident, are you not?

Mr. SPEAR. No, sir.

Senator CLARK. By which the American Naval Mission to Peru worked out a war problem involving this town of Leticia, which could not possibly involve anything except conflict between Peru and Colombia, and protests were made by the Colombian Government and a very serious international incident was created by that action of the American Naval Mission.

Mr. SPEAR. That is all news to me, Senator. I never have heard that.

Senator CLARK. There is repeated reference to that Leticia incident in the correspondence from Commander Aubry to you.

Mr. SPEAR. Yes, sir; of course.

Senator CLARK. I took it that you were familiar with it.

Mr. SPEAR. Not that.

Senator CLARK. The actual mission was the Leticia incident, was it not?

Mr. SPEAR. The situation was just as I explained it to you. The inhabitants of Leticia, who were Peruvians by birth and had previously been Peruvians, decided they did not want to be under the sovereignty of Colombia any more, and rose up by themselves and rejected the Colombian authorities.

Senator CLARK. The Leticia incident is frequently referred to in the correspondence between the Naval Mission and the ambassador and the State Department as being connected with the war map problem with regard to Leticia.

Mr. SPEAR. There was no question about Leticia until that incident occurred.

Mr. CARSE. Only two or three hundred people there.

Senator CLARK. That Leticia incident has to do with the war problem.

Mr. SPEAR. That must have been worked out after it arose. I have never heard of it before.

Senator BONE. Did your firm ever have any negotiations with Colombia?

Mr. CARSE. We have never. They tried to have negotiations with us, but we would not answer the letters.

Senator BONE. At or about the time of this incident which Senator Clark speaks about, was not the United States undertaking to help Colombia and giving them some friendly naval advice?

Mr. CARSE. I do not know. We had inquiries especially about the river boats which we were building for Peru, but we did not respond. I have never thought it was necessary to try to carry water on both shoulders.

Senator CLARK. You also at the same time you sold these gunboats sold them 1,200 rounds of 3-inch ammunition, did you not, Mr. Carse, for \$50,000?

Mr. CARSE. Yes, sir.

Senator CLARK. That was suitable on either gunboats or submarines?

Mr. CARSE. Yes, sir.

Senator CLARK. Did Vickers supply part of that ammunition?

Mr. CARSE. Yes, sir; they did; they supplied it all.

Senator CLARK. They shipped it to Para in Brazil, did they not?

Mr. SPEAR. They finally took delivery of it at a West Indian port. Final delivery was made to the Peruvian Government at a West Indian port.

Senator CLARK. Why was a West Indian port selected? Do you know? Except to evade violation of the neutrality laws?

Mr. SPEAR. There was no question of the neutrality laws. No state of war existed. These ships could not have left this country if there were hostilities.

Senator CLARK. I understand they could not under the law. That is what I am trying to get at.

Mr. SPEAR. They could not any way. It would have been illegal.

Senator CLARK. A great many things appearing in this file were done in violation of neutrality. I am trying to find out if this was one of them.

Mr. SPEAR. It had nothing to do with neutrality. It was a matter of convenience for this shipment from England to be picked

up by a Peruvian ship, which was to connect with it. The first intention was to have the river boats pick it up on the way down, and they found out that did not work out with their program and any shipment applicable from England, and they changed it and delivered it to another ship at one of the West Indian ports. I have forgotten which one now.

Senator CLARK. It was originally intended to have been delivered at Para?

Mr. SPEAR. At the start it was to have been in the West Indies and was shifted to Para and then they got back to the West Indies.

Senator CLARK. Mr. Carse, I draw your attention to a letter from you to Mr. Spear, dated January 15, 1934, which I will ask to have marked "Exhibit No. 84."

(The letter referred to was marked "Exhibit No. 84" and appears in the appendix on p. 375.)

Senator CLARK. That letter, "Exhibit No. 84", reads in part as follows:

DEAR MR. SPEAR: In the January issue of "Marine Progress" Gerish Smith in an article on page 20 makes reference to "2 river boats" for Peruvian owners' . . .

Those are the two river boats which we have been talking about, Mr. Carse?

Mr. CARSE. Yes, sir.

Senator CLARK (reading):

. . . and on page 21 refers to "2 145-foot River Boats Electric Boat Company for Peruvian owners."

I understand it was our intention to camouflage this transaction so as to avoid any complaints being raised in Washington by the Colombian authorities, which might prevent delivery of the vessels.

What did you mean by that, and why did you want to "camouflage"?

Mr. CARSE. We do not believe in telling every Tom, Dick, and Harry of what we are doing for customers. Our business is with nations.

Senator CLARK. Yes; but conceding that your business is with nations, if you were doing an entirely legal thing, why did you feel that a complaint from the Colombian Government to the State Department would prevent delivery of those boats?

Mr. CARSE. The State Department knew that we were doing it, but we did not particularly care for some representative of the Colombian Government to be advised of the particulars, so that he could go to the State Department with some definite complaint, which the State Department might feel they had to act upon.

Senator CLARK. The only definite complaint that would have justified the State Department in interfering would have been the existence of a state of war between Peru and Colombia, would it not?

Mr. CARSE. I do not know.

Senator CLARK. Why did you want to "camouflage" it? You used that term yourself.

Mr. CARSE. It is nobody's business.

Senator CLARK. It was the State Department's business, was it not?

Mr. CARSE. The State Department knew about it.

Senator CLARK. Then if the State Department knew about it, why were you fearful of the Colombian representative making a representation against it? It was either legal or illegal, was it not?

Mr. CARSE. I objected to Mr. Smith butting in on our business and publishing it. If we wanted to publish what we were doing, it was for us.

Senator CLARK. I am not concerned with Mr. Smith, Mr. Carse. What I want to find out is what you mean by saying:

I understand it was our intention to camouflage this transaction so as to avoid any complaints being raised in Washington by the Colombian authorities, which might prevent delivery of the vessels.

Mr. CARSE. Yes, sir.

Senator CLARK. They could not prevent delivery of the vessels unless a state of war existed between Peru and Colombia.

Mr. CARSE. I do not know what might happen. I might tell you an ancient-history story. During the war, when we were building some submarine chasers, motor boats up in Canada for the British Government, the German ambassador filed complaint with the State Department that they understood that the Electric Boat Co. was doing so-and-so and so-and-so and so-and-so, and wished it stopped. The State Department just transmitted that letter to me and I simply gave them the categorical reply that "In reply thereto, we would say that we are not doing so-and-so and so-and-so and so-and-so" because the Germans did not have it right. We did not tell them that we were not doing what the Germans wished to complain about, but told them that we were not doing what the Germans actually had said, and that satisfied the State Department and everybody else.

Senator CLARK. Now to come back to this Peruvian transaction, Mr. Carse, it is not necessary for you to camouflage a legal action or to keep the State Department from finding out and interfering in it and preventing delivery of it, when the transaction is legal.

Mr. CARSE. To prevent other people from finding out what we do; the Colombian people might have had somebody get in there and have done some sabotage on those boats.

Senator CLARK. You did not express a fear about sabotage in your letter, but you expressed a fear on the part of the Colombian authorities that it would prevent delivery of the vessels.

Mr. CARSE. Yes, sir.

Senator CLARK. You did not express any fear of sabotage.

Mr. CARSE. When we are doing something like that, we do it. We had inquiries from newspapers and all around trying to get information about them, and we never gave them any information.

Senator CLARK. I think the reason for your desires in that regard appears in the letter.

Mr. Carse, I direct your attention to a letter dated March 5, 1934, from Commander Aubry, at Lima, Peru, to you.

(The letter referred to was marked "Exhibit No. 85" and appears in the appendix on p. 375.)



Senator CLARK. In that letter of March 5, 1934, Commander Aubry says:

Commander Ontaneda has written to the Minister and to me in regard to appointing a sponsor and having a ceremony for the launching of the boats. Kindly tell him that nothing of such a nature is wanted. Those boats do not require a ceremony to alarm the Quakers in the States.

What did you understand he meant by that?

Mr. CARSE. I suppose he means the pacifists.

Senator CLARK. Have you been having any trouble from Quakers?

Mr. CARSE. You must not hold me responsible for the words and phrasing of everybody who happens to write me a letter.

Senator CLARK. There seems to have been a pretty close meeting of the minds between you and Mr. Aubry throughout these affairs, Mr. Carse, and I was wondering what your reaction was to this matter.

Mr. CARSE. I could not tell what point of view the Colombians might have, although I learned afterward—I do not know, by the way, exactly how—that the Colombian authorities had made complaint to the State Department and the State Department told them that the thing did not come within their province.

Senator CLARK. Mr. Aubry goes on to state:

They are so small they can easily leave the United States without any press news and the wise thing should be to arrange that the guns will be stored in the holds.

What guns were they?

Mr. CARSE. They would be stored in the holds anyhow, because they were too heavy to be put on the deck of a 4-foot-draft boat, because the boat would turn upside down. They were 3-inch guns on those boats. They had to be put in the holds, so that that was superfluous.

Senator CLARK. How much money does Peru owe you now, Mr. Carse?

Mr. CARSE. I think with accrued interest about \$1,000,000.

Senator CLARK. Do you know how much, Mr. Spear?

Mr. SPEAR. No. Mr. Carse could answer it better than I could. That would be my impression.

Senator CLARK. Are they making you any payments from time to time?

Mr. CARSE. No.

Senator CLARK. Did they pay you for the river boats?

Mr. CARSE. Yes, sir; we got that in advance.

Senator CLARK. You got that cash on the barrel head before they delivered the boats?

Mr. CARSE. We had it on a letter of credit, irrevocable.

Senator CLARK. Referring again to this American Naval Mission to Peru, Mr. Carse, how did you happen to be paying for the passage to Europe of the wife and son of Admiral Howe, the head of the American Naval Mission?

Mr. CARSE. Did we do that? How long ago was that?

Senator CLARK. First let me put in the last letter.

I quote from a letter dated February 28, 1928, from yourself to Mr. Spear, which will be offered as "Exhibit No. 86."

(The letter referred to was marked "Exhibit No. 86" and appears in the appendix on p. 376.)

Senator CLARK. "Exhibit No. 86" reads in part as follows:

We have today paid for the cabin accommodation for Mrs. Howe and son on the "Leviathan", and note that the other outlay will not be called for until next month. Is the money we have just paid a part of the agreed outlay or is that something extra?

Mr. SPEAR. Have you got the answer to that?

Senator CLARK. No; I have not.

Mr. SPEAR. I would want an answer to that. Is that letter to me?

Senator CLARK. Yes, sir.

Mr. SPEAR. I do not recall it. There must be an answer to that letter. I think the answer to that letter would probably give the facts, whatever they were. I do not recall it. I have an impression about it, but I would not want to testify to an impression. I do not know whether that was an accommodation we paid, or what it was, but I will make a note of that letter, Senator, and try to turn up an answer.

Senator CLARK. If you find out anything about it at any time, Mr. Spear, I would be very glad to have you write a letter to the committee and it can be put in the record.

Mr. SPEAR. Anything I can find in the records I would be glad to let you have, Senator.

Mr. RAUSHENBUSH. That was an accomplished transaction. That was all over.

Mr. SPEAR. I do not know that at all.

Mr. RAUSHENBUSH. It seems to have been an accomplished transaction because Mr. Carse asks how it should be charged.

Mr. SPEAR. I do not know. I cannot remember it, but there should be some record of what it was all about. It might have been nothing but an advance of an accommodation to this lady, which was repaid, but I do not know.

Senator CLARK. Mr. Carse, you had no interest in the securing of torpedo business for American companies against French companies, did you? You are perfectly willing that the French sell torpedoes, provided you get a commission on them?

Mr. CARSE. We never did any business with a French company that I know of.

Senator CLARK. I call your attention to a letter dated May 17, 1927, from you to Mr. Spear, which I will ask to have marked "Exhibit No. 87."

(The letter referred to was marked "Exhibit No. 87" and appears in the appendix on p. 376.)

Senator CLARK. I will read in part from "Exhibit No. 87."

DEAR MR. SPEAR: Referring to yours of May 16, enclosing copy of letter from Koster regarding torpedoes for Peru, as the torpedoes we furnished in connection with R-1 and R-2 were made by Bliss.

Bliss was an American concern?

Mr. SPEAR. Bliss was an American concern.

Senator CLARK (continuing reading):

I had understood that that type would be standard in Peru, but if the French company can make a torpedo that would be satisfactory to the Peruvian Government we have no special interest, as I understand it, in Bliss, especially considering the way in which they acted regarding the last shipment.

(At this point Senator Clark read the last paragraph of "Exhibit No. 87.")

Mr. CARSE. That is right.

Senator CLARK. That is your attitude?

Mr. CARSE. Yes; surely. We have no interest. If they wanted to do it, I suppose the French could sell it cheaper than the other fellow would. On the last shipment Bliss insisted, although he knew we were taking the thing on a deferred payment, he insisted upon full payment before he would even load the torpedoes.

Senator CLARK. Mr. Carse, along about 1930, Mr. Joyner was worried about the report that Juan Leguia had made, confessing to all of his international deals, was he not, and so advised you?

Mr. CARSE. He sent me a little chit-chat letter of gossip around Washington.

Senator CLARK. Yes, sir. I call your attention to a memorandum from Mr. Joyner to you, under date of August 28, 1930, which I will ask to have marked "Exhibit No. 88."

That letter reads as follows:

ESTERDAD FRIEND: Confidential—private.

A lot of gossip is flying about—probably to be all discounted—however—confidentially for what it is worth.

There is a story that J. L.—

That was Juan Leguia, was it not?

Mr. CARSE. Yes, sir.

Senator CLARK (continuing reading):

has confessed all his deals in the United States, his participations, and etc., and is to be tried. That he confessed to save his life and his father's life.

They say he was specific in his compensations, etc., and through who and how. That the rest L. set up was a false step and that the Government of the South found it out and caused the recall of the cruiser. That the Lima set-up was to let L. get away to Panama: That Ponce was in on that move and that he set up the Government on L.'s arrangement.

That all foreign contracts financial will be accepted. That the match and one or two other concessions are canceled—that a lot contracts will be ended. That most of the American Naval Mission are on the cruiser—and etc., etc., etc.

That a new cabinet will furnish a new Government plan to all foreign governments.

That all is turmoil, etc. Up to this hour this Government has not recognized the new set-up and may not do so.

That cabling is unwise.

With much affection,

I am,

Yours truly,

S. J. JOYNER.

That was sent to you in pen and ink, was it not?

Mr. CARSE. That was just gossip.

Senator CLARK. Mr. Carse, at one time Vickers undertook to induce you to let them in on the Peruvian business, did they not?

Mr. CARSE. In what way?

Senator CLARK. It does not appear in this letter, but I call your attention to a letter from you to Sir Trevor Dawson who was the managing director of Vickers, was he not?

Mr. CARSE. Yes, sir.

Senator CLARK. It is dated January 16, 1924, and I will ask to have it marked as "Exhibit No. 89."

(The letter referred to was thereupon marked "Exhibit No. 89" and appears in the appendix on p. 377.)

Senator CLARK. And the letter reads as follows:

JANUARY 16, 1924.

Peruvian Business.

SIR TREVOR DAWSON,  
Vickers Limited,  
Vickers House,  
Broadway, Westminster, London.

DEAR SIR TREVOR: 1. I beg to acknowledge with thanks the receipt of yours of December 12th enclosing extract of a letter to you from Captain Deane and as I am now also in receipt of a full report from Commander Aubry dated December 10th; we are now, I think, in a position to arrange a policy for the conduct of the Peruvian submarine negotiations.

2. Our present position in Peru, which is a very special and strong one, is the result of many years of effort. In fact, it dates back to the first presidency of the present President, Señor Leguía, who then entered into a contract with us for submarines, which was dishonored by his successor. Commander Aubry, who is a Peruvian naval officer, was intimately connected with the restoration of President Leguía to power in Peru and prior to his retirement from active service, was entrusted by President Leguía with many important missions, among which was the arrangement with the United States Government under which the American Naval Mission was sent to Peru. Under these circumstances, he is naturally on the best of terms not only with the Administration but with the American Naval Mission."

So that the American Naval Mission was originally sent to Peru as a result of the negotiations by Captain Aubry, acting at that time for the Peruvian Government and the Navy Department of the United States.

Mr. CARSE. Yes.

Senator CLARK. How long was that before he became your representative down there, Mr. Spear?

Mr. SPEAR. I do not recall, Senator, but it was before that.

Senator CLARK. Commander Aubry has changed his relationship so often, I am just trying to find out what he was doing at that time. The letter continues [reading]:

It seems clear to me from Captain Deane's letter——

Just who was Captain Deane?

Mr. SPEAR. I think that letter was written by me, was it not?

Senator CLARK. It is signed by you, that is right; I beg your pardon.

Mr. SPEAR. Captain Deane was a traveling agent of Vickers, one of their agents in South America.

Senator CLARK (reading):

It seems clear to me from Captain Deane's letter that he did not fully understand the actual situation, since he speaks of the propinquity of the American Naval Mission as a difficulty confronting us. My impression is strengthened by the conception which he appears to have formed with regard to the Pro Marina Fund. The balance of this fund, which is £166,000 and not £300,000 is now by decision of the Supreme Court of Peru at the direct disposal of the Government without obligation to the Italians. The commitments of the private management of the Pro Marina to an Italian firm did, in the past, constitute a very serious obstacle which our friends finally succeeded in removing as indicated above.

Then this letter goes on, in paragraph 5:

5. Under the special circumstances of this case, we feel that we cannot at the present time include Peru in the list of countries where our policy will be friendly competition with compensation to the loser. \* \* \*

That was the general arrangement that you had in South America with Vickers, was it not, Mr. Spear, by which Vickers and Electric Boat Co. would ostensibly bid against each other, but the company which got the contract would pay compensation to the company which did not get the contract?

Mr. SPEAR. Just a minute, Senator, you have not expressed it exactly right.

Senator CLARK. Will you express it exactly right for us?

Mr. SPEAR. We brought out the facts yesterday in this agreement with Vickers. They were our licensees and under that agreement we set aside certain territory in the United States into which they could not come.

Then we specified certain other countries, as you will recall in the agreement, where they could come without a special arrangement with us.

In other words, they were not allowed, as our licensees to come in there unless we thought it was to our interest. We left certain other sections of territory where we were free to compete with each other and if those Governments wanted British construction, it would go to Great Britain. But as they were our licensees, we insisted on their paying us.

Senator CLARK. But you were not their licensees were you?

Mr. SPEAR. No, sir.

Senator CLARK. Did you not have arrangements that in certain countries if you were to get the business you were to pay Vickers?

Mr. SPEAR. We did.

Senator CLARK. What would you call that? That was not in the nature of a license fee?

Mr. SPEAR. No.

Senator CLARK. What was that arrangement by which in countries where you got the business you were to pay Vickers some compensation?

Mr. SPEAR. We thought that was good business.

Senator CLARK. In what countries did you have such an arrangement as that, do you recall?

Mr. SPEAR. We would have to look at that document that was placed in the files yesterday.

Mr. CARSE. It was not Peru.

Senator CLARK. I understand that it was not in Peru, but you did have it in some countries. And in this letter you say that you could not include Peru in that category.

Mr. SPEAR. That is correct. What we did was to specify the countries where special conditions existed and where we would not let them come in unless the conditions changed. Then we left the rest of the world free to competition.

Senator CLARK. Paragraph 5 of this letter says:

Under the special circumstances of this case, we feel that we cannot at the present time include Peru in the list of countries where our policy will be friendly competition with compensation to the loser and I must, therefore, ask you not to make any submarine proposals to the Peruvian Government direct or indirect except as may be agreed to in advance by us.

Mr. SPEAR. That is perfectly correct.

Senator CLARK (continuing reading) :

We do not feel that the position which we are obliged to take in this matter will necessarily result in excluding you from participation in this business and, in fact, we are endeavoring to arrange the matter so that the hulls can be constructed at Barrow to our design.

Mr. SPEAR. That was the point that we covered this morning.

Mr. SUTPHEN. Intense friendly competition.

#### RELATIONS WITH BRAZIL

Senator CLARK. And now, Mr. Carse, turning for a few minutes to Brazil. Mr. Carse, right after the war, 1920, when you were beginning to go after Brazilian business, you got the report the Brazilian Government, through Bethlehem, was tied up with Vickers and Armstrong, did you not?

Mr. CARSE. Well, I do not recall.

Senator CLARK. Just to refresh your memory, I have here a letter dated September 13, 1920, which I will offer as "Exhibit No. 90" to Mr. Carse from Mr. Spear.

(The letter referred to was marked "Exhibit No. 90", and appears in the appendix on p. 378.)

Senator CLARK. The letter reads:

DEAR MR. CARSE: On my last visit to Washington I had a talk with Captain Azevedo, the Brazilian Naval Attaché, and found him considerably disturbed about the activities of Bethlehem, both here and in Rio. He seems to think that they have formed some kind of a combination with Vickers and Armstrong to go after everything in sight in Brazil, and in any case they have approached him here and he understands that the Rio agent has been endeavoring to discuss submarines with the Minister of Marine.

Do you recall the circumstances, Mr. Spear, that came up?

Mr. SPEAR. Just what is in the letter. Captain Azevedo was the Brazilian naval attaché here. I met him here in Washington and discussed the situation down there. This is evidently what he told me, which I reported to Mr. Carse.

Senator CLARK. Did you pursue the matter any further with Bethlehem?

Mr. SPEAR. I do not recall. Later on, I think we did. To my best recollection we did later on.

Senator CLARK. You finally made an arrangement by which Bethlehem paid part of the expenses of Aubry in South America?

Mr. SPEAR. I think so, with the understanding that if we received an order at that time—we did not at that time have the hull department in the yard—and my recollection of this is that it was with the understanding that if we received any order we would give them subcontracts for the hulls.

Senator CLARK. Did that understanding include an understanding that Bethlehem would stay out of your business—

Mr. SPEAR. So far as Brazil was concerned?

Senator CLARK. That is what I mean.

Mr. SPEAR. I considered that they had no right there, anyway, under their contractual relations with us.

Senator CLARK. In other words, you had a contract with them.

Mr. SPEAR. That had not expired.

Senator CLARK. In 1921, Mr. Carse, you cabled Vickers and protested that they were bidding too low on the Brazilian business, did you not?

Mr. CARSE. I do not remember those things.

Senator CLARK. I have here a letter dated December 22, 1921, to Sir Trevor Dawson from you, which I will offer as "Exhibit No. 91."

(The letter referred to was marked "Exhibit No. 91" and appears in the appendix on p. 378.)

Senator CLARK. "Exhibit No. 91" reads:

DEAR SIR TREVOR: Referring to the cables which have passed between us in relation to bidding for submarines for the Brazilian Government, we today cabled you as follows: "Considered matter thoroughly, but still believe Brazilian quotations too low. Unwilling to approve except upon allowance 40 percent of profit with guarantee of not less than 20 pounds per surface ton compensation for us."

Mr. CARSE. Yes; we were interested in their profits.

Senator CLARK. What this means is that you were using your power as the holder of the patents to compel Vickers to raise their bids to South America?

Mr. CARSE. Or else they could pay us that sum, if they wanted to take less. But we considered that the price that they were quoting would not leave any profit to divide with us.

Senator CLARK. You say here in the last paragraph of that letter on the first page:

As we have been working on this matter ourselves and believe that any builder of submarine boats in the future should figure on obtaining a reasonable profit we do not believe it would be for the best of the business to quote very low figures, and the figures indicated by you are lower than we could see our way to quote for boats built in the United States, and have thought that perhaps your people might have been anxious to secure work to maintain the operation of your plant and have not been very greatly concerned about any profit that might inure, and it was for that reason that we indicated that while we wish to help you in every possible way, if you wished to put in the price quoted we should be guaranteed something approaching what would ordinarily come to us on the usual division, that is to say, 40 percent of the profit which you might make, with the guarantee that such profit would not be less than £20 per surface ton for any or all vessels built by you for the Brazilian Government.

Mr. CARSE. That is right.

Senator CLARK. You finally got together with Bethlehem on bidding for this work and at the same time you authorized Vickers to submit a bid for the work to be done in England at prices "which they submitted to us and which we approved."

That was, in effect, rigging up a fake bid on behalf of Vickers, was it not?

Mr. SPEAR. No.

Mr. CARSE. No.

Senator CLARK. If you were bidding for the work and refused to let Vickers put in a bid except at a figure that you approved, it naturally meant that Vickers' bid could not be a bona fide bid; is not that correct?

Mr. SPEAR. No. If Vickers put in a bid at a price which we thought was reasonable and it afforded us reasonable profit and they

got the work all right. That does not necessarily mean that Vickers' price was higher than ours.

Senator CLARK. You controlled the bids both of your own company and the bid from Vickers.

Mr. CARSE. As a matter of fact, neither one of us got the business.

Senator CLARK. And you refused to license a French company to submit a bid because that would be a real competitor, a real competitive bid.

Mr. CARSE. A French company?

Senator CLARK. I am referring now to a letter dated December 28, 1921 to Captain Paul Koster by Mr. Carse, which I will offer as "Exhibit No. 92."

(The letter referred to was thereupon marked "Exhibit No. 92" and appears in the appendix on p. 379.)

Senator CLARK. After saying in this letter, "we propose to submit a tender ourselves in conjunction with the Bethlehem Steel Corporation, and have authorized Vickers to submit a tender for the work to be done in England at prices which they submitted to us and which we approved", you say:

We do not see how we could go further and grant licenses to a French yard to put in another competitive price.

Mr. CARSE. I do not see why we should grant a license to a French yard on one order when they had for years declined to take any license from us. Why should we allow a French company to use our patents and designs for one boat? It was absurd. It was one of Koster's absurd propositions. The French company would not take a licensing agreement with us, the same as the English and the Spanish and the Dutch and the Norwegians and the Danish.

Senator CLARK. What you say in this letter, Mr. Carse, is that you had permitted the Vickers Co. to submit a bid at a price to be approved by you for submission, but you would not let the French company put in a competitive bid.

Mr. CARSE. No; we did not see how we could grant licenses to a French yard to put in a bid of any kind. Why should we? We had no interest in the French company who had always declined to do business with us and probably would have cheated us out of anything that they owed us, anyhow, the same as the Italians did.

Senator CLARK. You took the trouble to notify the Brazilian Government that Bethlehem was tied up, so that they were not in a position to bid on any submarines, did you not?

In that connection, I am referring to a letter dated September 13, 1920, to Capt. Marquis Azevedo, naval attaché of the Brazilian Embassy, which I offer in evidence as "Exhibit No. 93."

(The letter referred to was thereupon marked "Exhibit No. 93" and appears in the appendix on p. 380.)

Senator CLARK. This letter says in the third paragraph:

In addition to the above, our contract arrangements with them, which are still in force, specifically prohibits them from constructing submarines for any one except ourselves, and possibly the United States Government.

Mr. CARSE. That is true. We had an agreement with them by which they had constructed our hulls and it provided that they should not put in bids for the construction of submarine boats within a certain period of time after the expiration of our contract.



Senator CLARK. But at the same time that you were notifying, or shortly after you had been notifying the Brazilian Government, warning them against dealing with Bethlehem, you wrote Mr. Grace, the president of Bethlehem a letter, in which you said that you were practically partners and that one partner ought not to indicate any lack of confidence in the other; that is correct, is it not?

Mr. CARSE. I do not know.

Senator CLARK. I call your attention to a letter dated January 26, 1922, to E. G. Grace, president Bethlehem Steel Corporation, from Mr. Carse, which I will offer in evidence as "Exhibit No. 94."

(The letter referred to was marked "Exhibit No. 94" and appears in the appendix on p. 380.)

Senator CLARK. This letter says,

The Bethlehem and Electric Boat companies are in many respects practically partners and are so looked upon by the Navy Department in relation to submarine-boat construction, and I think you will agree with me that it is not advisable that either partner act in a manner to indicate any want of confidence in the other partner.

Mr. CARSE. These letters are 16 months apart, are they not?

Senator CLARK. From September 1920 to January 1922.

Mr. CARSE. That is 16 months, you know. We might change our views, in a small matter like that, anyhow.

This is based apparently upon some word I received from Washington about some action of the Bethlehem representative. I do not think it has any reference to the Brazilian business; probably something else.

Senator CLARK. It does not speak of the Bethlehem representative. It says:

I enclose a letter from our representative at Washington, \* \* \*.

Mr. CARSE. Yes. They must have told us something about some action of some Bethlehem representative. Well, the business went to the Italians—the Brazilian business.

Senator CLARK. Mr. Carse, do you know of any other munitions firm or armament firms that are hooked up in such a way as the Electric Boat Co. and the Bethlehem Co., who you say were practically partners.

Mr. CARSE. Well, we were not at that time exactly partners. We took a partnership with the butter all on one side of the bread. We took contracts with submarine boats on a straight-price basis and what Bethlehem did was on a cost-plus basis. We took all the risks and they simply did their work on a cost-plus basis with no risk or anything of the kind.

Senator CLARK. Mr. Carse, in a letter to Sir Trevor Dawson dated June 19, 1922, speaking of this Brazilian business, you say as follows—before reading the letter, I will offer it as "Exhibit No. 95."

(The letter referred to was marked "Exhibit No. 95", and appears in the appendix on p. 380.)

Senator CLARK. You say in this letter that—

Italian competition special nature not related to price or type, but believe not successful as Government will insist upon best product obtainable.

A little later on you say that—

The Italians base their efforts more upon the securing of personal influence to award the contract rather than to any superiority of workmanship or design, and after they once accomplish the purpose they have in view of securing influence they will agree to any form of contract providing for any trial qualities desired and for delivery in any space of time, no matter how short, with the idea that the peculiar influence which they have secured will enable them to change and modify the contract from time to time to suit them.

With those expressions, Mr. Carse, you simply meant that the Italians bribed the officials down there?

MR. CARSE. No; I did not.

SENATOR CLARK. What did you mean by that "peculiar influence which they have secured"?

MR. CARSE. They are of a Latin race, the same as the other people and are entirely different in their points of view from the Anglo. The Italians have many connections in South America, especially in the Argentine where there are a great many Italians. Then there is traffic back and forth and they make connections with people there and they influence a modification of the contracts and everything of that nature.

I do not know specifically of anything, except that they did put in prices for the construction of submarines, boats which we knew would not pay for the boats as called for in the specifications. We did not know how they would really handle it. The boats we have been advised, have proven very unsatisfactory for the Government.

SENATOR CLARK. Well, we are not concerned about the actual boats that the Italian company sold to Brazil. What I want to find out is what you meant by referring to the peculiar influence which the Italians had secured, saying that they based their hopes of getting it on the personal influence—the hopes of getting the award.

MR. CARSE. Well, that is just personal influence; just who, or why, or how, I do not know.

SENATOR CLARK. Did you ever discuss your Brazilian business with your representative, Mr. Chapin, after he returned from Brazil? You sent him down to Brazil to try and get this business.

MR. CARSE. I think we talked about it. He came back and the agent representing the Italian Government told him that he was wasting his time, because he had it already arranged.

MR. SPEAR. That was away back? Was not that the previous negotiation?

SENATOR CLARK. I am referring to the one in 1922.

MR. SPEAR. I think what Mr. Carse is talking about is a previous negotiation when Mr. Chapin did go down.

SENATOR CLARK. Mr. Chapin had just returned from Brazil in November 1922. That is what I am referring to.

MR. CARSE. Yes; that is the time.

SENATOR CLARK. I refer you to a letter dated November 28, 1922, from Mr. Chapin to His Excellency Edwin A. Morgan, Ambassador to Brazil, which I will ask to have marked "Exhibit No. 96."

(The letter referred to was marked "Exhibit No. 96", and appears in the appendix on p. 381.)

SENATOR CLARK. In this letter, "Exhibit No. 96", Mr. Chapin speaks at some length about his disgust with the integrity of the Brazilian officials and uses this language:

I . . . returned to this country with a most disappointed impression of the steadfastness and integrity of the Brazilian officials.

Do you know what Mr. Chapin was referring to there? Did he ever refer to his impression of the integrity of Brazilian officials to you?

Mr. CARSE. No; he never went into any particular.

Senator CLARK. Did he ever discuss the matter with you, Mr. Spear?

Mr. SPEAR. Yes; I talked with him.

Senator CLARK. What did he have to say about their integrity?

Mr. SPEAR. I cannot tell you exactly.

Senator CLARK. What does he base that remark on, if you know?

Mr. SPEAR. I can tell you broadly what he said, so far as I can remember it. I cannot give you the details. He said that when he got down there, while the understanding from the technical people was that our proposal suited them better, and so forth and so on, he could make no progress and everywhere he turned he found an official apparently under the influence of the Italians; that he could get nowhere with the things and he thought his trip had been useless. I know what you want to know, whether he told me that he had any knowledge of anybody buying a Brazilian official.

Senator CLARK. What I am trying to find out is what he meant by that remark in his letter to the Ambassador.

Mr. SPEAR. He never told me that, but I think he had a suspicion of the whole situation; I mean, he felt that there was an influence there that he could not combat in any ordinary American way.

Senator CLARK. He is trying to interest the Ambassador in the proposition that this contract with the Italians, if it were made, could be upset by the American naval mission to Brazil when they arrived. In that connection, let me call your attention to this letter. He says, on page 2:

It is my hope that if the contract for submarine boats has not yet been awarded, you will be able to use your good offices to have it deferred until the naval mission arrives, so that the opinion of that mission may be obtained. It is my belief that the naval authorities in Rio will not be precipitate in entering into a contract for a naval project which has not been passed upon by the mission which it has invited to advise them in this respect.

Did Mr. Chapin say anything to you about that hope?

Mr. SPEAR. I do not recall.

Mr. CARSE. He may, it was a long while ago.

Senator CLARK. He tried to enlist the aid of the American Ambassador in selling these boats for the Electric Boat Co., did he not?

Mr. SPEAR. Yes. He was endeavoring to get all the help that he could from the Ambassador.

Senator CLARK. And the Ambassador replied that he had been active for 3 months in trying to sell those boats for the Electric Boat Co., did he not?

Mr. SPEAR. That I do not know. Did he?

Senator CLARK. Well, I refer you to a letter dated December 22, 1922, which I will ask to have marked "Exhibit No. 97."

(The letter referred to was marked "Exhibit No. 97", and appears in the appendix on p. 383.)

Senator CLARK. This letter is directed to Mr. Chapin and is from Edwin A. Morgan, the American Ambassador to Brazil. He says:

I received today your letter of November 28th, relating to future orders for submarine boats for the Brazilian Navy. For the last three months or more, I have been in conference with Commander Aubry and took steps with the late President to check the signature of a contract for boats of Italian manufacture. Before Commander Aubry returned to Montevideo at the beginning of November, it was evident that no order would be placed at once.

Now, Mr. Spear, a very short time after Mr. Chapin had been expressing his disgust of the integrity of the Brazilian officials, so far as their dealings with Italy were concerned, your own South American agent, Commander Aubry, reported that he had been held up for \$30,000 for nine submarines, amounting to something over \$180,000, did he not?

Mr. SPEAR. I do not know whether he did or not.

Mr. CARSE. He was not held up; he did not get it.

Mr. SPEAR. He was approached, apparently.

Senator CLARK. I refer you to a letter from Mr. Aubry to Mr. Spear, dated March 11, 1923, which I ask to have marked "Exhibit No. 98."

(The letter referred to was marked "Exhibit No. 98", and appears in the appendix on p. 383.)

Senator CLARK. This letter is in the second paragraph:

Last Thursday I had a long interview with the Minister of Marine, Almirante Alejandro. I went to see him because Boettcher—

Boettcher was another one of your agents, was he not?

Mr. SPEAR. Yes.

Senator CLARK. (continuing reading):

together with the crowd that is around him most intimately gave me warning to go there in the morning at his residence. The Minister started out by telling me that if we could arrange a loan in the States to cover the price for the submarines he will give us the order at once without delay, providing Admiral Vogelgesang will give his O.K. as to the technical aspect of the thing. Of course, I answered the Minister that I would have to cable you (I had already before me by that time your letter of Feb. 8th) with the precise data and therefore it was essential that I should know the amount of money required, that is to say the number of units decided upon and the models; also what guarantees will be given by the Government for the loan. I suggested to him that the most suitable guarantee for a loan will be the Brazilian consular fees in the U.S. (I understand that they amount to \$2,500,000 per annum and they are collectible in the States.)

The people around Almirante Alejandro came to see me that very same afternoon and told me that they will expect from me five letters obligating myself, if the business was done, to pay 2,500 contos for the nine submarines; that comes to about \$30,000 per submarine, a sum that will have to be added to the price. Of course, I told them that I was not authorized to do this but that I would write to my people about it. They then asked me to cable, and I told them I would as soon as I received the memoranda relating to the data, and they agreed to that. Ever since then I know that they are withholding the memoranda up to today because they have tried again and again that I should give them sort of a promise that I would do it. I do not want to ask you to do this yet until I find that it is strictly indispensable, \* \* \*.

In other words, as I understand it Aubry did not want to pay the commission if he did not have to, but was willing to if he did have to?

Mr. SPEAR. Yes.

Senator CLARK (reading further):

I am afraid that it does not matter how much would be to our credit in regard to the essentials of our tenders and the different factors that we have on our side; there will always be someone that will profit on the transaction by increasing the agreed price. I am expecting the memoranda tomorrow, or the day after, and then I will be in position to wire you the exact data.

Do you remember what your attitude was about that proposition?

Mr. SPEAR. I do not remember now what happened with regard to that. I presume the record will show that.

Mr. CARSE. I know we did not pay it.

Senator CLARK. You did not get the contract?

Mr. CARSE. No.

Senator CLARK. Did you agree to pay it if you did get the contract?

Mr. SPEAR. I do not recall that.

Senator CLARK. You do not recall whether you did agree to pay it if you got the contract?

Mr. SPEAR. No.

Senator CLARK. All you know you did not get the contract and therefore you did not pay it?

Mr. CARSE. Yes.

Senator CLARK. On page 2 of this letter, "Exhibit No. 98", Mr. Aubry continues as follows:

Regarding this question, I have already told you that Dr. Machado Coelho, our agent here, is well related and has a good position, but his influence with the present administration is nil, and the Minister of Marine, I have discovered, does not like him at all. Dr. Machado has many other interests to attend to besides ours; he is a director in several companies, and he therefore cannot devote his attention to our interests in proportion to the benefit he is going to reap therefrom. On the other hand, there are many people who are helping us in this business, and Dr. Machado always tried to evade the engagement of the obligations that I want to take with the right ones for the proper distribution of the 3½ percent commission that is allocated to the agency. In other words, he takes the attitude that this business is sure; that it will be done in two, four, six months, or a year, and it is foolish for him to give away money that he already considers as in his own pockets. My attitude is utterly different. I believe that the money shall be obtained by the people that earn it and help in the matter, and I also strongly believe that we will obtain the order quicker by having allies that can really help us.

Now, about that time, to be exact, May 16, 1923, this letter was written, which I offer as "Exhibit No. 99."

(The letter referred to, dated May 16, 1923, was marked "Exhibit No. 99", and appears in the appendix on p. 385.)

Senator CLARK. You offered Vickers an interest in this Brazilian business if they would withdraw their bid, and a much larger interest if they could float a loan in London to handle this business, did you not, Mr. Carse?

Mr. CARSE. What is that?

Senator CLARK. This is a letter dated May 16, 1923, from yourself to Aubry.

Mr. CARSE. I should not be surprised we did that.

Senator CLARK. Perhaps I can save time by directing your attention to the part of the letter I have in mind. In the third paragraph you say that:

Naturally we considered this very important and that it was our duty at once to make such investigation as was necessary as to the possibility of

handling a Brazilian loan. Our first effort in this direction was in cabling to Vickers. We offered them a certain interest if they would withdraw their bid and cooperate with us in securing the business and a much larger sum if they could arrange to float a loan or finance the order in London. They replied it was impossible to finance in London a piece of business to be done in the United States.

**Mr. CARSE.** That is right; we knew we could not finance it in New York. It is different in London; the London bankers take the obligations received by their manufacturers and advance money against them. It is not done to that extent in the United States by any means.

**Senator CLARK.** When you say in this letter, Mr. Carse, the following:

The fact that they spoke to me on the telephone, even though I denied it, gave them a chance of using my name in their statement. The reporter from the United Press, having cable correspondents all through South America, copied this message from the papers and forwarded it without consultation with me, but the following day he came in to see me and after talking the subject over he stated he would send a message quoting me as denying the report, but said then that the first newspaper statement had caused considerable commotion in South America.

Will you explain that?

**Mr. CARSE.** That was the reporter of the New York Mail.

**Senator CLARK.** The first part of the paragraph reads:

A reporter of the New York Mail called me on the telephone one afternoon and asked me about the order for Brazil, which I denied, but he published the statement about the same and the other papers copied him.

What did you mean by that entire paragraph?

**Mr. CARSE.** I think they were holding one of those conferences about naval affairs.

**Senator CLARK.** And the mere fact you were negotiating with Brazil had an effect on that conference, did it?

**Mr. CARSE.** No; the fact that this paper published that we had received an order from Brazil was what had an effect. Since then I do not even talk on the telephone to a reporter.

**Senator CLARK.** Now you say further:

We have the assurance from Vickers that they will cooperate with us in every way possible in Brazil, and I do not think that ultimately it will be necessary to have the order pass through that channel. We have a number of subsidiary companies, and any of the names could be used in closing the contract if necessary, although the Electric Boat Company is the logical company to do that work, the Submarine Boat Corporation itself never appearing in connection with any submarine boat work, it simply being the holding company of the Electric Boat Company stock.

Why would it have been necessary to have a subsidiary company make that contract, Mr. Carse?

**Mr. CARSE.** Because this newspaper article caused Brazil to deny they had given that order to the Electric Boat Co., so if the thing should have been revived, I suggested it would be better to use some other name.

**Senator CLARK.** In that same letter in the last paragraph on page 1, you say:

No announcement or any information was given out from this office, as we appreciate and thoroughly understand the necessity of secrecy in all negotiations with governmental bodies. The fact that we successfully carried through the construction of submarines for Japan during the Russo-Japanese War; the con-

struction of submarine boats and submarine chasers for Great Britain, France, and Italy during the last war without interference from Washington officials, and despite the constant surveillance of German spies, indicates that this office appreciates the necessity of secrecy in relation to all governmental transactions.

Weren't those all violations of the American laws of neutrality, Mr. Carse?

MR. CARSE. No; I don't think so. I will take the Japanese first. At the time of the Russian-Japanese War, we built submarine boats, knocked them down and shipped them as freight across the continent, and shipped them over to Japan just as material—that is, all plates, and so forth, and our crew went over there to Japan and helped assemble them.

Senator CLARK. Did the State Department rule that was not a violation of our laws of neutrality?

MR. SPEAR. No, sir; the law of neutrality was that no arms shall leave the country under its own bottom, but anything shipped on a vessel could be seized, the theory being if it goes on its own bottom it is a vessel of that country. That was the law but they would not permit us to do it. They said it was the law, but we do not want you to do it. That has happened to us since.

Senator CLARK. What was the fact about the manufacture of submarine boats and chasers for Great Britain and Italy?

MR. CARSE. We built them in Canada, in Montreal and Quebec.

MR. SPEAR. As far as that is concerned, the British Government, on the first Government order was carried out just as the Japanese order was—that is, it was to be carried out in that manner, the parts and material to be shipped to England and put together there, and Mr. Bryan who was then Secretary of State said, while that is according to international law and is legal, we would prefer as a matter of policy that you do not do that, because it makes trouble. The German Ambassador worries us, and it is our policy for you not to do that, so we abandoned that idea and had the vessels built in Canada, except 10 of them were built here, and stayed here until we went in the war.

Senator CLARK. Mr. Carse, if these transactions were entirely legal, why did you feel it necessary in this letter to Mr. Aubry to boast you have been able to do that without interference from Government officials, as a tribute to your own discretion in the matter?

MR. CARSE. I told you a few minutes ago about this German Ambassador, and they had their spies around trying to check up. We found a fellow in Bayonne had taken a house where he could look over our plant with a telescope so that he could advise the Embassy at Washington what we were doing. We were not doing anything and he did not see anything, because we were doing it up in Canada.

Senator CLARK. At this time you knew that Commander Aubry was representing Bliss torpedoes in South America?

MR. SPEAR. Yes.

Senator CLARK. And you knew his employment had been on the advice of the office of intelligence in Washington?

MR. SPEAR. I do not know on whose advice.

Senator CLARK. I offer as "Exhibit No. 100" a letter from E. W. Bliss Co. to Commander Aubry.

(The letter referred to was marked "Exhibit No. 100", and appears in the appendix on p. 386.)

Senator CLARK. In this letter, "Exhibit No. 100", the writer states to Commander Aubry that his appointment was at the suggestion of the Office of Naval Intelligence at Washington.

Mr. CARSE. A United States naval attaché.

Senator CLARK. It states as follows:

At the suggestion of the Office of Naval Intelligence at Washington, we called you to know if you would be willing to represent us in the matter of making a tender for our Bliss-Leavitt torpedoes for the Brazilian Government, and we are very gratified that we have been able to come to an arrangement with you and hope that the arrangement will be beneficial both to you as well as to ourselves.

Mr. SPEAR. They wanted a representative and probably asked who was a good man. You did not get this from our files, you must have gotten it from Bliss.

Senator CLARK. It was in your files. Germano Boettcher was another agent?

Mr. SPEAR. Yes.

Senator CLARK. He was a sort of subagent to Aubry?

Mr. SPEAR. I think he went there before Aubry went there.

Mr. CARSE. That didn't amount to anything.

Senator CLARK. He wrote you a letter in 1924 reporting that Rothschild was financing Brazil and therefore the English would get the submarine business.

Mr. CARSE. I do not know, and I did not pay much attention to it.

Senator CLARK. I offer in evidence this letter from Germano Boettcher to the Electric Boat Co., dated May 23, 1924, as "Exhibit No. 101."

(The letter referred to was marked "Exhibit No. 101", and appears in the appendix on p. 387.)

Senator CLARK. It did not make any difference whether you got this business or Vickers got it, it was about as broad as long, from your standpoint?

Mr. CARSE. Yes; that is right.

Senator CLARK. Now, I direct your attention to a report submitted to you by Mr. McNeir, dated May 7, 1923, and I offer this as "Exhibit No. 102."

(The document referred to was marked "Exhibit No. 102", and appears in the appendix on p. 389.)

Senator CLARK. This report, "Exhibit No. 102", says:

I was given the opportunity today of reading a report on the Brazilian matter from an official source which I am not at liberty to state in writing, but which Mr. Spear I believe, will readily recognize.

Mr. Spear, what was the source of that report, do you recall?

Mr. SPEAR. I could not tell you now.

Senator CLARK. Mr. McNeir at that time was your Washington representative, Mr. Spear?

Mr. SPEAR. Yes.

Senator CLARK. He succeeded Joyner on his death, and preceded Chapin?

Mr. SPEAR. I do not think he preceded Mr. Chapin, but Mr. Chapin had attended to one thing and Mr. McNeir had attended to another kind of thing.



Senator CLARK. You do not know what the source of this report was; whether the State Department, the Navy Department, or where?

Mr. SPEAR. I do not recall.

Senator CLARK. Do you recall in that report, Mr. Carse, Mr. McNeir reported that Rear Admiral de Silva of the Brazilian Navy was described as being in the pay of the British naval constructors, and specified the amount of pay he was receiving from these sources?

Mr. CARSE. No; I do not know anything about de Silva.

Senator CLARK. It speaks of him having a great influence over the Minister of Marine.

Mr. CARSE. Yes.

Senator CLARK. And Admiral de Silva was at that time a member of the Commission to the Pan-American Conference at San Diego?

Mr. CARSE. I do not know anything about it at all.

Senator CLARK. Do you recall anything about that report at all, Mr. Spear?

Mr. SPEAR. No; I don't remember that, but I remember there was a Brazilian officer of the name of de Silva. I assume that report originated with one of the American officials in Rio. Whether it was the Navy Department or the State Department, I do not recall. The report must have come from a United States Government official in Rio.

Senator CLARK. The report states that Admiral de Silva was receiving \$110 per month from British constructors. You don't know whether that was Vickers paying de Silva?

Mr. SPEAR. No; I do not know anything about it.

Senator CLARK. In other words that is something Vickers did not notify you about?

Mr. SPEAR. If they were doing it, they did not tell me.

Senator CLARK. Who was doing the building of the two large naval vessels for Brazil at this time?

Mr. SPEAR. Armstrong, not Vickers.

Senator CLARK. That is part of Vickers now, it has been merged with Vickers?

Mr. SPEAR. Not entirely. Armstrong went bankrupt and when it was sold Vickers bought some of that.

Senator CLARK. Vickers is now known as Vickers-Armstrong?

Mr. SPEAR. Yes; but they did not buy all of the assets. They had several shipyards and locomotives, cranes, and so on, and was one of the big engineering firms of England.

Senator CLARK. This report also says that Argentina would look with disfavor on any increase in the Brazilian Navy. That did not influence you against going ahead and trying to sell Brazil all of the ships you could?

Mr. CARSE. No, sir.

Senator CLARK. You asked Mr. McNeir in 1923 to take up with the State Department a question raised by bankers as to what would be the State Department's attitude toward a loan to Brazil floated in this country to buy submarines?

Mr. CARSE. I may have done that.

Senator CLARK. Do you recall what the answer of the State Department was?

Mr. CARSE. No.

Senator CLARK. I offer "Exhibit No. 103", being a letter from Carse to McNeir.

(The letter referred to was marked "Exhibit No. 103", and appears in the appendix on p. 390.)

Senator CLARK. You say you do not know what the answer of the State Department was to this question?

Mr. CARSE. I do not know what the answer was, but nothing came of it.

Senator CLARK. It was true Brazil was trying to get the United States to lend them money with which to buy submarines?

Mr. CARSE. They wanted us to build them on credit, that is, to give them a specific loan to pay for those boats. It was really for us to take their obligations and raise the money if we could.

Senator CLARK. Your agent reported to you on March 4, 1923, that—

The Minister of Marine tells me if I can provide the money, a loan of \$15,000,000, he will sign the contract with me in 24 hours.

Is that what Commander Aubry reported to you?

Mr. CARSE. There are often conditions made when you do not want to go through with the trade.

Senator CLARK. I offer this letter from Aubry to Spear dated March 4, 1933, as "Exhibit No. 104."

(The letter referred to was marked "Exhibit No. 104", and appears in the appendix on p. 390.)

Senator CLARK. In this letter, "Exhibit No. 104", the statement is made to which I have just referred, and now in 1933 the Brazilian matter again came up and Vickers approached you as to what the terms of their bid would be.

Mr. SPEAR. I think so.

Senator CLARK. I offer as "Exhibit No. 105" letter of Commander Craven to Mr. Spear, asking the attitude of Electric Boat with regard to their bid.

(The letter referred to was marked "Exhibit No. 105", and appears in the appendix on p. 392.)

Senator CLARK. At that time a Japanese company was trying to get in on the Brazilian business, was it not?

Mr. SPEAR. As far as I know everybody that knew how to build them was trying to get in on it.

Senator CLARK. You objected strenuously to Japan being allowed to bid?

Mr. SPEAR. I did not want anybody to bid.

Senator CLARK. I offer as "Exhibit No. 106" a letter from Carse to Craven.

(The said letter was marked "Exhibit No. 106", and appears in the appendix on p. 393.)

("Exhibit No. 107" was marked in evidence, and appears in the appendix on p. 393.)

Senator CLARK. In part, this letter, "Exhibit No. 106", reads as follows:

I have seen your letter of November 6th to Mr. Spear regarding the Brazilian naval program and note that you say: "I am told that Japan is going all out

for the whole programme, and therefore I think it reasonable to suppose that pressure may be brought on me to put forward an attractive offer."

Do you know what he meant by that, Mr. Carse, who was going to put pressure to bear on him to put up an attractive offer?

Mr. CARSE. Either Brazil or his own people, if they wanted to get the business.

Senator CLARK. The letter reads further:

I do not understand how Japan has secured the right to bid on building submarine boats for other countries, for in the agreement which I signed for the Electric Boat Company on November 15, 1916, and sent to Vickers on November 17, 1916, after cable correspondence between us, for them to have executed by the Mitsubishi people, the right for a period of twenty years was given only to build boats for the Government of Japan, and while that agreement apparently was never executed but without any notice to us replaced by your agreement of September 22, 1917, with Mitsubishi for a period of twelve years, which limited their right to build vessels for the Government of Japan, and also China and Siam, I do not now question the agreement made in the name of Vickers because on October 25, 1923, I accepted your action in the premises. The matter, however, of the Japanese entering into a world competition in the construction of submarine boats for other countries might be very important to both Vickers and ourselves in the future because of the low cost of wages and material in Japan, and, therefore, the right of the Japanese firm to do this business I think should be carefully scrutinized.

We have not yet received the full details in regard to the Brazilian proposition, but as soon as we have an opportunity to study the matter we will be very glad to take it up with you further, as the question of the Brazilian Government expending the amount necessary for such a great naval program at a time when they are not paying the interest on their foreign obligations may cause some action by other governments in regard to their subjects taking the business on the conditions indicated.

What was the up-shot of the Japanese negotiations?

Mr. SPEAR. Nothing.

Senator CLARK. Did Vickers do anything to keep Japan from being in a position to bid?

Mr. SPEAR. I have not heard anything about it, but nothing has been done.

Senator CLARK. Did Craven make any reply to this communication of yours on the subject of Japanese competition?

Mr. SPEAR. I do not recall.

Senator CLARK. Did he make any reply, so far as you know, Mr. Carse?

Mr. CARSE. I do not recall that he did. The Brazilian proposition was so ambitious it was absurd. They were asking people to bid on a complete navy, and where could they get the money when they were not paying interest on their debts, so I considered it a joke myself. We have not gone in and spent any money trying to make proposals to them.

Senator CLARK. There was no way in which the Japanese could bid on this Brazilian business without ignoring your patents?

Mr. CARSE. No.

Mr. SPEAR. Let me correct that, if I may, because Mr. Carse is not as well informed as I am.

Senator CLARK. Go ahead, Mr. Spear.

Mr. SPEAR. There are several yards in Japan that have been entrusted with business by the Government, and with those yards nobody had any agreement with them that they would not violate a patent.

Senator CLARK. That is what I asked Mr. Carse, if they would not have to disregard your patents?

Mr. SPEAR. If there were any patented designs in the boat that we had.

Senator CLARK. I was basing my question on Mr. Carse's statement of yesterday that it was impossible to build a submarine without infringing your patents?

Mr. CARSE. But how are you going to tell if they infringe patents unless they let you look into the boat?

Mr. SPEAR. Some years ago when we had what we considered the basic patents, that would be correct, but those patents have expired. We have a number of detail patents, but the basic original patents are no longer in force in any country. When you come to a detail, we have patented the best way of doing it, but a man can do it some other way if he wants to. The point I wanted to bring out there were no contractual relations with these Japanese shipyards that would prevent them from building a boat if they wanted to.

Senator CLARK. I was speaking of your patents, Mr. Spear.

Mr. SPEAR. I misunderstood you.

Senator CLARK. Commander Craven wrote you on December 16 a letter, Mr. Carse, which I offer as "Exhibit No. 108."

(The letter referred to was marked "Exhibit No. 108", and appears in the appendix on p. 393.)

Senator CLARK. In this letter, "Exhibit No. 108", Commander Craven says:

With regard to your first letter, you will realize, of course, that I am not thinking only of the Mitsubishi people as competitors. I am told that the Japanese Ambassador has definitely stated that the Japanese shipbuilding industry will put forward offers which will be better than anything that can come from other countries, and, of course, it may pay the Japanese Government to give some veiled subsidy to their shipyards in order to have a small navy building in Japan in case an emergency arose.

Do you know anything about that?

Mr. CARSE. Except this letter, that is all I know. We have no information from Japan.

Senator CLARK. Now, Mr. Spear, on January 30, 1934, you wrote Mr. Carse about the plans proposed by Mr. Bardo of the New York Shipbuilding Co. in connection with Brazilian business. I offer that letter as "Exhibit No. 109."

(The letter referred to was marked "Exhibit No. 109", and appears in the appendix on p. 394.)

Senator CLARK. What was that letter about, Mr. Spear?

Mr. SPEAR. That was this, as Mr. Carse has said this Brazilian business was practically a whole navy, including all kinds of ships. The New York Shipbuilding Co. is a large shipbuilding company in Camden, and they thought they would like to make a tender, or they wanted to make a tender where they could tell the Brazilian Government they could take all of the elements of their program. For this reason Mr. Bardo approached me to see if we would be willing, if they got the order, to build the submarines, and I said, "Yes, if we get the money for it and not nuts", because there was a good deal of talk about bartering at that time. So I gave Mr. Bardo a letter which he could show, that if he was entrusted with this contract, and if conditions were satisfactory, that we could take

care of the submarine program. I also wrote a letter to the Minister of Marine in Brazil indicating we did not care to submit any bid on this work, but if when he came to the submarine item he cared then to negotiate with us we would be glad to take the matter up with him. That is the last I ever heard of it. I do not think they have placed any orders with anybody.

Senator CLARK. You recommended to Mr. Carse, at that time, did you not, if you were going in with anybody on such a deal, that it would be to your advantage to go in with Vickers, and have the work done in Vickers' yard in preference to having the work done in the New York shipyard.

Mr. SPEAR. I do not recall it, but if you have the letter, that is so.

Senator CLARK. You say in the middle of the third paragraph of that letter that—

If, therefore, we wish to submit any tender at all, the only practical way to do it would be to bid for construction by Vickers.

Mr. SPEAR. That was the question of our submitting a tender of our designs and having the order executed in England.

Senator CLARK. Mr. Spear, how close to capacity have your plants been operating.

Mr. SPEAR. At what time?

Senator CLARK. At January 30, 1934, this year.

Mr. SPEAR. That depends on what you call capacity.

Senator CLARK. I asked that question, Mr. Spear, because in this letter you say :

There is a distinct limit to our ultimate capacity—

Mr. SPEAR. Yes, sir.

Senator CLARK (continuing quotation) :

and it looks to me as if we are likely to reach that limit before very long without any Brazilian business.

Mr. SPEAR. Yes, sir; because we anticipated business from the United States Government and also some other government which would pretty well fill us up.

Senator CLARK. Mr. Spear, I call your attention to a letter dated December 26, 1925, from you to Commander Aubry, who was at that time in Argentina. I will introduce that as "Exhibit No. 110."

(The letter referred to was marked "Exhibit No. 110" and appears in the appendix on p. 395.)

Senator CLARK. In that letter you state as follows:

DEAR COMMANDER AUBRY: 1. I am in receipt this morning of your cable of the 24th in reply to my no. 8 and after further consideration of the matter of Brazilian commissions, I am today authorizing Mr. Sloat to add to the net prices as follows, viz, "7½% for special commission."

What is that, Mr. Spear? Do you know?

Mr. SPEAR. I do not know to whom it was to go. It was some kind of a special commission.

Senator CLARK. He did not tell you who he was going to pay?

Mr. SPEAR. I do not think so. I have no recollection of it.

Senator CLARK (reading) :

"2% for you."

That was Aubry?

Mr. SPEAR. Yes, sir.

Senator CLARK (reading):

"3% for him."

Whom did you mean by "him"?

Mr. SPEAR. Mr. Sloat, I presume.

Senator CLARK. Who was Mr. Sloat?

Mr. SPEAR. Sloat was the local agent.

Senator CLARK. And you continue:

\* \* \* and, if necessary, local commissions up to 2½% making the maximum 15%.

Was not that a heavy commission, Mr. Spear, in selling submarines?

Mr. SPEAR. Yes, sir; I think that was the heaviest one we ever agreed to.

Senator CLARK. But you did not get the business and it did not cost you anything?

Mr. SPEAR. We did not get the business and it did not mean anything.

#### RELATIONS—ARGENTINE REPUBLIC

Senator CLARK. Now, Mr. Carse, after the war, when you went after South American business and got into the Argentine situation, you found that there was competition there from Germany and from Sweden, did you not?

Mr. CARSE. There was competition from all over.

Senator CLARK. You were particularly sensitive about the Swedish competition, were you not?

Mr. CARSE. I think some Swedish firm had some submarine boats, old boats, which they were trying to sell, or something of the kind.

Senator CLARK. I direct your attention to a letter from Mr. Chapin, your Washington representative, to the Secretary of State, dated February 15, 1922, which I will offer as "Exhibit No. 111", in which he asked the State Department to examine into the situation and protest against Swedish competition in this matter, did he not?

Mr. CARSE. I do not know whether he did or not.

(The letter referred to was marked "Exhibit No. 111" and appears in the appendix on p. 395.)

Senator CLARK. Do you know whether you directed him or authorized him to do that?

Mr. CARSE. I do not think I directed him to.

Senator CLARK. I will read the letter in part.

Mr. CARSE. Mr. Chapin was a lawyer and had a lot of ideas.

Senator CLARK. This is the last paragraph of the letter, Mr. Carse:

An answer to this cable is expected within a few days, and in the meantime it is respectfully requested the Department will exercise its good offices to ascertain from its legation in Sweden or its representatives in Germany the actual state of affairs and, if proper, make protest to the Powers concerned against conducting an enterprise which is so palpably contrary to the intent of the Treaty of Versailles.

Do you remember anything about that?

Mr. CARSE. That means that Germany, who had been prohibited by the Treaty of Versailles from doing anything in relation to sub-

marine boats, had established yards in Holland and in Sweden, and from those places they were offering to build submarine boats all around the world, and it was a clear transgression of the terms of the Versailles Treaty, and that is the reason that Chapin presented that to the State Department.

Senator CLARK. Your agent in South America, Mr. Aubry, on whose report this protest was brought, had been the Peruvian delegate to the Reparations Commission shortly after the war, had he not?

Mr. SUTPHEN. Yes, he went there.

Senator CLARK. He mentions that in one of his letters. That is where I got the information.

Mr. CARSE. It was in connection with those German boats that were interned and sold, which you had up a little while ago, I think.

Senator CLARK. When you started into the Argentine, Mr. Carse, you realized that the matter of selling submarines in Argentina depended entirely on the attitude of the bankers in floating loans, did you not, and approached the bankers to find out what was going on?

Mr. CARSE. Did I? I thought Argentina was good.

Senator CLARK. Here is a letter from Mr. Spear to you, under date of January 13, 1922, which I will offer as "Exhibit No. 112."

(The letter referred to was marked "Exhibit No. 112", and appears in the appendix on p. 397.)

Senator CLARK. Mr. Spear states in that letter in part:

The morning papers refer to negotiations now going on in New York with regard to additional loans to the Argentine. In my judgment the financial aspect of the matter will ultimately control the placing of the order and I therefore think that it is of vital importance that we should get in touch with the banking people who are negotiating this loan. I passed the same thought on to Bethlehem but do not think that it would be well to rely wholly on them.

Mr. CARSE. The loans made by European countries to South American countries, and countries in other parts of the world, for many years have been largely based upon the amount of the loan being spent in that country that advanced the money, so that the European manufacturers always had that definite advantage over the American manufacturers.

We came in touch with it quite some years ago, and I talked with different banking houses in New York City who were taking such loans as the Argentine loan and the Brazilian loan, and so forth, as to their taking the same attitude in relation to these foreign loans as the European bankers did, but it never appealed to them to make that provision. I explained to them that I thought it was the custom of the European bankers, because of their close connections with the manufacturers. In Germany, for instance, they very largely own the manufacturers. But they could not see it.

So that this thought of Mr. Spear—and a good many people had that—was that I ought to talk to the bankers and get them to offer to lend money to these different countries on the basis that they were spending money here, which I knew was impossible of accomplishment.

Senator CLARK. Did you talk with the bankers?

Mr. CARSE. I talked in a general way, and they always said that they were not interested in that phase of the business. All they

considered was whether the obligation was a good one, so far as they could ascertain, and whether it could be sold. They did not care to follow on and be responsible for the application of the money.

Senator CLARK. Mr. Spear, about this time, that is to say, about in 1922, you made an arrangement with Bethlehem to defray one-half of the expenses of Commander Aubry's agency in South America, did you not?

Mr. SPEAR. I think with respect to Brazil. I do not remember exactly.

Senator CLARK. In that connection I will offer a letter dated May 25, 1922, from Mr. L. Y. Spear to Mr. H. R. Carse as "Exhibit No. 113."

(The letter referred to was marked "Exhibit No. 113" and appears in the appendix on p. 397.)

Senator CLARK. "Exhibit No. 113", in part, reads as follows:

I have made definite arrangements with Bethlehem under which they assume one half of this expense which should be accordingly charged against them. I expect to make definite arrangements with Bethlehem, under which so long as we are working with them, they will carry one half of the expense involved by special representation in South America, and if that goes through they will be charged one-half of our future payments to Commander Aubry.

Did you make such an arrangement covering all of South America, Mr. Spear?

Mr. SPEAR. We apparently did.

Senator CLARK. This said you made an arrangement with regard to the Bethlehem venture and that you intended to make one covering all of South America.

Mr. SPEAR. I do not recall, but to the best of my recollection it never went beyond this, but I would not be certain. I feel fairly sure that is where it stopped.

Mr. CARSE. I do not recall having received any remittances from Bethlehem. If there had been any such as to Bethlehem, they would have come to our office.

Senator CLARK. They did definitely make an arrangement to assume one-half of the Brazil solicitation, according to Mr. Spear's letter.

Mr. SPEAR. Yes, sir.

Mr. CLARK. And he states he is charging against them, but I do not know what that means.

Now, Mr. Spear, on September 2, 1923, you got a letter from Mr. Aubry in which he explained the situation in the Argentine and the delay on their part in ordering any munitions or armaments in terms of competition. I will offer that as "Exhibit No. 114."

(The letter referred to was marked "Exhibit No. 114", and appears in the appendix on p. 398.)

Senator CLARK. Mr. Aubry in that letter says in part as follows:

The news that I have from the Argentine from very reliable sources has been always the same, that is, that the Government is developing a plan there which consists in presenting to Congress bills for armament so exaggerated that they know cannot be passed and, at the critical moment if they see Brazil building anything, they will agree to a logical reduction and then also build. In other words, they are bluffing because they think in that way they will prevent Brazil from building anything. Here they have absolutely ignored these tactics, and if they have not ordered what they so badly need it is because they cannot do it for the reasons I have already explained.



In other words, it was Mr. Aubry's opinion that Argentina did not want to build ships and would only do it if they were compelled to do it by construction by Brazil.

Mr. SPEAR. That was the advice apparently which we had from Aubry.

Senator CLARK. Nevertheless, Mr. Aubry, as your representative was actively engaged in trying to induce both Brazil and Argentina to enter on a building program, was he not?

Mr. SPEAR. He was engaged in trying to get business in both countries.

Senator CLARK. Knowing that if you sold to Brazil, it would start Argentina building and would start a building program?

Mr. SPEAR. He says that it was so reported to him.

Senator CLARK. You were trying to sell both countries at that time?

Mr. SPEAR. Trying to sell whatever market existed.

Senator CLARK. At that particular time you were trying to sell both Argentina and Brazil?

Mr. SPEAR. I think they were both reasonably active at that time.

Senator CLARK. In this same letter there is a suggestion from Mr. Aubry to you that you could secure information from your friends in the American mission. Who were those friends?

Mr. SPEAR. If Admiral Vogelgesang was still there, he was a classmate of mine at Annapolis, and a life-long friend and acquaintance, and I knew personally, and had for a number of years one other member, perhaps two other members of the mission.

Senator CLARK. In 1923 you were engaged in fixing up matters, not only with Vickers but with the Italian builders, were you not, or trying to?

Mr. SPEAR. Yes, sir; we had some dealings with Italian builders.

Senator CLARK. I offer "Exhibit No. 115", being a letter from you, Mr. Spear, to Mr. Carse, under date of September 20, 1923.

(The letter referred to was marked "Exhibit No. 115", and appears in the appendix on p. 399.)

Senator CLARK. I will read in part from "Exhibit No. 115." [Reading:]

As Dawson has agreed in principle—

I assume that is Sir Trevor Dawson—

I propose to communicate now with Passano.

Passano was one of your European representatives?

Mr. SPEAR. Yes, sir.

Senator CLARK. He was a marquis, was he not?

Mr. CARSE. Marquis de Passano.

Senator CLARK. Where did he live?

Mr. SPEAR. He was an Italian. In the last years of his life he lived in Paris, and in the early years of his life in St. Petersburg.

Senator CLARK. I will read that quotation again:

As Dawson has agreed in principle, I propose to communicate now with Passano with a view of ascertaining whether our Italian friends want to go into the matter and if so, whether they are in a position to do the needful with regard to Italian diplomatic support.

What did he mean by "to do the needful with regard to Italian diplomatic support"?

Mr. SPEAR. The Italian diplomatic support.

Senator CLARK. What was involved? Have you any very definite idea about that, Mr. Spear?

Mr. SPEAR. The Italian Government gives its industry the strongest kind of diplomatic support. In fact, it was reported that they guaranteed their builders against a loss.

The CHAIRMAN. Mr. Spear, we had a letter introduced here yesterday, written by Basil Zaharoff, in which he used that same identical expression. Has it become rather contagious?

Senator CLARK. Maybe it is a code word.

Senator BONE. Is that a trade expression?

Mr. SPEAR. I think Sir Basil is the real author and some of us have quoted it.

Senator CLARK. You did not actually expect Italian business?

Mr. CARSE. We had an Italian licensee.

Senator CLARK. You did not actually expect to get the business?

Mr. CARSE. We had an Italian licensee.

Senator CLARK. I understand that, but you say in the next paragraph of this letter—

Mr. CARSE. Who was different from the other Italian yards. So that if our licensee could arrange to get business then, offering our type of boat rather than the type that was built by the other Italian yards, which we do not of course consider comparable to ours, then we would get a royalty on that construction.

Senator CLARK. But you did not expect—

Mr. CARSE. If you cannot get the business one way, you can probably get it another way.

Senator CLARK. That is the rule in the armament business is it not, Mr. Carse?

Mr. CARSE. I think it is the rule in any business, Senator.

Senator CLARK. You did not actually expect your Italian licensee to get the business, did you, Mr. Spear, because you provided that they should make a bid higher than Vickers'. Why was that?

Mr. SPEAR. Because we felt if it was a matter of Italian influence they could stand a higher price. I presume that is the reason.

Senator CLARK. You say in the next part of that letter [reading]:

The general idea, of course, is to fix the Italian price a little higher than Vickers' price and if by any chance they should get the order, the profit will be ample to take care of them as well as Vickers and ourselves.

In other words if Vickers got an order or you got the order, there would simply be a split between you and Vickers, but if you had to give the Italians any, you would give them a split?

Mr. SPEAR. Not if we got it, there would be no split.

Senator CLARK. Did you not have an arrangement in Argentina that if Vickers got it, they got a split out of it?

Mr. SPEAR. I do not think so.

Mr. CARSE. Vickers had no rights in South America,

Mr. SPEAR. I do not think they had any arrangement where they would share with us if we got an Argentine order.

Mr. CARSE. The equalizing things were with respect to Europe and the Asiatic stuff.

Senator CLARK. Now, instead of building these submarines, Argentina finally bought battleships from Bethlehem, did they not?

Mr. CARSE. Not at that time.

Senator CLARK. And all you got out of it was a matter of some guns and bombs.

Mr. SPEAR. No; I think the old Argentine battleships, Senator, were built a good many years ago.

Senator CLARK. Mr. Spear, here is a letter under date of January 7, 1925, from yourself to Mr. Carse, which I will offer as "Exhibit No. 116."

Mr. SPEAR. Yes, sir.

(The letter referred to was marked "Exhibit No. 116" and appears in the appendix on p. 400.)

Senator CLARK. In that letter you state in part as follows:

When this negotiation started, the order was of substantial size, but owing to the diversion of their funds to battleship construction by Bethlehem, they have had to cut it down to small proportions, so that the importance lies not in the amount of money involved but in the fact that they have adopted our type of stuff in competition with the British, which, of course, puts us in a preferred position to get the business when they are ready to place a substantial order, as they well may be next year.

Mr. SPEAR. Senator, that was a reconditioning of the old job. The word "construction" was not the proper word I should have used. The ships were actually built 10 or 12 years ago.

Senator CLARK. You got the contract for the Y-guns, arbors, cartridge cases, and depth charges; did you not?

Mr. SPEAR. Yes, sir; as I recall it, that is what we got.

Senator BONE. Mr. Spear, may I ask what your firm manufactures or can manufacture in the way of armament? Did you ever make torpedoes, also? Do you manufacture guns?

Mr. SPEAR. We have made a few guns.

Senator BONE. How large a gun can you make with your equipment?

Mr. SPEAR. It has never been studied out, but I think about a 4-inch.

Senator BONE. Some of these submarines carry a pretty big gun, 6-inch.

Mr. SPEAR. The great big ones they used to build did, but the modern ones are limited by treaty.

Senator BONE. Do you undertake to make cartridges and cartridge cases?

Mr. SPEAR. No, sir.

Senator BONE. If you get a contract of that kind, you shop it out to some firm which makes them?

Mr. SPEAR. If we get an order regarding supplying ammunition, we simply buy it.

Senator CLARK. In this case, did you shop it out to some manufacturer?

Mr. SPEAR. Those depth charges and Y-guns, and those things we could build ourselves.

Senator CLARK. Depth charges, arbors, cartridge cases, and Y-guns.

Mr. SPEAR. We did make the cartridge cases.

Senator CLARK. Do you make guns?

Mr. SPEAR. It is not a gun but an antisubmarine weapon.

Senator BONE. Do you make torpedoes?

Mr. SPEAR. No, sir; we do not.

Senator CLARK. Did you have an interest in Whitehead at one time?

Mr. SPEAR. No, sir; they were licensees of us.

Senator CLARK. You had nothing to do with torpedoes?

Mr. SPEAR. No, sir.

Senator BONE. What outfit makes torpedoes?

Mr. SPEAR. I do not think any of them do.

Senator BONE. The Government makes them?

Mr. SPEAR. The Government makes them themselves. The E. W. Bliss Co., of Brooklyn, for many years was the only private source of supply. The Government gave some of them to them, and the Government built some of them, but my information is that the Government is doing it itself, because it put up extra factories. Their requirements are not very great, and they do it all themselves.

Senator CLARK. Mr. Carse and Mr. Spear, to refresh your memory on the arrangements which you had with Vickers with regard to the Argentine business, I call your attention to a memorandum of agreement dated February 27, 1924, and signed on behalf of the Electric Boat Co. by L. Y. Spear, which I will ask to have marked as "Exhibit No. 117." That letter reads as follows:

#### EXHIBIT No. 117

FEBRUARY 27, 1924.

MESSRS. VICKERS, LIMITED,  
London.

#### *Argentine Submarine Business.*

DEAR SIR: 1. In conference with General Livingston, representing you, the following arrangements have been agreed to with respect to Argentine submarine business.

2. All previous understandings and agreements are hereby canceled and replaced by what follows below.

3. Both companies will do their utmost to eliminate all other competition in Argentine and will cooperate fully to that end, each consulting and advising with the other as may be necessary to effect this purpose.

4. In the event of the Electric Boat Company receiving an order for construction in the United States or in the Argentine it shall pay to Vickers Limited five percent of the gross contract price thereof, exclusive of armament. Reciprocally, in the event of Vickers Limited receiving an order for construction in Great Britain or the Argentine it shall pay to Electric Boat Company five percent of the gross contract price thereof, exclusive of armament.

In the event of it being necessary for either party to supply its own special designs, including working drawings, to the other party the party obtaining the order shall pay ten percent instead of the five percent above mentioned.

In the event of the Electric Boat Company receiving an order and electing to carry out the construction work in whole or in part in Barrow the above mentioned five percent will be payable to Messrs. Vickers Limited and the construction will come under the proposed general agreement for any such construction work.

5. The above provided percentage payments shall be due and payable *pro rata* as and when payments are received from the Argentine Government.

6. Neither party shall submit nor have submitted any tender from any outside controlled source except with the consent and approval of the other.

Yours very truly,

ELECTRIC BOAT COMPANY,  
By L. Y. SPEAR.

That payment to Vickers was not in the nature of a royalty, was it, Mr. Spear?

Mr. SPEAR. No; it was just a business arrangement.

Senator CLARK. That is what is ordinarily known in common parlance as an agreement in restraint of trade, is it not, Mr. Spear?

Mr. SPEAR. I think it would be called so in the United States.

Senator CLARK. In other words, you divide up the territory and each divvies, no matter who gets the business?

Mr. CARSE. Just us two as against the others.

Senator CLARK. Just you and Vickers, in accordance with your understanding, and you agree to split the returns no matter who gets the business?

Mr. SPEAR. That is the way of it. We considered that was the wise thing to do.

Senator BARBOUR. Was there pretty keen competition on basic patents?

Mr. SPEAR. That was when? 1923?

Mr. CARSE. 1924.

Mr. SPEAR. I should doubt, Senator, if there were many patents left at that time.

Senator BONE. That is a practical adaptation of the "hands across the sea" policy, is it not?

Mr. SPEAR. I should call it a practical application, yes, sir.

Senator CLARK. Now, Mr. Spear, in 1926 you told your European agent, Mr. Koster, that if you got this business you were going to have the construction work done in Italy and Belgium, did you not?

Mr. SPEAR. Which business is that, sir?

Senator CLARK. That is the Argentine business. I call your attention to a letter from Captain Koster, under date of July 10, 1926, addressed to you, which I will offer as "Exhibit No. 118."

(The letter referred to was marked "Exhibit No. 118" and appears in the appendix on p. 401.)

Senator CLARK. "Exhibit No. 118" starts off in this fashion:

Subject: Argentine.

DEAR SPEAR: I have received your cablegram of July the 8th, as follows:

"European construction for Argentine probably essential account price. Procure immediately all information and requirements from Galindez mission in London. Subject to necessary arrangements with Vickers to be made later contemplate construction Italy or preferably Belgium. Ample time preparation design and estimate essential. Unless Johnstone presence Finland essential suggest that you recall him soon to assist you."

In referring to Galindez mission, that was the Argentine Mission in London at that time, was it not?

Mr. SPEAR. Yes.

Senator CLARK. At that time Captain Koster was complaining about his compensation, was he not, Mr. Spear, he being your European representative?

Mr. SPEAR. I know he was at one time. I do not know whether it was then or not.

Senator CLARK. He says:

I am now handling outside the usual negotiations for submarines, the following matters—

and he enumerates what he is doing for you in various places.

Mr. CARSE. Under an arrangement which Mr. Rice made with him in 1912, his compensation was either in pounds or dollars, and some time during the period he wanted to change to francs. It would have been 100,000 francs.

Senator CLARK. He enumerates what he is doing for you. First—

1. Obtain affidavits for plans covering claim against the German Government.
2. Direct campaign in Holland with the aid of French and Italian, and perhaps the United States Government—if you can obtain that instructions be sent to your Ambassador at The Hague—in view of the combating of the “N. V. Ing. Kant v. Scheepsbouw”, as well as further German activities.
3. Obtain information, data, and, if possible, plans about German torpedoes.

What was it that he was trying to obtain about German torpedoes, Mr. Spear?

Mr. SPEAR. We were trying to get some information about it.

Senator CLARK (continuing reading):

4. Obtain requirements and information about Argentine submarines.
5. Direct lawsuit against Whitehead-Flume, in which the company has a 50 percent half interest.
6. Follow up orders for guns, etc., for Peru.

The CHAIRMAN. For what company?

Senator CLARK. That company. Mr. Carse testified on yesterday that they did not want to put up their money for the suit and if Koster would go ahead and do it, they would give him half of what he got. [Continuing quotation:]

6. Follow up orders for guns, etc., for Peru.
7. Development business Y-gun, Davis gun, and depth charge.
8. Reception of directors and friends of the company.

What did that duty consist of?

Mr. SPEAR. Showing them the right place to get lunch.

Senator CLARK. He feels as if he has not been rightly treated, for in the next to the last paragraph he states:

For all this important work, outside of the normal business, the company pays me a salary in francs, which is equivalent to what, I suppose, your draftsmen or your stenographers get, and whilst you wrote to me that for some time you had been thinking about this matter, I wish to say that the time to act is now, and I request to be paid a suitable salary which will allow me to live like a man in my station of life, and which I beg you to fix at one thousand dollars a month, payable in dollars.

What did you do about that?

Mr. SPEAR. Mr. Carse arranged that.

Senator CLARK. How much did you pay him?

Mr. CARSE. It was not as much as that.

Senator CLARK. How much was it?

Mr. CARSE. Because I think he wanted 50,000 francs, but when the franc got down to about 3 cents, he was not getting very much, about \$1,500 or \$1,800 a year. Of course, we had to give him some decent compensation, and I think we raised him up to perhaps seven or eight thousand dollars.

Senator CLARK. In 1926 you did actually obtain the intervention of the State Department to assist you in obtaining business for construction in Belgium, did you not?

Mr. CARSE. I do not know. We tried to arrange it.

Senator CLARK. I call your attention to a letter dated September 16, 1926, which I will offer as "Exhibit No. 119."

(The letter referred to was marked "Exhibit No. 119", and appears in the appendix on p. 401.)

Senator CLARK. This letter is addressed to Mr. C. S. McNeir, Hibbs Building, Washington, D.C., and is signed by Butler Wright, Assistant Secretary of State. The letter reads:

On September 9 the Department at your request informed the American Ambassador of Buenos Aires by cable that the Electric Boat Company of New York was competing before an Argentine Commission in Paris for an order for three submarine torpedo boats of about 900 tons each, which it was proposed to build at the works of the Cockerill Company in Belgium from designs and under the superintendence of the Electric Boat Company which would also furnish certain parts. The Ambassador was instructed to seek an early opportunity informally to request the appropriate Argentine authorities that American firms be given an equal chance to compete for the business and that their offers receive consideration equal to that accorded to any other foreign companies.

The American State Department certainly was not doing anything particularly for American labor when they tried to obtain work for the Cockerill Shipbuilding Yards in Belgium, was it?

Mr. CARSE. The Cockerill proposition was based entirely on price. It was absolutely impossible to get the work done in the United States because of the cost of wages.

Senator CLARK. Yes, but what business was it of the Department of State to be trying to procure business for the shipyards of Cockerill in Belgium?

Mr. CARSE. It would help us.

Mr. SPEAR. It would benefit us.

Senator CLARK. It would help you, yes.

Mr. SPEAR. We make all of the plans here and supply certain parts and get a royalty.

Mr. SUTPHEN. We supply the engines.

Mr. CARSE. We made an arrangement with Cockerill to do the work. Cockerill was considered one of the finest engine plants in the world.

Senator CLARK. It may be a very fine engine plant but it does not employ any American labor, does it?

Mr. CARSE. No. But the Argentine Commission, when we submitted Cockerill, they sent a representative to examine them, and they reported that he was not competent to do the work. Of course, we knew that was not so, and there was expressed a desire to have the work done by France because of some diplomatic relations. So we made an arrangement with a French concern to act as a licensee. Well, something went wrong there. Also with an Italian firm and something went wrong with that.

We might as well be frank about it and tell you what the real story was. It was this. Galindez, the admiral who was the head of this commission to place this order, his wife was a niece of Orlando, the head of a shipbuilding concern in Italy who had been at one time Premier of Italy. So the contract was given to the Orlando shipbuilding firm. Of course, everybody did not understand that at first and so we wasted a lot of typewriting and both-

ered other people trying to present a proposition that would be acceptable to them.

Senator CLARK. Mr. Carse, in 1926, in November, you got a cablegram from Commander Aubry from Buenos Aires, in which he said he could get a contract if you would pay \$50,000 special commission. I refer you to this cablegram which I will ask to have marked "Exhibit No. 120."

(The cablegram referred to was thereupon marked "Exhibit No. 120", and appears in the appendix on p. 402.)

Senator CLARK. This cablegram is dated November 14, 1926. Do you know whether that had to do with Argentine business or Peruvian business, both of which Aubry was handling at this time?

Mr. CARSE. This was undoubtedly Argentine.

Senator CLARK. He was in the Argentine?

Mr. CARSE. Yes.

Senator CLARK. In that cablegram Mr. Aubry says:

No. 3. I am of opinion that we will obtain orders for six—

I suppose he means six submarines?

Mr. CARSE. Yes.

Senator CLARK (continuing reading):

for six now, but we must agree to pay 50,000 dollars cash against signing (on) contracts as an extra local commission. In return, they will also maintain price of your three therefore such net amount ought to be reduction of price not to be included. Writing contracts. Cable if you accept. Juan Leguia due to arrive New York 15th November. He may be interested in amphibians. Reply by Postal.

What did he mean by amphibians?

Mr. CARSE. Amphibian airplanes?

Senator CLARK. Did you do any business with Juan on the subject of amphibians?

Mr. SPEAR. No; we tried to. We were not directly interested, but we knew the people who built them very well.

Senator CLARK. What was that special commission of \$50,000, was that bribery?

Mr. CARSE. I do not know whether it was bribery. He had to pay it to some people down in Buenos Aires. I do not know to whom.

Senator CLARK. And you were perfectly willing to do that, were you, Mr. Carse? You responded on November 15th by cable, which I will offer as "Exhibit No. 121."

(The cable referred to was marked "Exhibit No. 121", and appears in the appendix on p. 402.)

Senator CLARK. The translation of this cable is:

No. 4. With understanding that unit price for six will be same as already quoted for three that is \$713,500 we agree to additional commission total \$50,000 payable cash on signature contracts. Important you defer submitting contract form until after receipt information from us by next steamer. Telegraph whether such delay permissible also your opinion regarding maximum permissible time for delivery of six. Congratulations on prospects.

Mr. CARSE. Yes; that is true. I agreed to pay \$50,000.

Senator BONE. That would be considered as "doing the needful", would it not?

Senator CLARK. "Greasing the ways", is another expression.

Senator BONE. That is perhaps a more euphonious term.



**Mr. CARSE.** Call it what you please, but he got down there and talked around to people who had access or something of that nature. This man coming from the outside could not secure the business in Buenos Aires and keep all the commission in the transaction, and this man thought that he was to give some to him.

**Senator BONE.** Did you get the business?

**Mr. CARSE.** No, sir; we did not.

**Senator BONE.** Then evidently somebody else did more than the needful down there, if they got the business. Is that a fair assumption?

**Mr. CARSE.** I think I explained to you our understanding of how the business went otherwise. Apparently Admiral Galande was more important than some other person in Buenos Aires.

**Senator BONE.** That particular gentleman may be more in need of the needful and was willing to meet other offers that were tendered. Is that a fair assumption?

**Mr. CARSE.** I do not know about Admiral Galande. Mr. Aubry evidently was putting his money on the wrong horse.

**Senator CLARK.** Then you did get a later explanation from Mr. Aubry as to this transaction on March 24, 1927, which I would like to offer as "Exhibit No. 122."

(The letter referred to was marked "Exhibit No. 122", and appears in the appendix on p. 402.)

**Senator CLARK.** This evidently has to do with the same \$50,000 special commission. It is dated March 24, 1927. It reads:

MY DEAR SPEAR: I wish to acknowledge receipt of your personal letter of February 10th and your 3 letters of February 10th. Nos. 124, 125, and 23; also yours of Feb. 11th, for all of which please accept my best thanks.

I must apologize for not having written after my letter of February 24th, with the exception of a very short one under date of March 10th. The reason for this being that the impressions received since February 24th, until recently have caused many uncertainties which placed me in the position of preferring to write you as soon as I was certain of what I was saying, and that, unfortunately, was not the case from February 24th up to March 16th. My cable of March 8th requesting the \$20,000, in advance of commission promised, duly arrived on the 10th March. I cabled you in regard to this because it was imperative to get action from the man to whom we have offered \$50,000, and I knew at the moment that only he could avoid the consummation of the plans of the Minister of Marine and the Minister of the Treasury in regard to French construction. That man told Ribero that he would not undertake any action that might compromise himself in any way unless he could see part of the money offered in sight.

In other words, he was perfectly willing to compromise himself if he could see the color of his money.

... and I therefore made arrangements by which he might be sure of obtaining this amount of \$20,000—and I also made sure that he cannot touch the money until the contract is signed, so I am therefore responsible, as I stated in my cable, for the refunding of the money to the Company in case the Company or our licensees do not obtain the contract.

Then further on in the letter, if you may recall, he says:

... but I certainly can tell you that my strong opinion is that we will not lose the order, one way or another.

So apparently Mr. Aubry was willing to resort to one way if he could not get the contract in another.

**Mr. CARSE.** He was very sure of that business. We did not get it, and we needed it, too, very badly.

Senator CLARK. Mr. Aubry was even able to insert editorials in prominent Argentine newspapers from time to time, was he not, Mr. Carse?

Mr. CARSE. Well——

Senator CLARK. He says further in this letter:

Your cable No. 68 in reply to my No. 33 was also very welcome, because we are making a very, very big effort to develop a great campaign to see that all our work is not lost at the last minute by a combination such as the French one which I explained to you in my letter of February 24th. We have been able, in this respect, to get an editorial in the most reliable newspaper in the Argentine. "La Prensa", which I herewith enclose in order that you may have an idea of what it says.

And then he says very modestly:

You can, I suppose, imagine who is responsible for this editorial.

Did he receive any compensation for controlling the newspapers of Argentina?

Senator BONE. That is the good old Insull and power trust technique?

Mr. CARSE. Some Argentinean wrote it for him, probably. He could not do it himself.

Senator CLARK. Then a little later, in 1927, Mr. Spear, you had a scheme on for getting some Argentine business which was to be built in France, did you not?

Mr. SPEAR. Was it not the same business?

Senator CLARK. I understood from Mr. Carse that he never had any arrangement with a French concern; I understood him to say that this morning.

Mr. SPEAR. I think we did have a temporary arrangement at one time.

Mr. CARSE. I explained to you that we did have an arrangement at that time. At the same time that we had the Cockerill matter we arranged I think with Normand, a French concern.

Senator CLARK. I offer as "Exhibit No. 123" a letter dated Lima, Peru, May 12, 1927, to Mr. Spear, from Mr. Aubry.

(The letter referred to was marked "Exhibit No. 123", and appears in the appendix on p. 403.)

Senator CLARK. Referring to the Argentine business, Mr. Aubry says:

We will have the order for three submarines to be built in France and I entirely agree with the suggestions contained in your letter of the 26th April to Sr. Ribero, especially as regards paragraph No. 2, where you refer about how exceedingly difficult it is to deal with the French firms, especially when they think that the Government has designated any particular yard for the construction. The selection of the building yard, I hope, is going to be left entirely in our hands, and I have sent, today, a very impressive wire to Ribero to that effect in order that our friend Captain Koster will not suffer the same ordeal as in the past in Buenos Aires. I am in touch by wire with Ribero all the while and I have also received already letters from him. In his last letter of the 27th April he sent a copy of the wire he had forwarded to you on that date, in which he pointed the specified commission of £5,000 per boat for the friends and, besides, the special commission agreed with me sometime ago; \* \* \*.

What does that refer to, Mr. Spear, this special commission of 5,000 pounds per boat that you agreed on with this man Ribero. Who is he?

Mr. SPEAR. Ribero was a citizen of Buenos Aires. He was a man of wide political acquaintance and a good deal of influence there whom Aubry frequently used, whom he employed on a commission basis to help him secure this order.

Senator CLARK. Apparently you had arranged with Ribero to pay him a commission of 5,000 pounds, and in addition to that through Aubry there had been another arrangement for a special commission with Ribero. He said:

• • • and, besides, the special commission agreed with me sometime ago; and he said to me that everything is in order in regard to this matter excepting that he had noticed that in his document covering his personal commission the expiration date is 9th June, 1927, and although he felt sure that morally he is absolutely well covered because any contract that will be signed weeks or even months after the 9th of June will be the result of our work and efforts and recognized so by the company, he would very much prefer to have everything legally in order.

Did you give him a written memorandum extending that period?

Mr. SPEAR. I think we did.

Mr. CARSE. We did not have any direct arrangement with Ribero, did we?

Mr. SPEAR. I think so. I merely confirmed the arrangement that we had.

Senator BONE. Mr. Spear, can you inform us whether or not the French and Italian and English munitions concerns and submarine builders and shipbuilders paid commissions on business acquired in South America?

Mr. SPEAR. I think they all did.

Senator BONE. They all pursued about the same course in getting business?

Mr. SPEAR. Yes. You will find it is impossible to do business in those countries without enlisting the local people.

Mr. RAUSHENBUSH. There is one more question. That commission of \$50,000 to somebody in the Argentine; after all, that is a very considerable sum to be paid to one individual.

Does not any one of you three gentlemen know to whom that large sum was to be paid.

Mr. SPEAR. If I ever knew, which I doubt, I do not know now, unless there is some record of it.

Mr. RAUSHENBUSH. You mean that you would authorize an agent to pay out \$50,000 without knowing to whom it was going?

Mr. CARSE. Yes. You see, there was an order there for \$735,000. They talked about four or six boats. Four boats would be 3 million dollars, and six boats would be 4½ million dollars, and a commission of 50 thousand dollars is not excessive on that. On the larger amount it would be about 1 percent.

Mr. RAUSHENBUSH. That was in addition to Aubry's commission, was it not?

Mr. CARSE. Yes.

Senator BONE. You did what you thought was necessary to get the business?

Mr. CARSE. Yes. It was absolutely necessary. You have to employ some local personage.

The CHAIRMAN. In addition to the salary that was paid Aubry, it has appeared that you paid commissions yearly as well. Were those commissions directly to him?

Mr. CARSE. Yes. We had no dealings with others. We paid commissions to Aubry.

The CHAIRMAN. Suppose you had gotten the contract and a call had been made upon you for the \$50,000 of commission in this case. How would you have charged that up on your books?

Mr. CARSE. We would have paid that to Aubry.

The CHAIRMAN. You would have charged that as commission to Aubry?

Mr. CARSE. Yes; and Aubry would have passed it along.

The CHAIRMAN. In 1924 you paid him \$32,000; in 1925, \$42,000; in 1926, \$46,000; in 1927, \$38,000. What were those commissions for?

Mr. CARSE. Those were percentages on the amounts that we received from the Peruvian Government on either the construction or on the payment of the notes. Our arrangement with him was to pay him a certain commission as and when we received the payments on the contract.

The CHAIRMAN. In 11 years, up to August 15th of this year, the total paid him in commissions was \$253,000.

Mr. CARSE. Yes, sir.

The CHAIRMAN. Would you have any way of knowing what part of that was direct commission to him and what part of it was commission paid through him to others?

Mr. CARSE. No; I do not think we have any way of knowing definitely.

Senator BONE. I gathered from your statement a few minutes ago that the Peruvian Government still owes you about a million dollars.

Mr. CARSE. Yes.

Senator BONE. If that sum should be realized in collections, you would then have a very large commission to pay out of that to Mr. Aubry?

Mr. CARSE. \$30,000 or \$40,000.

Senator BONE. That would be paid only in the event that the Peruvian Government should discharge its obligation to you?

Mr. CARSE. That is correct.

#### RELATIONS WITH VICKERS IN SOUTH AMERICA

Senator CLARK. Mr. Carse, all the time that you were selling to Peru and trying to sell to Argentina and Brazil, your associate, Vickers, was selling to Chile and asking you from time to time to reduce the royalties to facilitate that sale; is that correct?

Mr. CARSE. Yes. Craven always asked us to reduce royalties.

Senator CLARK. He was a pretty good trader?

Mr. CARSE. Oh, yes.

Senator CLARK. He would not be holding that job with Vickers if he was not?

Mr. CARSE. Yes; that was his job.

Senator CLARK. He wrote you in 1928 that he was trying to ginger up the Chileans to take three more boats from him, did he not?

Mr. CARSE. Yes.

Senator CLARK. I offer that letter, which is dated the 24th of September, 1928, as "Exhibit No. 124."

Senator CLARK. This "Exhibit No. 124" is a letter from Mr. Craven to Mr. Spear, dated the 24th of September 1928, and it says:

MY DEAR SPEAR: I am trying to ginger up the Chileans to take three more boats, and want to ask if you will accept the same royalty as you did last time. You will remember this was £10,000 per boat. I may avoid price cutting in view of the fact that we reduced our tender price last time to meet all competition, and I am trying to bring a few stunts into the design which will make it more or less our show and no one else's. It will naturally take a little time to work up, but the sooner I can get the thing going properly the better, and I should much appreciate an early reply.

You can assume now that I shall be asking you to treat us for this year's British boats in the same way that you did last year. Competition is going to be just as keen, if not more so, as merchant ship orders are worse than ever, and according to the latest reports 53% of the shipbuilding berths in the country are empty.

Yours sincerely,

C. W. CRAVEN.

What did he mean by the way in which you treated him before, Mr. Spear? Do you recall?

Mr. SPEAR. Yes; a reduction. He asked us to agree to a smaller royalty than our contract provided.

Senator CLARK. How much did you finally agree to take, Mr. Spear?

Mr. SPEAR. The year before, what was it?

Mr. CARSE. I am not certain.

Mr. SPEAR. It was less than the 3 percent to which we were entitled by our contract.

Mr. CARSE. We used to split the difference with them, generally speaking. He put up such a tale of woe.

Senator CLARK. He probably asked you to take more of a reduction than he expected to get, if you were splitting the difference.

Mr. CARSE. That is what I figured. I was the wicked partner in that matter, to let Mr. Spear out.

Senator CLARK. It seemed to be Commander Craven's idea, did it not, that when the business was dull in the construction of merchant vessels, as it apparently was in this year, it was necessary to step out and ginger up these fellows for the manufacture of war vessels to keep the old shipyard going.

Mr. CARSE. To keep the plant going; yes.

Mr. SPEAR. That was his idea.

Mr. CARSE. If you have a large organization it becomes a very serious matter at times to be able to get business to keep things going. Otherwise you might have to discharge thousands of men. Vickers employed at times many thousands of men.

Senator CLARK. In 1927 he managed to get the price of vessels to Chile put up, did he not?

Mr. SPEAR. I do not recall, but if he said so, I do not doubt it.

Senator CLARK. He wrote you on the 7th of November 1927 a letter which I will offer as "Exhibit No. 125."

(The letter referred to was marked "Exhibit No. 125" and appears in the appendix on p. 405.)

Mr. CARSE. He did not get those three extra boats.

Senator CLARK. He says in this letter:

During the last few days by skillful maneuvering we have managed to get some of our competitors' prices in the Chilean competition put up \* \* \*.

It was the competitors' prices that he was getting put up, I see. He continues:

And so may have prevented a real price-cutting war which would have resulted in our taking the boats at a loss. However, I hope we shall know our fate soon, and, of course, I will cable you immediately I hear anything.

You do not know what skillful maneuvering it was that enabled him to get his competitors' prices raised?

Mr. SPEAR. I never knew anything about it except what was in the letter, just as you read it.

Senator CLARK. Mr. Spear, who was Mr. H. G. Gamble?

Mr. SPEAR. What was his address?

Senator CLARK. The letterhead is the Electric Boat Co., inter-office correspondence between H. G. Gamble and S. A. Gardner.

Mr. SPEAR. What was it about?

Senator CLARK. It is about a steel patrol boat to be sold to Venezuela. This was in 1931.

Mr. SPEAR. Mr. Gardner is one of my staff at New London. For the moment I cannot place Mr. Gamble. Did we have a salesman by the name of Gamble?

Mr. SUTPHEN. We did.

Mr. SPEAR. He was one of our salesmen.

Senator CLARK. He says in this letter that he quoted a price to Mr. Gamble on this Venezuelan patrol boat of \$26,500 and offered a commission of \$15,000. Was that a very unusual commission simply for the purpose of getting a toe hold in Venezuela, or why did you offer such a commission?

Mr. SPEAR. I think that is a typographical error. It must have been \$1,500.

Mr. CARSE. How many boats did he have in mind, just one?

Mr. SPEAR. Yes.

Mr. CARSE. Of course, that is foolish.

Mr. SPEAR. It must be a typographical error. It should be \$1,500.

Senator CLARK. Now, Mr. Spear, I read you this morning a letter from you to Commander Craven with regard to these Chilean boats in which you told him you did not think it was wise to talk of anything except British construction and had him make an offer to the Chileans. Then, some time later he wrote you about that matter, in a letter which I will offer as "Exhibit No. 126."

(The letter referred to was marked "Exhibit No. 126" and appears in the appendix on p. 406.)

Senator CLARK. This letter is dated the 31st of March 1928, and says:

MY DEAR SPEAR. I apologise for having taken so long to answer your letter of the 28th February, but I wanted to have a talk with Thurston about it.

First, let me tell you that "Z" has written and asked for a copy of the "O" class design to be sent to Fuster.

Does the "Z" refer to Zaharoff?

Mr. SPEAR. That was Sir Basil Zaharoff.

Senator CLARK (reading):

We took some considerable time to deal with the matter, but a hastener came, and as the admiralty allowed us to send the design, minus certain secret fittings, we had to agree. I am afraid you will be upset, but it really could not be helped.

What does that refer to? Did he give out some of your confidential stuff without your permission?

Mr. SPEAR. No, sir.

Senator CLARK. What were you going to be upset about?

Mr. SPEAR. Upset because this refers to Spanish business. Fuster was the managing director of the Sociedad. All that business had been done directly by us, to our design. He thought I would be upset if Vickers mixed the thing up by submitting design.

Senator CLARK. Was the "O" class design your design or Vickers'?

Mr. SPEAR. That was a British design.

Senator CLARK. That was the Vickers' design?

Mr. SPEAR. Yes.

Senator CLARK (continuing reading):

With regard to paragraph 2 of your letter, the price is £1,094,000, including, of course, all the usual admiralty supplies, wireless, torpedo tubes, etc. It is not as good as I hoped for. I have included £10,000 per boat for you, \* \* \*

That would be only \$150,000 on the three boats, would it not?

Mr. SPEAR. I do not know what the exchange was.

Senator CLARK. It was in that neighborhood?

Mr. SPEAR. If the exchange was at parity.

Senator CLARK. I read further:

And the delivery dates in the contract are June, July, and August 1929. The whole thing has been most secret, and as Dawson negotiated the final contract with the Chief of the Commission in London, I had to accept his ruling, that I was not even to mention the matter to you in writing, hence the message by Roberts.

Roberts was the Vickers agent in the United States and a member of your board of directors.

Mr. SPEAR. Yes, sir.

Senator CLARK. So that after promising that he would not communicate the matter to you in writing, he violated the spirit of it by sending his agent over to tell you about it. Is that correct?

Mr. SPEAR. I don't think so, Senator, as I read it.

Senator CLARK. I read further:

Even today, we are bound to secrecy, so will you please promise me not to let your little friends from the other South American country know what is going on at present.

In other words, he did not want you to tell there had been a contract from Chile until Chile said you were released from the obligation of secrecy.

Mr. CARSE. I don't think so.

Senator CLARK. What does he mean when he says:

so will you please promise me not to let your little friends from the other South American country know what is going on at present.

Mr. SPEAR. He thought that would be injurious to his affairs in some way.

Senator CLARK. Reading further he says:

Delivery, as you will see, is a terribly tight one, and I have heavy penalties against them, but I am afraid that cannot be helped.

Mr. CARSE. That refers to the bid, I think, because he bid, and we were building boats for Peru.

Senator CLARK. Evidently he was afraid you would tell the other South American countries about his Chile negotiations, unless he got you to promise not to do it.

Mr. CARSE. Everybody knew it.

Senator CLARK. Reading further, this letter says:

Regarding paragraph 3 of your letter, I have now been able to have a talk with Thurston.

Thurston was a naval architect associated with Vickers; was he not?

Mr. SPEAR. He was the chief naval architect with Vickers at that time.

Senator CLARK. Reading further he says:

He tells me it is really rather difficult for him to support your contention about the stability of the "C" class. He says that we have nothing in our records to support the figures obtained by the Spanish boats, and he would find it rather difficult as a naval architect to definitely say they are good for the Spaniards. However, he has promised to do what he can if we are consulted."

What does that mean, Mr. Spear?

Mr. SPEAR. That means these boats were designed by us and built under our supervision, and in the contract it provided that they should have a certain amount of stability measured by what the naval architect called "metro centric height." The boats were finished, and it came out they had more metro centric height, rather than less, and some of these Spanish officers thought under those conditions boats would not behave well at sea. In other words, there was too much metro centric height. There was nothing in the contract as to how much it should be, but simply that it should have this limit.

Senator CLARK. Had you written to Craven to find out what Thurston's opinion would be if you submitted him figures as an authority?

Mr. SPEAR. No; they were supposed to consult Vickers as one of the technical officers, giving the facts, and I supposed they would support what we would say to the Spanish, that the boats would speak for themselves, that we had complied with the contract, and the stability was not excessive. But I find that Mr. Thurston never likes to take any ideas from me about design, hence this attitude.

Senator CLARK. Thurston's attitude was that he did not want to risk his reputation as a naval architect on your contention, but he would give you the best break he could. Isn't that what he said?

Mr. SPEAR. Thurston's attitude was he did not care to take any suggestions from me. He thought he knew more about those matters than I did, and I did not agree to that.

Senator CLARK. Then he goes on to say further [reading]:

With regard to paragraph 4, I wish you the best of luck, and hope you may be able to knock out some of your Government dockyards. They seem to be even more of a nuisance with you than they are here.



What did he refer to there?

Mr. SPEAR. He meant our efforts to get the Navy Department to place some of its orders with other navy yards for submarines.

Senator CLARK. Had you referred to these yards as nuisances?

Mr. SPEAR. No; that is his expression.

The CHAIRMAN. Certainly the American dockyards would not be nuisances to him, would they?

Senator CLARK. No; he says they seem to be more of a nuisance with you than they are here. He had had some trouble with the Government dockyards in England; had he?

Mr. SPEAR. Yes; some with the Government yards and some with private industry.

Senator CLARK. However, he exerted some influence in the appointment of the director of dockyards. What is the office of the director of dockyards?

Mr. SPEAR. I think the director of dockyards had general supervision over the dockyards.

Senator CLARK. He says:

I wonder whether you have heard that our old friend Percy Addison is now the director of dockyards. I helped him all I could to get the job, and I think he will be an ideal fellow for it. It means his retirement, but it also means his having a permanent job for about ten years if he behaves himself.

Mr. SPEAR. I might say for your information the Director of Dockyards has nothing to say about what orders will be placed in Government dockyards or in the private industries. He is responsible for the operation only when the Admiralty says you are to do so and so. Then, the responsibility passes to him.

The CHAIRMAN. He says here, if he behaves himself he could have it for 10 years. Who would he have to satisfy?

Mr. SPEAR. He would have to satisfy the Admiralty authorities.

The CHAIRMAN. And not Mr. Craven necessarily?

Mr. SPEAR. No; not Mr. Craven.

Senator CLARK. Now, Mr. Spear, I call attention to a letter dated August 6, 1928, which I offer as "Exhibit No. 127", from you to Admiral Craven.

(The letter referred to was marked "Exhibit No. 127" and appears in the appendix on p. 407.)

Senator CLARK. The first paragraph of this letter, "Exhibit No. 127", seems to have to do with Vickers securing for you certain patent rights in England on a new compensating system for fuel oil. Was Vickers your agent in Europe for that sort of business?

Mr. SPEAR. They did not do the actual patent work; no.

Senator CLARK. They had suggested to you new patent protection in England, and you acted on that suggestion.

Mr. SPEAR. Yes.

Senator CLARK. I am interested in this language in this letter, Mr. Spear as follows:

It is too bad that the pernicious activities of our State Department have put the brake on armament orders from Peru by forcing the resumption of formal diplomatic relations with Chile. My friends advise me that this gesture means that all contemplated orders must go over until next year.

And did you regard it as a calamity when the United States State Department was able to bring about the resumption of diplomatic relations between Peru and Chile and prevent a war?

Mr. SPEAR. No; I certainly regarded at the time it would have a bad influence on our negotiations. I did not think they would proceed.

Senator CLARK. You regarded the activities of the State Department in attempting to preserve peace and improving diplomatic activities in South America as pernicious?

Mr. SPEAR. That is the word I used.

Senator CLARK. You also say:

This hitch also means that we must not delay too long in getting Aubry back on the job in Lima.

What was Aubry going to do since the diplomatic relations had been resumed, was he going to bring them up again?

Mr. SPEAR. No; it meant conditions would be more difficult and he would have to get back there.

Senator BONE. What do you think he might have done to interrupt these diplomatic relations in any way?

Mr. SPEAR. Senator, I do not think he could have done anything.

Senator BONE. What do you think he might have done?

Mr. SPEAR. I might have told what he might have tried to do.

Senator BONE. What do you think he would have tried to do?

Mr. SPEAR. Senator, I do not think he could have done anything.

Senator BONE. What do you think from your experiences he might have done?

Mr. SPEAR. I could tell you what he might have tried to do.

Senator BONE. What do you think he would have tried to do?

Mr. SPEAR. I do not think he would have tried to do anything, because he was too sensible a man to try it. But I think he might have tried to persuade the authorities that the mere resumption of diplomatic relations would not solve their problems, and persuade them to go on with the plans they had in mind. I think that is what he would have done.

Senator BONE. As one member of the committee I am wondering whether the building up of a larger Navy and a larger force would aid diplomatic relations or whether it might thwart diplomatic measures.

Mr. SPEAR. Diplomatic methods are fine when they work.

Senator BONE. At least when they work, they work. We had a war not long ago, and it did not work at all, we are worse now than we were before the war. Am I correct in that?

Mr. SPEAR. I think so.

Senator BONE. I am happy you agree with me in that conclusion.

Senator CLARK. Mr. Spear, I bring to your attention this letter dated the 8th of February, 1929, addressed to you from C. W. Craven, which I offer as "Exhibit No. 128."

(The letter referred to was marked "Exhibit No. 128", and appears in the appendix on p. 407.)

Senator CLARK. In this letter, Mr. Spear, Admiral Craven thanks you for sending him copies of the instruction books which were issued by you relating to the H type of submarine for Chile and the R type of submarines for Peru. That would indicate at the same time Vickers was selling submarines to Chile, and you were selling submarines to Peru possible adversaries, and you and Vickers were collaborating on the instruction books you and Vickers would use on those submarines.

Mr. SPEAR. He knew we had had experience in preparing for Spanish people a book of instruction on what they should do, and he wanted that as a guide for his book. They have different ways of looking at things, and instruction books for them are quite different from what you would write for English people, with more sea-faring experience.

Senator CLARK. Now, during this year 1929 there was some correspondence between you and Commander Craven indicating some apprehension about the result of the movement for limitation of armaments, was there not?

Mr. SPEAR. I think there was.

Senator CLARK. I call your attention to a letter from Commander Craven dated July 13, 1929, which I offer as "Exhibit No. 129."

(The letter referred to was marked "Exhibit No. 129", and appears in the appendix on p. 408.)

Senator CLARK. In "Exhibit No. 129" Commander Craven says:

Your note regarding the limitation of armaments is very interesting, and I can assure you I am extremely anxious about some of our present contracts. Although the papers say that certain submarines have been cancelled, nothing has yet taken place although there is always a possibility of it happening. However, we shall know our fate within the next week or two and if I hear anything I will at once let you know.

Were you apprehensive too about the result of those movements for limitation of armament?

Mr. SPEAR. I was not particularly apprehensive, because I did not think the situation would permit an agreement which would do more than limit the tonnage of submarines. I did not think there was a possibility diplomatically of carrying out any abolition of submarines on account of the position of France and Japan. There was a proposition of limiting the tonnage, and eventually they did that.

Senator CLARK. He was naturally apprehensive of any limitation of armament was he? I mean Commander Craven.

Mr. SPEAR. He was in a worse position than I was, because he had contracts, and if they had a limitation, those contracts would be canceled.

Senator CLARK. He, also, or his company, manufactured other arms.

Mr. SPEAR. His company did, and we did not.

Senator BARBOUR. With the Chair's permission I would like to ask a rather academic question of the witness, and I do not care which one of the three answers it. But which question I think important as far as the committee's point of view is concerned, but perhaps not so important so far as this particular instance is concerned or this company. On the basis of the methods which have been disclosed by this correspondence here, wise or unwise, whether necessary or otherwise, I wonder whether in the light of this disclosure at a public hearing two things may result: One, whether you feel that you can sell your product in the future, and, secondly, if you cannot, whether in your opinion someone else can do so.

Mr. SPEAR. I assume, Senator, the fact that these intimate details and correspondence appear in public would naturally have a tendency to cause our European and South American friends to say

we will not do business with them, because you can never tell when the details of your business will be revealed, and how much. It would be much more difficult to obtain foreign orders on that account. The other part of question was what?

Senator BARBOUR. Now, that was assuming this disclosure made it impossible for you, whether justifiable or not, to get the character of business you enjoyed before, assuming this lost to you because you are here and this correspondence has been disclosed and questions having been asked and answered, whether someone else is going to get that business.

Mr. SPEAR. Oh, yes; certainly, all of that business would go to the European firms that specialize in it.

Mr. RAUSHENBUSH. Mr. Spear, may I supplement that? Of course, Vickers is not one of the firms that are directly competitive with you, but if they get the business, you still get a royalty on it. But, leaving them out and just considering the Italians and the French as possible competitors—

Mr. CARSE. And the Germans.

Mr. RAUSHENBUSH. You say the Germans are coming back in the Dutch companies, under German control?

Mr. SPEAR. Yes; they have started it already.

Mr. RAUSHENBUSH. If the Dutch Government, the French Government, and the Italian Government go into their affairs, then all of those companies will be on a par too, because it seems to indicate the foreign firms have done pretty much the same, or more so than you have.

Mr. SPEAR. I presume those foreign companies have been seeking business.

Mr. RAUSHENBUSH. And in cases they have taken it away from you?

Mr. SPEAR. Yes; they have taken it away from us.

Senator BARBOUR. Mr. Chairman, I do not want to be put in a position that I am not in sympathy with this committee, nor do I want to be put in a position where I am in sympathy with what has been revealed here, but we have started a series of hearings, and I want to know whether that will be detrimental to the American manufacturer.

Mr. SPEAR. In my judgment it will be.

Senator BARBOUR. Or whether it will be in the whole field of these undertakings, and not simply at the cost of the American manufacturer.

Mr. SPEAR. To answer your specific question, my own judgment is it will make it exceedingly difficult for us or anybody else in the same position to negotiate with any real prospect of success ~~for~~ foreign orders for a long time. That would be my judgment.

Senator BARBOUR. Other countries are not holding these same investigations.

Mr. SPEAR. No; this is the first one I know of.

Senator BARBOUR. I do not say that I am in sympathy with the way in which you have conducted your business and I am not passing on the facts at all, whether it is necessary or unnecessary. The testimony has been very well presented and the picture very well painted, but I am interested from the point of view of this committee of which

I am a member, on what we are ultimately going to accomplish, and that is why I asked you as to what you felt will be the result of your having testified as you have been requested to do.

Mr. SPEAR. That is my feeling really, just what I told you. Naturally these European matters are dealt with with some confidence, and if they feel their negotiations are going to be made a matter of publicity, I should judge they would go to some other country where it is not so made.

Mr. RAUSHENBUSH. For my own curiosity, along the same line, you will probably notice we have been scrupulous to bring out where your Italian, French, or Dutch competitors have entered into the same thing. Now would you not prefer to have this whole method of getting business abroad changed, and go back to the simple method of getting business on quality?

Mr. SPEAR. Oh, yes.

Mr. RAUSHENBUSH. And if this does occur through the testimony with regard to Vickers or later testimony that comes out with regard to the Italians or things done by other governments, perhaps even the so-called "League of Nations" going into the matter, and the whole price and competition system is changed in that way, you would appreciate it very much?

Mr. SPEAR. I would regard it as a distinct improvement all around.

The CHAIRMAN. Mr. Sutphen, you called my attention to the existence in today's Washington Times of a dispatch from London dated September 5th being an International News Service dispatch which you thought in the light of what was developed yesterday ought to be printed in our record.

This dispatch says:

LONDON, September 5, (I.N.S.)—The British Government fully approved negotiations between the munitions firm of Vickers, Ltd., and the Electric Boat Company of America regarding submarine construction, Comdr. Sir Charles W. Craven, managing director of Vickers, announced today.

In a brief statement, Sir Charles paid tribute to the ingenuity of American submarine designers and manufacturers. Letters written by him figured in the testimony introduced in Washington yesterday before the Senate committee investigating munitions contracts.

If there is no objection on the part of any member of the committee I would also ask that there be inserted a dispatch from London printed in the Washington News of today again quoting Sir Charles Craven, among other things that he says, the British Government knew all the time about the existence of the contract between the Electric Boat Co. and Vickers. However, it appears from dispatches which are also coming from London that the people of Britain have known absolutely nothing about it, and that it was a very positive surprise to them. Let that dispatch be printed in the record as follows:

LONDON.—Vickers-Armstrong, powerful British munitions firm, Sir Basil Zaharoff, the world's most noted salesman of weapons, and the Electric Boat Co., American submarine builders, were admittedly linked today in a general scheme to split the world's business in undersea boats, by Comdr. Charles W. Craven, a Vickers executive.

Questioned regarding the disclosure before the U.S. Senate's investigating committee that Zaharoff had been paid \$2,000,000 by the American concern, Craven said that an agreement between Electric Boat and Vickers had been operative 35 years.

"The agreement was drawn up 5 years ago", he said, "with the full knowledge of the British Government. The Electric Boat Company produced designs for the first practical submarine, and brought the first order to Vickers-Armstrong. Since then we have always honored the company patents."

It was pointed out that the Electric Boat Co., which has its plant at Groton, Conn., for years has advertised itself as ready to supply submarines to any nation. The most recent publication of "Jane's Fighting Ships", a British publication, displays a full-page advertisement in which the company announces it has built submarines for: United States, Great Britain, Japan, Italy, Holland, Russia, Spain, Austria-Hungary, Denmark, Norway, Peru, Chile, and Canada. A total of 394 undersea ships had been constructed by the company up to the time of the present publication.

The CHAIRMAN. We will have to ask the witnesses to appear again at 10 o'clock tomorrow morning. We had hoped that we were going to get through with them this afternoon, but we are going to be here late if we do. I am going to strive earnestly to get through by noon tomorrow.

The committee will stand recessed until 10 o'clock tomorrow morning.

(Thereupon the committee recessed until 10 o'clock a.m. tomorrow, Thursday, Sept. 6, 1934.)

# MUNITIONS INDUSTRY

THURSDAY, SEPTEMBER 6, 1934

UNITED STATES SENATE,  
SPECIAL COMMITTEE TO INVESTIGATE  
THE MUNITIONS INDUSTRY,  
*Washington, D.C.*

The hearing was resumed at 10 a.m., in the caucus room, Senate Office Building, pursuant to the taking of recess, Senator Gerald P. Nye (chairman) presiding.

Present: Senators Nye (chairman), George, Clark, Bone, Pope, Vandenberg, and Barbour.

Present also: Stephen Raushenbush, secretary, and Robert Wohlforth, assistant to chief investigator.

The CHAIRMAN. Let the committee be in order. Of course, the reporter will note the presence of the seventh member of the committee this morning, Senator Vandenberg.

## FURTHER TESTIMONY OF HENRY R. CARSE, LAWRENCE Y. SPEAR AND HENRY R. SUTPHEN

### RELATIONS WITH ZAHAROFF AND SPAIN

Senator CLARK. Mr. Spear, in 1916 you arranged to have two officers of the Spanish Navy taken through an American submarine at the Boston Navy Yard, did you not?

Mr. SPEAR. I think so.

Senator CLARK. I will direct your attention to a memorandum to you, dated February 1, 1916, the memorandum being signed by S. B. Smith. Who is S. B. Smith?

Mr. SPEAR. S. B. Smith at that time was in our employ as a trial captain.

Senator CLARK. Was it not against the law or against the regulations to take officers of a foreign navy through an American submarine without disclosing that fact at that time?

Mr. SPEAR. I think you will find, Senator, that those matters are all taken care of by being referred to Washington, as to whether or not they are allowed to go. That is the practice now anyway.

Senator CLARK. What I am getting at, Mr. Spear, is this, and I direct your attention to this memorandum again; it says:

At 9:00 a.m. on January 31st I met Captains Carranza and Garcia, of the Spanish Navy, at the Parker House, Boston, by previous appointment.

I expressed Mr. Davison's regret that he was unable to be present.

Previously, requests for passes had been obtained signed jointly, as is customary, by Mr. Gardner—

Who is he?

Mr. SPEAR. Mr. Gardner was then one of our engineers.

Senator CLARK (continuing reading):

and a Fore River Co. official.

Mr. SPEAR. Yes, sir.

Senator CLARK (reading):

These requests referred to Mr. S. B. Smith, of the Electric Boat Company, and two assistants.

Mr. SPEAR. Yes, sir.

Senator CLARK. Why was the request made in that way?

Mr. SPEAR. I do not know. I do not think that was the proper way to do it.

Senator CLARK (continuing reading):

We went to the Boston Navy Yard, where the commandant's aide informed me that the captain of the yard, Commander Haswell, handled such matters personally.

Mr. SPEAR. Yes, sir.

Senator CLARK (continuing reading):

Commander Haswell gave me the necessary order to Mr. Roth and we went on board the boats. During our visit these two officers were not recognized.

Mr. SPEAR. Yes, sir.

Senator CLARK. Why was there necessity for this surreptitiousness if the matter had been referred to Washington and the matter was disclosed?

Mr. SPEAR. I know of no reason for surreptitiousness. The boats were not American boats, you understand.

Senator CLARK. What were they?

Mr. SPEAR. They were the vessels about which I told you yesterday, which were interned in the Boston Navy Yard, which were built originally for the British Admiralty, and it was not a matter in which the United States Government was interested.

Senator CLARK. You think your officials simply went out of the way on this matter of surreptitiousness?

Mr. SPEAR. I certainly do. There was no reason for them being surreptitious.

Senator CLARK. I offer that memorandum as "Exhibit No. 130."

(The memorandum referred to was marked "Exhibit No. 130" and appears in the appendix on p. 408.)

Senator CLARK. I now offer as "Exhibit No. 131" a letter under date of January 9, 1920, being a letter from Mr. Carse to Mr. Spear.

Mr. Carse, as far back as 1920 you were objecting to the payment of the 5 percent of the selling price on the Spanish business to Zaharoff, were you not?

Mr. CARSE. I do not know. I do not recall.

Senator CLARK. You said the business would not stand it and it was not justified.

Mr. CARSE. It is a long while ago.

Senator CLARK. I will read that letter into the record [reading]:

EXHIBIT No. 131

JANUARY 9, 1920.

L. Y. SPEAR, Esq., Vice President,  
Groton, Conn.

DEAR MR. SPEAR: I have your letter of the 5th instant in regard to business in Spain, and it seems to me that the payment of 5 percent of the selling price to Zaharoff is a very onerous burden and one which I do not believe the business



can or should stand. Such agreements were entered into many years ago at a time when the business expected was very small volume and the actual costs were low. Now, when business presents in large volume and the costs are high the addition of such burden tends to prevent any business being consummated, especially when it is such an excessive charge. I think this is one of the things we must have in mind to take up and secure modification of, because I do not believe originally or fundamentally there is any basis for such allowance. It is simply one of those things these people secured from Mr. Rice when he was giving up everything they asked for.

Now, in regard to joining in the construction of such boats and the furnishing of material, I think we should make a very careful unbiased study of the material we are to furnish, put aside any pride of opinion and give machinery that operates without having to go through all the children's diseases that have been experienced in the past.

I hear from very many sources that the real trouble with the S engine is that the crank shaft is not heavy enough, and I certainly would not consider it wise to ship machinery abroad with any defect known to us. If there are any other questions that have arisen I think we should also work there on the safe side.

Yours very truly,

Signed CARSE.

When you referred to Mr. Rice in that letter, Mr. Rice was your predecessor as president of the Electric Boat Co., was he not, Mr. Carse?

Mr. CARSE. Yes, sir.

Senator CLARK. Had you had any trouble with the vessels being furnished to Spain, Mr. Carse?

Mr. CARSE. Not that I know of.

Senator CLARK. Where did you get this information about the trouble with respect to the S engine?

Mr. CARSE. We had built an engine for some boats for the United States Navy, which they thought were not quite heavy enough.

Senator CLARK. You expressed a very clear opinion in this letter, Mr. Carse, with respect to those that Sir Basil Zaharoff had bilked in the original contract.

Mr. CARSE. It does not say "bilked."

Senator CLARK. You say that it was an unjustifiable payment granted at the time that Mr. Rice was giving up everything they asked for. I do not wish to quibble with you about terms. You say that the commission was not justified and was given by Mr. Rice at the time he was giving up everything they asked for. What did you do about cutting down that commission?

Mr. CARSE. The newspapers in this country and all over Europe are using your words as coming from me. I do not want to use words that I never had in mind. I was trying to reduce all of our expenditures that I could, and in 1920—

Senator CLARK. Just a minute, Mr. Carse, if you please. So that there will not be any possible misunderstanding as to the use of words, I will simply repeat your own words as the basis of my question. You say:

I do not believe originally or fundamentally there is any basis for such an allowance. It is simply one of those things these people secured from Mr. Rice when he was giving up everything they asked for.

What did you do about reducing that commission?

Mr. CARSE. That was my opinion. Whether my opinion was a good one or not is, of course, open to question.

Senator CLARK. Yes, sir; but did you take any steps to back up your opinion?

Mr. CARSE. Yes, sir; I discussed it.

Senator CLARK. With whom?

Mr. CARSE. With Sir Basil Zaharoff in 1924.

Senator CLARK. What did he say?

Mr. CARSE. He said that it was a proper allowance to make.

Senator CLARK. Did he convince you that it was the proper allowance?

Mr. CARSE. Yes, sir.

Senator CLARK. Now, by 1924 there was in Spain a Sociedad Espanola de Constructora Naval, was there not?

Mr. CARSE. That was the concern—

Senator CLARK. Which was protesting to you at that time against the terms which you and Vickers were making with them. Is not that correct?

Mr. CARSE. It may have been. Everybody always tries to get all they can and everybody tries to pay as little as they can.

Senator CLARK. Who is Mr. Ernest B. Sansom of London, addressed to London?

Mr. CARSE. I do not know.

Senator CLARK. I direct your attention to a letter dated June 5, 1924, addressed to Ernest B. Sansom, Esq., London, signed by N. F. on behalf of the Spanish company, which I will ask to have marked "Exhibit No. 132."

(The letter referred to was marked "Exhibit No. 132" and appears in the appendix on p. 409.)

Senator CLARK. Do you know who "N. F." was, Mr. Spear, writing on behalf of this Spanish company?

Mr. SPEAR. In this letter which I have here?

Senator CLARK. Yes, sir; signed simply by the initials "N. F."

Mr. SPEAR. No; I do not know, sir, who "N. F." could have been. You are referring to a letter written to Mr. Sansom on June 5, 1924?

Senator CLARK. Yes, sir. It refers to your business and a copy of it, which I have, was taken from your files, so evidently it was called to your attention.

Mr. SPEAR. I do not think it has ever been called to my attention, that I remember, but I do not know what official those initials "N. F." stand for.

Mr. RAUSHENBUSH. Would not that be Fuster?

Mr. SPEAR. Nicholas Fuster; yes, sir.

Mr. RAUSHENBUSH. He was president of the Constructora Naval.

Mr. SPEAR. He was managing director.

Senator CLARK. Mr. Sansom was probably connected with Vickers because they are mentioned in the letter, of which you were furnished a copy.

Mr. SPEAR. I do not know that, Senator, but I know they had a London board in addition to the Spanish board, a sort of advisory board in London, and I should judge that Mr. Sansom, whose name is referred to here in connection with Vickers, was probably a member of that board.

Mr. CARSE. I do not know. I never heard of him.

Senator CLARK. This letter says on the bottom of page 1 the following, Mr. Spear:

When I was in England in the month of June of last year, the question was brought forward in the terms which you perhaps are familiar with, and Sir Trevor Dawson and Lieut. Spear of the E.B.C. delivered to me a "Rough draft", of which I include a copy herewith, (document A); also send enclosed a copy (document B) in which are set forth the amounts which we would have to pay the E.B.C. and to Vickers, Ltd., if we made with both firms the contract which they proposed to us. This proposition could not be accepted by our society, and in order that you may see that it is completely unacceptable, I include a statement which we have made out (document C) in which we have sought to apply the "Rough draft" to various assumed cases of estimates for submarines. Also I am sending you (document D) a note in which is explained the intention (or basis ?) on which we have prepared the above mentioned statement.

Was this contract afterward entered into in spite of the objections of the Spanish company?

Mr. SPEAR. I think on modified terms. That is a matter of recollection, Senator, and I have not looked it up, but my recollection is that the terms which we proposed were not acceptable to them and they proposed different terms and we finally reached an agreement.

Senator CLARK. They told you at that time, did they not, Mr. Spear, that the prices which had been charged by them, by this Spanish company in Spain, had been so high that they had attracted the competition of another Spanish firm known as the "Union Naval de Levante", a rival firm using Krupp plans?

Mr. SPEAR. Yes, sir.

Senator CLARK. And suggested that you ought to reduce your price or the competition would put them out of business?

Mr. SPEAR. It appears in that letter; yes, sir.

Senator CLARK. Who is this Captain Fuster? What does he mean by referring to you and Vickers as guaranteeing firms?

Mr. SPEAR. We guarantee the technical results.

Senator CLARK. In other words, it is the technical end you guarantee and not the financial responsibility?

Mr. SPEAR. We do not guarantee the financial responsibility. That is his own business. He makes his own prices and does his own dealings, but we are responsible for the technical performance.

Senator CLARK. That is the guarantee to which he refers?

Mr. SPEAR. That is the guarantee to which he refers.

Senator CLARK. Now, Mr. Spear, in 1925 you were expecting an income from six Spanish boats, on which the income of your firm would be \$1,750,000, after you had taken care of Zaharoff's 5 per cent. were you not?

Mr. SPEAR. I cannot remember the figures. If you have the record there, all right.

Senator CLARK. To refresh your memory, I will offer as "Exhibit No. 133" a letter from you to Mr. Carse, dated July 16, 1925.

Mr. SPEAR. Yes, sir.

(The letter referred to was marked "Exhibit No. 133" and appears in the appendix on p. 410.)

Senator CLARK. In that letter, marked "Exhibit No. 133", you say in part as follows:

When I broached the idea, I had in mind the profits on the six C boats, but before dealing with that it may perhaps be well to refresh your mind as to the

six B boats. We have had an accounting on four of these, and while we think we have not received everything that is due us on them, the whole situation is quite hazy and there is no certainty that we will ever receive anything more.

In other words, you had an idea at that time that you were being short-changed by the Spanish Government, did you not, Mr. Spear?

Mr. SPEAR. Not by the Spanish Government.

Senator CLARK. The Spanish company.

Mr. SPEAR. I would not say "short-changed."

Senator CLARK. You did not think you were getting everything you were entitled to?

Mr. SPEAR. I thought our accountant might go over the accounts and find we were entitled to a little more.

Senator CLARK (continuing reading):

Turning now to the six C boats, the contract price of these is 13,186 pesetas each and the lowest estimated gross profit per boat (after taking care of Zedzed's 5%)—

That was Zarahoff, was it not?

Mr. SPEAR. Yes, sir.

Senator CLARK (reading):

is a little over 4,000,000 pesetas, so that our anticipated minimum total income from the six boats is \$1,750,000.

Did you collect that \$1,750,000, Mr. Spear?

Mr. SPEAR. No, sir. What was eventually done was this: These boats to which they refer now were never settled on the basis of the old contract. We arranged a modification of the contract under which they paid us a fixed percentage of the contract price. Instead of dividing what profits there might be, when they were through with construction, it was changed into a royalty percentage.

Senator CLARK. At that time you were contemplating using those prospective profits as the basis for a loan on which you expected or hoped to have the help of Sir Basil Zarahoff. Did you ever go through with that transaction?

Mr. SPEAR. No, sir.

Senator CLARK. Now, Mr. Spear, I will ask you to direct your attention to "Exhibit No. 134", being a letter from you to Mr. Carse, dated October 24, 1929.

(The letter referred to was marked "Exhibit No. 134" and appears in the appendix on p. 411.)

Senator CLARK. In that letter of October 24, 1929, Mr. Spear, you referred to the financial aid which the Sociedad, which was your Spanish associate, has been rendering to the Government, and expressing the hope that you did not believe there was any real danger in view of the money which the Sociedad had loaned the Spanish Government, of the order going anywhere else.

What do you know about the money advanced to the Spanish Government by this armament concern?

Mr. SPEAR. I do not think they advanced any money.

Senator CLARK. What did you refer to as financial aid, Mr. Spear?

Mr. SPEAR. They had undertaken to do some work for the Government with deferred payments.

Senator CLARK. That is the "financial aid" to which you referred?

Mr. SPEAR. That is what I had in mind; yes, sir.

Senator CLARK. Now, Mr. Carse, I will ask you to refer to "Exhibit No. 135", being a letter from you to Mr. Spear, dated December 9, 1932.

Mr. CARSE. Yes, sir.

Senator CLARK. By that time it had become clear to you, had it not, Mr. Carse, that the Spanish concern, the Sociedad, was completely under the influence of Vickers and would do anything that Vickers wanted them to do, because the Spanish concern owed money to Vickers?

Mr. CARSE. I had so understood.

Senator CLARK. So that you had the situation of the Spanish Government having to give its business to the Sociedad because the Spanish Government owed money to the Sociedad, and of the Sociedad being under the influence of Vickers because it owed money to Vickers?

Mr. CARSE. Well—that is all right.

Senator CLARK. I will read you this letter in full:

EXHIBIT No. 135

DECEMBER 9, 1932.

Mr. L. Y. SPEAR,

*Vice President Electric Boat Co.,  
Groton, Conn.*

DEAR Mr. SPEAR: I have your letter of the 6th with copy of one from Colonel Fuster advising that Sociedad Espanola has secured a contract with the Spanish Government for the construction of one new submarine boat, and it certainly is very nice to know that he expects to proceed as with previous boats.

I note what you say about the question raised by Commander Craven regarding the percentage that should accrue to us, and that is like our dear commander, for you understand that he has become vice president or officer of similar title of the Sociedad Espanola and that the Sociedad owes Vickers large sums of money, so that he is looking after his interest very promptly. They certainly intruded into our Spanish arrangement at the time we had to make the last adjustment, but I certainly consider that we should hold out against any further reduction.

I trust our new engine may prove very successful and that we will be able to show them the superiority.

Yours very truly,

HENRY R. CARSE, *President.*

How did Vickers intrude into your arrangements with Spain?

Mr. CARSE. Mr. Spear can tell you.

Mr. SPEAR. I can perhaps tell you better, Senator. In the beginning of all this Spanish business, the first contract, we were the sole licensors of the Spanish company. When that contract was drawing to a close it was replaced by a contract under which both Vickers and ourselves became their licensors, so that they could obtain their technical information from either of the two firms which they desired, and that is what Mr. Carse had in mind in saying that they intruded into our business, into what had originally been our exclusive business.

Senator CLARK. You felt that they had intruded in on you?

Mr. SPEAR. Mr. Carse thought so, evidently. He wrote it.

Senator CLARK. You thought that they had been able to do that because the Sociedad owed a large amount of money to Vickers, and you found that Commander Craven had recently become an officer in the Sociedad?

Mr. CARSE. Of course.

Senator CLARK. So that in 1933 you complained to Sir Basil Zaharoff about the whole thing, did you not?

Mr. CARSE. Did I?

Senator CLARK. As to the conduct of the Sociedad.

Mr. CARSE. In 1933?

Senator CLARK. October 11, 1933; yes, sir; in a letter from you, Mr. Carse, to Sir Basil Zaharoff, which I will ask to have marked "Exhibit No. 136."

Senator CLARK. That letter reads:

DEAR SIR BASIL: I trust that you are enjoying very good health, notwithstanding the reports that appear in the papers from time to time of your being indisposed, and that you will continue to be active in your numerous affairs for many years to come.

In fact, reports appeared from time to time that he was dead, did they not?

Mr. CARSE. All sorts of things.

Senator CLARK (reading):

On September 21st we received a letter from the Sociedad Espanola, of which the enclosed is a translation. You will note that nothing is said about the five percent of the contract price heretofore remitted to us and by us transmitted to you, and that they advise of a payment to us of one and one-half percent instead of three and one-half percent. According to our contract, the one and one-half was to have been paid to us if they should build submarine boats not of our design or related to any advice or information we might give in relation to the construction of the boat. As a matter of fact, we have supplied at the request of Sociedad, valuable information and assistance, and their plans were modified in a number of respects in accordance with our advice. On November 25, 1932 Captain Fuster wrote us that "we shall proceed in accordance with your good selves and Messrs. Vickers-Armstrong during the construction of same." In addition, our technical people advise that undoubtedly the Sociedad necessarily are making use of seven of the Spanish patents of the Electric Boat Company relating to submarine-boat construction. We have communicated with Commander Craven in regard to the subject and he cabled us on October 6th "After meeting Spanish directors am convinced that best advice I can give you is to accept their offer regarding submarine royalty."

That was when Craven was both an officer of Vickers and an officer of the Sociedad, was it not?

Mr. SPEAR. Yes, sir.

Senator CLARK (continuing reading):

As this connection with the Sociedad was arranged years ago through your good self, we have not replied to their communication of September 11th until we could communicate with you and receive your advice and instructions on the subject.

With the highest esteem and best wishes for your continued good health, in which Mrs. Carse joins me, I remain,

Very sincerely yours,

H. R. CARSE, *President.*

What did Sir Basil tell you when you applied to him for help and instruction?

Mr. CARSE. He told me to send on the money, and I wrote him another letter in further explanation, and I suppose his secretary did not understand the matter.

Senator CLARK. You had already told him in this letter that you did not have the money and they had not paid you his cut.

Mr. CARSE. I think most of Zaharoff's correspondence now, and so forth, is conducted by his staff in his office. Sir Basil Zaharoff is 85 years old. We did not pay him any money.

Senator CLARK. Did he give you any advice as to what you should do about this arrangement with Spain, which was the subject on which you asked him for advice and instruction?

Mr. CARSE. He did finally. I wrote him further and sent him more detailed information, and he advised us to agree to accept the 1½-percent payment, which we did, and we have not received it.

Senator CLARK. You never got the rest of your money?

Mr. CARSE. No; and perhaps now we won't.

Senator CLARK. You did not think that you could interfere directly in the Spanish business as long as Sir Basil was alive, did you, Mr. Carse?

Mr. CARSE. Of course not. Sir Basil had handled the matter.

Senator CLARK. And even if they breached the contract with you, as to what you were entitled to under the contract, if Sir Basil did not choose to act, there was nothing you could do about it?

Mr. CARSE. What can you do in a foreign country—

Senator CLARK. You had to accept the 1½ percent as what they choose to pay?

Mr. CARSE. What can you do in a foreign country? You have to depend on the good faith of the people with whom you are dealing, and nothing else. It would be rather absurd for an American concern to bring an action of some kind in a foreign court, except England, against anybody who is a resident of that foreign country.

Senator CLARK. So that you were without help in the matter?

Mr. CARSE. You have to get down to practical matters.

Senator CLARK. This is a very practical matter, is it not, Mr. Carse?

Mr. CARSE. Like any other business. It is not any different than any other business, Senator.

Senator CLARK. Now, Mr. Spear, I direct your attention to "Exhibit No. 137", being a letter dated the 14th of March 1934 from Commander Craven to you.

(The letter referred to was marked "Exhibit No. 137" and appears in the appendix on p. 412.)

Senator CLARK. This letter, which has been marked "Exhibit No. 137", reads as follows:

NAVAL CONSTRUCTION WORKS.  
*Barroio-in-Furness, March 14, 1934.*

Personal and confidential.

L. Y. SPEAR, Esq.,  
Electric Boat Co.,  
Groton, Conn., U.S.A.

MY DEAR SPEAR: I am awfully sorry that I neglected to answer your letter of the 9th February, reference 1259/283/LYS, and that you therefore have to send me a shakeup on the 28th February. I have wired you this morning as follows:

"Apologize my neglect answering your letter 9th February. Consider your proposals paragraph three for payment for work done reasonable. Leave you to approach Sociedad in view my dual position. Writing."

As I am deputy chairman of the Sociedad—and I can assure you that I am having plenty of difficulties with them by virtue of that position—I should much prefer that you should take up the question under discussion. If it is referred to me, as I think it will be, I shall say that I consider your proposal very reasonable.

To what did that refer, Mr. Spear? That was in this year.

MR. SPEAR. That refers to this order which was received last year, I believe, for one submarine under which the Spanish company, about which Mr. Carse has told you, elected to say that it would be built under that provision of the contract which provided for 1½ percent. That contract was written this way—

Senator CLARK. They said the same thing to Vickers, did they not?

Mr. SPEAR. I presume so.

Senator CLARK. Vickers was to get the same cut out of it that you got?

Mr. SPEAR. Yes. We were joint licensors.

Senator CLARK. Vickers got the same under the Spanish contract, as modified, that you got?

Mr. SPEAR. Precisely. They would pay the licensors 3 percent, half of which went to Vickers and half of which went to us and they were entitled to appeal to each of us for advice and assistance.

Senator CLARK. Originally they were to pay each of you 3 percent, were they not?

Mr. SPEAR. That was under the original contract. I am trying to explain to you what that contract was.

Senator CLARK. Very well, please proceed.

Mr. SPEAR. Under the terms of the contract, if, as defined in the contract, the ships were built to plans and under our supervision, we supplied all of the plans and they paid us jointly 7 percent. Now, there was another provision in the contract that if they should build any submarines under which we did not supply them the design, they would then pay a total of 3 percent. Under that contract, with the 3 percent provision, they were not entitled without compensation to receive technical advice and assistance from us. Under the other contract they were. That was all covered by the 7 percent, or the working plans and everything. We played grandfather to them. But if they elected or did build in any other way, then they were not entitled to that.

Now, they elected to build the other way, and the design of that boat was not prepared by us. It was prepared by them. But after they got the contract, I think they got what we might call colloquially a little cold feet about the technical features of the contract and they wrote us a number of letters asking our advice and opinion about it. Now, to investigate those matters required engineers and designers to spend time on it and that costs money. As they were not entitled to free service when they were paying 1½ percent, I took it up with them and said that we did not feel that they should ask us to work for them on something which was not covered by the contract for nothing. I proposed that they pay the actual cost of that material and the labor, plus a percentage for overhead, whatever it might be. That was the proposal that I wrote to Commander Craven.

Senator CLARK. Did that affect Vickers as well as yourself?

Mr. SPEAR. Well, if they asked Vickers for opinions also, I presume the terms to the two companies would probably be the same.

Senator BARBOUR. Senator Clark, with your permission and that of the chairman, I would like to ask a question at this time.



While we have a wealth of information here as to your problems on how to get this business, one thing that is not clear to me is whether your concern had a monopoly so that you would get the business anyway, or whether you were confronted with a competitive situation; in other words, whether your problem was to try to get business that would accrue to an American manufacturer of these boats or whether the business would go to somebody else somewhere else who made this kind of boat. I do not think that has been clearly brought out at any time during this discussion.

Mr. SPEAR. Perhaps I can clear that up, Senator. There does not exist anything in the nature of a monopoly; nothing of the sort. There are four or five concerns, possible more now, all over the world who have finally specialized in constructing submarines, and, in addition to that, a great many of them are constructed in Government yards. There does not exist any such thing as a monopoly.

If you take all the submarines now on the Navy list—of course, there have been boats built in the past that have been outworn and discarded and I do not know—it would take a long time to collect all those figures—but, if you take the boats now on the list, and take for instance, the French and the Japanese who have the greatest number of submarines of anybody, none of those were built by us. None were built by any one concern. All of the French boats were built in France, partly by private French shipbuilders and partly by Government French shipyards. The same is true in Japan.

In England, Vickers does the bulk of it, but not all of it.

In this country we have received only three contracts for submarines, or contracts for only three submarines since 1918. The navy yards have done much more than we have.

The Italians have several yards engaged in this work and no one of them has a monopoly with the Italian Government.

When you go into the countries which desire to purchase submarines, as many of them do, who have no building facilities or are not able to produce, then it becomes a world-wide competition between ourselves, the British, the French, the Italians, and possibly the Japanese and the Holland and German concerns operating in Holland and Sweden.

All of the business that has been done in the countries who have built submarines, as I recall it now—and I am talking about recent years—outside of the large countries which I have covered—I am now referring to Turkey, Greece, Yugoslavia, Argentine, Brazil, Finland, Russia, and Peru—I say, of all of that business—I cannot tell you exactly because I do not have the figures in front of me, but I have them somewhere as to just how many boats that would make—it is quite a large number—but of all of that business, the amount that we secured was the four submarines for Peru and none other.

There was no one concern that obtained a monopoly in the business of the countries where they do not produce their own. And there was no one concern that I know of that has obtained a monopoly of the business in their own country. In other words, it is quite a widely distributed business.

Senator BARBOUR. The point that I wanted to clear up was this: This effort, which has been developed here through letters of your

own company that have been taken from your files, letters between officers of your own company, and so forth, shows that it has been an effort that has been made on the part of your organization to get business. The point that I think is important to the committee is whether that effort was necessary to get the business for the United States or whether, if you had not made any effort at all, the same ships would have been ordered from somebody else?

Mr. SPEAR. The same ships would have been ordered from somebody else; the contracts would have been awarded to somebody else.

Senator BONE. Let me ask in that connection if you can enlighten us, as to whether all your competitors in Europe were also very aggressively pursuing business over there, Mr. Spear.

Mr. SPEAR. We always found very keen competition, Senator.

Senator BONE. And these competitors were not always ethical; they were engaged in a lot of what we might call, well, funny business; can we put it that way?

Mr. SPEAR. I would say some of the methods used would not be considered ethical in this country, Senator.

Senator BONE. That is what I am getting at. In other words, considered in the light of our own business standards it would look pretty rotten, would it not, Mr. Spear? Let us be frank about it.

Mr. SPEAR. I am being frank; some of it would.

Senator BONE. That is what I am getting at. Senator Barbour has asked you about the necessity of doing what you did in order to get the business. What I am developing for the record is this: You were running up against competition that was anything but ethical; is that right?

Mr. SPEAR. Yes. We frequently thought that some of the tactics were very unfair.

Senator BONE. That is what I had in mind. In other words, they were pretty raw; is that right?

Mr. SPEAR. I think so, sir.

Senator BONE. When you went out into this world market, you ran into a bunch of fellows doing business on the other side of the fence who were pretty tough customers to deal with?

Mr. SPEAR. That is true.

Senator CLARK. Returning to Spain, Mr. Spear, the situation with regard to Sir Basil's monopoly—the matter of monopoly has been discussed here in other countries—the situation in regard to Sir Basil Zaharoff's monopoly of the Spanish business was somewhat disturbed when the Spanish people rose up and threw Sir Basil's cousin out of the country; is that right?

Mr. SPEAR. I do not know what Sir Basil's position was in Spain.

Senator CLARK. Prior to that time there had been a practical monopoly in Spain, had there not, controlled by Sir Basil?

Mr. SPEAR. There was only one builder in Spain.

Senator CLARK. As is evidenced by a letter from Sir Basil Zaharoff to Mr. Carse, which has been introduced in evidence and to the following paragraph of which I direct your attention—I am referring to "Exhibit No. 35":

Our Spanish company are very much disturbed, because they fear their Government may suspect their good faith, and they tell me that it has always

been an exceedingly difficult and delicate problem to create a monopoly for the Electric Boat Co. products, and that this unusual intervention has already caused serious friction.

So that there was, so far as Spain was concerned before the revolutionists overthrew the Government, a monopoly controlled by Sir Basil Zaharoff in your behalf; was there not?

Mr. SPEAR. Not entirely, Senator. The Spanish at one time did acquire some submarines from Italy. Whether that was after the Sociedad began construction on that, I do not recall. But I do recall that they did acquire some submarines from Italy.

Mr. CARSE. It was a patent monopoly, if it were a monopoly.

Senator CLARK. If it was merely a patent monopoly, why does Sir Basil speak of the great difficulty and delicacy of maintaining it? There is no difficulty or delicacy in maintaining a patent monopoly, is there?

Mr. SPEAR. There is.

Mr. CARSE. There is.

Mr. SPEAR. There is, unless your customer feels absolutely convinced that yours is the best patent.

Senator CLARK. But Sir Basil's reference has to do with the difficulty which the Sociedad had with the Government in maintaining a monopoly in Spain. That does not seem to have any reference to a patent monopoly, does it?

Mr. CARSE. No; but if it were a monopoly, it was based on our patents.

Senator CLARK. Mr. Spear, returning to this letter to you from Commander Craven, of the 14th of March 1934, the last paragraph of that letter would seem to indicate that you were still pretty well hooked up in Spain, even since the revolution, through the Sociedad, would it not? He says:

I can tell you at once that there is every possibility of the Government approving the construction of certain warships, including two repeats of the submarine now building. Of course, things look very stormy in Spain at present, and I sincerely hope nothing will be done to check the swing to the right which has recently taken place, because the present Government look as if they are going to be most sympathetic to the Sociedad and give us a modest naval programme, which, I can assure you, is very sorely needed to keep the place going.

Mr. SPEAR. Yes.

Senator CLARK. What was that "swing to the right" in Spain, Mr. Spear? Do you know anything about it?

Mr. SPEAR. I do not know anything about it, except that that probably referred to what the press reported as the political trend in Spain. At one time it looked as if they might have very serious trouble there after the revolution. I recall that the newspapers dealt with the subject all the time. I presume that is what he was talking about.

Senator CLARK. Of course, Commander Craven, being a leading official of the Spanish company as well as Vickers, would naturally be closely in touch with that situation?

Mr. SPEAR. Naturally he would know a great deal more about it than I would.

Mr. CARSE. That yard was the only shipyard in Spain that was competent to build naval vessels.

Senator CLARK. You do not think that this Sociedad de Levante, or whatever it was, that were using Krupp plants, was competent to build vessels?

Mr. CARSE. Apparently not. It did not get any business.

Senator CLARK. That does not necessarily follow with Sir Basil on the job, that the competency of the yard had anything to do with their getting business.

Mr. CARSE. Just because one concern has got a shipyard, that does not mean that they have an organization and experience.

Senator CLARK. These Spanish representatives of yours, the Sociedad, were evidently very much alarmed, according to the letter which I just read, by the intervention of the other organization. They said nothing about their incompetency.

Mr. CARSE. No; but they apparently had not built any boats; had not had any experience in building.

Senator CLARK. Of course, you will agree that in the Spanish business, the adequacy of the yard has very little to do with their getting business, with Sir Basil on the job?

Mr. CARSE. I do not know about that.

Senator CLARK. Now, Mr. Carse, in 1920, your representative in Europe, Captain Koster, notified you that he had been decorated by the Italian Government with the Crown of Italy, did he not?

Mr. CARSE. Maybe; I do not recall.

Senator CLARK. Referring to a letter to you from Captain Koster, dated the 9th of November 1920, which I will offer in evidence as "Exhibit No. 138."

(The letter referred to was marked "Exhibit No. 138" and appears in the appendix on p. 412.)

Senator CLARK. Do you know why he was decorated?

Mr. CARSE. No.

Senator CLARK. By the Italian Government?

Mr. CARSE. No; I do not know why. That did not impress me. What did it mean? It did not mean anything, anyhow.

Senator CLARK. Captain Koster evidently failed in his purpose, because he immediately sat down and wrote you when he got this decoration. You did not increase his pay on account of the decoration, did you?

Mr. CARSE. Not a cent.

#### RELATIONS UNITED STATES GOVERNMENT

Senator CLARK. Now, Mr. Carse, in 1923 you asked and received the help of the State Department of the United States in bidding for Italian business, did you not?

Mr. CARSE. I do not remember.

Senator CLARK. I direct your attention to a letter which I will ask to have marked as "Exhibit No. 139."

(The letter referred to was marked "Exhibit No. 139" and appears in the appendix on p. 412.)

Senator CLARK. "Exhibit No. 139" is a letter dated June 5, 1923, to the Secretary of State from Mr. Carse, in which you asked the intercession of the State Department in this matter and in which you say:

The work of the Electric Boat Company is well and favorably known in Italy, as during the late war eight submarines were constructed by the Electric Boat Company at Montreal for the Italian Government, which made the trip to Italy under their own power.

Did you have a shipyard at Montreal during the war?

Mr. SPEAR. No. We had the use of one. We arranged for the use of an existing plant. We did not own it.

Senator CLARK. You simply made an arrangement like the ones that you had made in Belgium and in France?

Mr. SPEAR. Not a similar arrangement. It was an arrangement to place the facilities at our disposal. We actually conducted the work ourselves.

Senator CLARK. The State Department wrote back, which letter I will offer as "Exhibit No. 140" at this time.

(The letter referred to was marked "Exhibit No. 140" and was read by Senator Clark in full, as follows:)

EXHIBIT No. 140

DEPARTMENT OF STATE,  
Washington, June 9, 1923.

Mr. HENRY R. CARSE,  
*President Electric Boat Company,  
Nassau and Pine Streets, New York City.*

SIR: The receipt is acknowledged of your letter of June 5, 1923, setting forth certain details in connection with the bid that the Electric Boat Company is about to submit, through the Cantieri Navali della Spezia, for the construction of submarine for the Italian Government. You state that competitive tenders are to be submitted to the Italian Government on or before June 11, and request the intercession of this Department, in so far as it is considered proper and desirable in this matter.

In replying you are informed that pursuant to your request the American Ambassador to Italy has been authorized to lend your representative such appropriate assistance as he may consider warranted under the circumstances and having in mind the interest of this Government in the limitation of armaments. I am, sir,

Your obedient servant,

(Signed) LELAND HARRISON,  
*Assistant Secretary*  
(For the Secretary of State).

What you were really doing, Mr. Carse, was asking the United States Government to intervene in behalf of one Italian company in competition in business with other Italian companies; is that correct?

Mr. CARSE. Not to intervene.

Senator CLARK. Well, to intercede, using your own expression.

Mr. CARSE. These things, as I explained a day or so ago—this was brought to Mr. Spear's attention apparently by our ambitious agent to Europe, Koster. These agents were always asking the head office to do all sorts of things. Well, we did not agree to all their requests, but if we turned them down, they would say, "Well we do not get any help from home, how can we expect to secure any business." So I simply passed this along to the Secretary of State.

Senator CLARK. You asked his intercession, did you not? That is the term that you used?

Mr. CARSE. As far as it was considered proper and desirable. He just said that he would give the information to the Ambassador to do as far as he thought proper and desirable; which was nothing.

Senator CLARK. But you were asking the American State Department to intervene on behalf of the bid of one Italian company against the bid of another Italian company or companies, were you not?

Mr. CARSE. As far as it was proper for him to do so.

Senator CLARK. But it was in behalf of the bid of one Italian company against other Italian companies?

Mr. CARSE. Our licensee.

Senator CLARK. Yes; but you recognized this fact yourself in a letter to Mr. Spear who was at that time in Paris, which I will offer as "Exhibit No. 141."

Senator CLARK. In that letter, which is dated June 16, 1923, you say:

DEAR MR. SPEAR: In relation to your cablegram about having the State Department instruct the Ambassador at Rome to assist you in your negotiation with the Italian Government—

It was evidently Mr. Spear instead of Koster who asked you to have the State Department intervene, was it not?

Mr. CARSE. Yes.

Senator CLARK (continuing reading):

as McNeir was absent for a day or two (although outside of this he has been a very regular attendant since the death of Mr. Chapin), Frank B. Lord took the matter up with the State Department, and—

Who was Frank B. Lord?

Mr. CARSE. He was a man in Washington who was a friend of McNeir's.

Senator CLARK. Was he one of your representatives, too?

Mr. CARSE. He acted as a substitute for McNeir. He was a friend of McNeir's.

Senator CLARK (continuing reading):

Frank B. Lord took the matter up with the State Department, and McNeir continued it later, and upon my assurance that you personally would be in Rome handling the negotiation they sent a cablegram to the Ambassador at Rome, the general tenor of which we understand was favorable, but they declined to give us a copy of it. They took the position that unless an American citizen was on the ground and interested they would not care to take any action, as their intercession on behalf of one Italian shipbuilding concern against another might be questioned. I cabled you at Paris as follows:

"Assuming you will go Rome State Department cabling our Ambassador to lend you assistance and extend courtesy consistent with his position."

Yours very truly,

(Signed) HENRY R. CARSE, *Pres.*

Mr. CARSE. Nothing came of it.

Senator CLARK. Nothing came of it?

Mr. SPEAR. No; I went to Rome.

Senator CLARK. To give some color of American interest to the matter?

Mr. SPEAR. We were interested in it, Senator. We wanted very much to get it if we could. But I did not succeed.

Senator CLARK. Mr. Carse, you were making submarine chasers for Italy before the entrance of the United States into the war, were you not?

Mr. CARSE. Italy? I do not think so. No, no; it was after the war, after the United States went into the war.

Senator CLARK. I direct your attention to a letter signed by you to Mr. C. F. McNeir, Hibbs Building, Washington, D.C., dated November 9, 1923, which I will offer as "Exhibit No. 142."

(The letter referred to was marked "Exhibit No. 142" and appears in the appendix on p. 413.)

Senator CLARK. This letter says in part:

I wish you could call on Commander Sommati and try to find out what he has in mind. The contract of November 1916 was for 4 motor yachts instead of 28—

This was in response to an inquiry which had come to you from the naval attaché of the Italian Government as to the work that you had done for the Italian Government during the war, was it not, Mr. Carse?

Mr. CARSE. I do not recall.

Senator CLARK (continuing):

was for 4 motor yachts instead of 28 and was between the Elco Company and Paul Koster (our representative in Europe) and not the Royal Italian Navy, and the price for the boats was \$48,000 each and not \$44,500, and only 25 percent was paid at the signing of the contract, and not 75 percent. The order was negotiated by Koster in Paris through the Italian Embassy there and was executed by Koster as the party of the first part because the United States was not then at war with Germany and the State Department had ruled that these motor boats would be considered as war craft, and it was therefore considered unwise to have any of the belligerents a party to the contract.

Now, what you were doing, Mr. Carse, was this: Having had a ruling from the State Department that these vessels would be considered vessels of war, you entered into a fake contract, not with the real purchaser, which was the Italian Government, but with your own agents in Paris, for the purpose of violating the neutrality laws of the United States, is not that correct?

Mr. CARSE. No.

Senator CLARK. Well, what is the fact about it?

Mr. CARSE. I am trying to recall this. I could not tell about the four boats because that has passed from my mind. We afterward built quite a few.

Senator CLARK. I am not interested in what you did after the war. Your own letter here, dated November 9, 1923, shows in your own language that these boats were furnished to the Italian Government; that there had been a ruling by the State Department that those boats would be considered vessels of war and, therefore, prohibited by the neutrality laws of the United States from being sent to a belligerent; that you entered into a contract with your own agents in Paris so that the name of the belligerent would not appear in the contract, and the shipment of the vessels would not be stopped by the United States Government.

Does not that appear in that letter?

Mr. CARSE. Yes; that appears in the letter.

Senator CLARK. Mr. Carse, I will direct your attention to a letter dated November 15, 1923, which I will ask to have marked "Exhibit No. 143."

(The letter was marked "Exhibit No. 143" and appears in the appendix on p. 414.)

Senator CLARK. This letter is from Henry R. Carse to Comdr. E. Sommati Di Mombello, naval attaché, Italian Embassy, Washington, D.C. The second paragraph of the letter reads:

We find the hulls numbers 7 and 10 (the Italian numbers of which were 71 and 12) were part of the first contract for the construction of 4 motor boats, which contract was executed between Paul Koster, our representative in Paris and the Electric Boat Co., in order to avoid any question being raised of neutrality in regard to building for a belligerent what might be claimed by the German Government to have been war boats, and I enclose herewith a copy of said contract for your confidential information.

Does that refresh your memory on the subject, Mr. Carse?

Mr. CARSE. No. I do not just remember when these boats were built or where these boats were built.

Senator CLARK. It is not a question of where they were built.

Mr. CARSE. Well, if they were built up in Canada, it would not have—

Senator CLARK (interposing). If they had been built in Canada why would it have been necessary to execute the contract in the name of Koster? You state in your letter to McNair of November 9, that you had the contract entered into in the name of Koster, your own agent who was a dummy.

Mr. CARSE. Well, he got the order.

Senator CLARK (continuing). To keep it from appearing that you were contracting with a belligerent, in view of the fact that the United States Government had ruled them to be war vessels.

Mr. CARSE. Well, to keep the United States Government from being bothered by complaints from the German Government.

Senator CLARK. Oh, it was just to save the time of the United States Government officials, was it?

Mr. CARSE. Oh, yes.

Senator CLARK. Is that why Koster was decorated by the Italian Government?

Mr. CARSE. I do not know. We had built in Canada very many of these motor boats, which were known as "submarine chasers", and which went over there for England and France.

Senator CLARK. I understand that, but you stated in this letter that it was necessary to execute this contract in the name of Koster to keep the United States from interfering with you, because you would be dealing with a belligerent.

Mr. CARSE. To keep the United States from being bothered is the question raised. I do not know whether they would have interfered with four 80-foot motor boats going over without any armament, and so forth. I do not think they would have.

Senator CLARK. That was your explanation to Mr. McNair why you wanted to execute the contract in the name of Koster?

Mr. CARSE. Yes. Of course, it is there. I cannot deny that that is what I said.

Senator POPE. Did you advise the United States Government of this transaction?

Mr. CARSE. No.

Senator CLARK. That was the purpose of executing the contract in the name of Koster, so that the United States Government would not be advised of it, was it not, Mr. Carse?

Mr. CARSE. I don't think they were shipped until after the war. It would have taken us sometime to have built them. I know after



we entered the war we executed a contract to Mr. Baruch for a number of these motor boats for the Italian Government. I think we shipped them more than a hundred.

Senator CLARK. But I am referring to the contract made in the name of Koster.

Mr. CARSE. Mr. Sutphen says they did not go out until after we had entered the war. I do not recall the thing.

Senator BARBOUR. If you had manufactured these boats in Canada—

Senator CLARK. There is no testimony they were manufactured in Canada.

Senator BARBOUR. If you had not manufactured these boats somewhere whether in Canada or not, would anybody else have manufactured them?

Mr. CARSE. Other people on the other side were making propositions to the Government over there, but our 80-foot boats which we had designed and built for the British Government after the *Lusitania* was sunk was a very happy design; they kept the seas in very rough weather. They used to go up north of Scotland and stay out there 4 days in the roughest kind of winter weather. Then France bought some and Italy bought some.

Senator CLARK. How do you know if you had not sold these boats to the Italian Government during the war in violation of the neutrality law, they would have gotten them somewhere else? As a matter of fact, all of the belligerents were buying boats anywhere they could, but what assurance have you, that if you had not sold these boats through Koster to the Italian Government, that the Italian Government would have gotten them somewhere else?

Mr. CARSE. Anybody can make a wooden motor boat.

Senator CLARK. What assurance have you that if you had not sold them these boats through Koster, that the Italian Government would have gotten them themselves?

Mr. CARSE. I do not know.

Senator CLARK. You had no assurance whatever that it was necessary for them to have you make this fake contract with your agent to have the boats constructed. He was your own agent?

Mr. CARSE. I had no connection with the Italian Government.

Senator CLARK. I am not speaking about your having any connection with the Italian Government, but you did make a contract nominally with your own agent when he was really in truth and fact representing belligerent power, and you did that to escape the ruling of the State Department on the subject?

Mr. SUTPHEN. There had not been any ruling, Senator.

Mr. SPEAR. No; I think there had been no ruling.

Senator CLARK. Mr. Carse states there was a ruling.

Mr. SUTPHEN. No; there was no ruling.

Mr. SPEAR. Under our international law there was no violation of neutrality. The boats were shipped on the decks of vessels.

Senator CLARK. I will read what Mr. Carse says, as follows:

The order was negotiated by Koster in Paris through the Italian Embassy there and was executed by Koster as the party of the first part because the United States was not then at war with Germany and the State Department had ruled that these motor boats would be considered as war craft, and it was therefore considered unwise to have any of the belligerents a party to the contract.

Do you know of any other manufacturers of munitions in this country that resorted to similar practices during the war?

Mr. CARSE. I do not know about the others.

Senator CLARK. Do you know whether the Bethlehem did?

Mr. CARSE. I do not know anything about their business at all.

Senator CLARK. You were intimately associated with Bethlehem?

Mr. CARSE. Yes, sir; but they do not tell us their business.

Senator CLARK. In fact in 1925 you were really hurt because Bethlehem had not furnished you all of the business they had, weren't you, Mr. Carse?

Mr. CARSE. That was with another corporation, not the Electric Boat.

Senator CLARK. Mr. Carse, I call your attention to this letter dated December 28, 1925, from yourself to W. B. Benson, which I offer as "Exhibit No. 144."

(The letter referred to was marked "Exhibit No. 144", and appears in the appendix on p. 414.)

Senator CLARK. Mr. Benson, to whom this letter was addressed was your Pacific coast manager?

Mr. CARSE. Of the Transmarine Transportation Corporation, but he had nothing to do with the Electric Boat. The Transmarine Transportation Corporation was trying to operate the ships we had taken over from the Shipping Board, and he had nothing to do with the Electric Boat.

Senator CLARK. Whether or not he had anything to do with Electric Boat, it will appear from the letter who he did represent. I read from the letter as follows:

I have your confidential letter of the 21st instant, which I have read with a great deal of pleasure, but I am surprised that Mr. Hill should have taken such a position as indicated, because our relations here have been so intimate for many years, and certainly not to the loss or detriment of the Bethlehem Company. I figured up about a year ago that since 1915 we have paid the Bethlehem Company between twenty and twenty-five millions of dollars for work done for us.

Was that the Electric Boat Co. of which you were speaking, or the other company—what was its name?

Mr. CARSE. The Transmarine Transportation Corporation.

Senator CLARK. Which one was it paid Bethlehem between 20 and 25 millions of dollars?

Mr. CARSE. The Electric Boat Co.

Senator CLARK. So it doesn't have reference to Electric Boat Co. affairs.

(Reading further:)

We have paid the Bethlehem Company between twenty and twenty-five millions of dollars for work done for us, all on a cost-plus basis, in connection with contracts which we were doing mostly on a straight price contract, and in this connection we paid the Bethlehem Company three millions or more for increased wages paid during the war time on construction for the Navy Department for work they were doing on submarine boats for us, which we have not yet been able to recover from the Navy Department, but on which we have lost interest these seven or eight years, and you can figure up very readily that it runs into extremely large figures. There are some unsettled accounts between us, but we have paid them every penny of theirs out of pocket, and the only unsettled items are some which depend upon whether the Navy Department allow certain claims and pay to us, in which case we will pay them over to Bethlehem, and if we do not receive payment they cancel themselves; and others, where they were to receive a certain bonus if they turned

out certain work at a lesser amount than the certified cost, or in quicker time; but, as we have not come to a full and final settlement with the Navy Department, we do not feel that such comparatively small items are pressing.

We know very well the very friendly relations between ourselves and Mr. Tynan.

Who was Mr. Tynan?

Mr. CARSE. He was with the Union Shipbuilding.

Senator CLARK. He was also with Bethlehem, was he not?

Mr. CARSE. Yes.

Senator CLARK. I read further from this letter as follows:

We know very well the very friendly relations between ourselves and Mr. Tynan, because, in connection with his splendid services we did a remarkable stunt in 1914-1915 in building submarine boats for England at Montreal, where a bonus of one million dollars was earned.

What was the remarkable stunt you performed?

Mr. CARSE. We turned out those submarines in 7 months.

Senator CLARK. The letter continues as follows:

Our friend Tynan received from Mr. Schwab a substantial acknowledgement for his extraordinary services, and in addition to that, which gave prestige and reputation he gained by that work, which brought to the Bethlehem Company orders for over three hundred millions worth of work from Great Britain.

Now, did this letter correct that condition, Mr. Carse?

Mr. CARSE. No; it did not. That evidently was caused by Mr. Benson writing me saying that some Bethlehem representatives had refused to consign any of their shipments in our vessels, for some reason, I don't recall what it was, and I thought such a letter as that which he might show the Bethlehem man would cause him to change his plans and direct some of his traffic over our boats which very badly needed the freight.

Senator CLARK. Mr. Carse, you have heard of shipbuilding companies combining on a bid and making the same bid for boats, haven't you?

Mr. CARSE. No; I don't know.

#### FOREIGN RELATIONS—ROUMANIA

Senator CLARK. In 1925 you discussed with Mr. Spear, or rather Mr. Spear discussed with you the question of bidding on some Rumanian boat, did you not? To refresh your memory I refer to this letter dated November 3, 1925, addressed to you by Mr. Spear, which I offer as "Exhibit No. 145."

(The letter referred to was marked "Exhibit No. 145" and appears in the appendix on p. 415.)

Senator CLARK. In this letter, "Exhibit No. 145", Mr. Spear says:

To refresh your mind, I will say that when the Roumanians got in tenders sometime ago, everyone expected that the order would go to Italy. All the Italian yards, however, grouped themselves into a syndicate and offered exactly the same price at which the Roumanians took offense and consequently reopened the business. As the thing now stands, they are asking for quotations on six boats on which they have placed a price limit of £120,000 each. To fully meet their specifications would require a boat of about 600 tons displacement which is too big for the money available and we have accordingly worked out a project with a 500-ton boat which comes pretty close to meeting their requirements. As construction in Italy in this case is out of the question, our best bet would seem to be Cockerill in Belgium. On this business, we would have to pay an agent's commission of 2% and a participation to Vickers of 3% so that the net price would be \$551,000 per boat.

Why did you have to give a cut to Vickers on boats for the Rumanian Government?

Mr. SPEAR. That came within the provisions of the contract which has been elaborated here, it was in their territory under that contract.

Senator CLARK. That was on the cut you had to pay Vickers if you got the Argentine business?

Mr. SPEAR. No; the Argentine was a special agreement, and this is a part of the agreement which has been spread in the record here.

Senator CLARK. You had a standing contract with Cockerill in Belgium to manufacture in their yards, allowing 100 percent overhead, and you took a split of 50-50 on the profits.

Mr. SPEAR. That was the contract.

Mr. CARSE. Nothing ever came of it.

#### FOREIGN RELATIONS—ITALY

Senator CLARK. Now, Mr. Carse, what was the arrangement you had with Premier Orlando of Italy as to business?

Mr. CARSE. It was long before my time.

Senator CLARK. You seemed to know about it as indicated in this letter of date January 21, 1929, which I offer in evidence as "Exhibit No. 146."

(The letter referred to was marked "Exhibit No. 146" and appears in the appendix on p. 416.)

Senator CLARK. In this letter, "Exhibit No. 146", to Mr. Spear, you state:

Years ago we had an arrangement with Orlando, who was Premier of Italy, and he ignored his obligations under the agreement.

You were evidently familiar with the agreement before that time.

Mr. CARSE. Mr. Spear knows about that.

Mr. SPEAR. I can tell you about that, Senator.

Senator CLARK. All right; you may.

Mr. SPEAR. Many years ago we entered into a license agreement with an Italian shipbuilding concern known as "Orlando." They never did any business for us, and we found out afterward these various Italian yards were interlocked in such a way that we felt—I do not want to make this charge definitely—but we felt we had been "gypped", in plain language. I went there with Mr. Rice and we consulted Italian counsel as to whether we could get any legal redress for what happened, and he strongly advised us to let it alone on account of the political influence of Mr. Orlando. I think Mr. Carse is mistaken there in identifying that Orlando with the Orlando who was subsequently Prime Minister. But this is an old matter.

Senator CLARK. That was the interest I had in Mr. Carse's statement you referred to.

Mr. CARSE. I understood it was the same Orlando, but I had no knowledge myself.

Mr. RAUSHENBUSH. In your testimony the other day with reference to Orlando and the ship company and the Argentine party, I forget who it was—

Mr. SPEAR. Admiral Gelindez.

Mr. RAUSHENBUSH. At that time I believe you testified it was the same Orlando?

Mr. SPEAR. I think that was Mr. Carse's testimony, because it is my impression it is a different man. I believe they belong to the same family.

Senator CLARK. Mr. Carse, I direct your attention to this letter dated June 17, 1927, from yourself to Mr. Spear, which I offer as "Exhibit No. 147."

(The letter referred to was marked "Exhibit No. 147", and appears in the appendix on p. 416.)

Senator CLARK. At that time, Mr. Carse, you were considering your whole European representation, were you not?

Mr. CARSE. Yes.

Senator CLARK. In that letter, at the bottom of the last paragraph on page 1, you stated that the submarine business was paid out of the United States Treasury. What does that mean?

Mr. SPEAR. I think they paid for everything they got.

Mr. CARSE. When we declared war, you will recall there was a war board created, of which Mr. Baruch was the head, and they ordered a number of things, among others these motor boats. Now, what I meant was that the money was paid to us through the war board. I signed the contract with Mr. Baruch.

Senator CLARK. At that time Mr. Aubry was undertaking to get the job as your European representative, was he not?

Mr. CARSE. He was suggesting it.

Senator CLARK. He had been appointed naval attaché of the Peruvian Embassy in Paris.

Mr. CARSE. He thought he would like to give that up to take a position with us as the European agent.

Senator CLARK. You say in this letter:

Your letter of the 16th at hand in regard to Aubry. When he was last in this country he discussed with me the subject of being our representative in Europe, which I believe I mentioned to you, and indicated that that arrangement would be very agreeable to him because he felt that the South American field was nearing the point of exhaustion.

Senator BONE. When was this?

Senator CLARK. This was in 1927. Aubry felt he had about outlived his usefulness in South America. The letter then continues as follows:

The record that Aubry has made in South America shows his efficiency, and we have not been burdened by spending large sums of money and chasing rainbows as in Europe in the past. The position might be taken that if we did not go after business we would never get any, but I think there is a difference between spending your energies on possibilities after close analysis rather than chasing matters that if secured would not prove profitable or beneficial. I consider that Passano—

That was the man who represented you in Italy?

Mr. CARSE. Yes.

Senator CLARK. What was he, Spanish or Italian?

Mr. CARSE. He was Italian.

Senator CLARK. I read further from this exhibit:

I consider that Passano is an absolute loss to the company, and all the money spent by him is vanity and vexation of spirit. The people with whom he discusses these matters are simply looking for what they can get out of him and I cannot see that there is any reason for continuing him.

Now, when had Sir Basil communicated with you about Koster?

Mr. SPEAR. It is in the record.

Senator CLARK. What did he say to you about Koster?

Mr. SPEAR. He did not say anything definite. He did not consider him a man who would be able to secure business for us.

Senator CLARK. Did he tell you he was an international spy?

Mr. CARSE. I do not know that Sir Basil did, but I heard that.

Senator CLARK. Where did you hear it?

Mr. CARSE. I can't exactly state it. Back in the War our Navy Department demanded the right to use some of the patents we had from Germany which called for certain royalties to be paid to the Germans, and we could not give them a license. So after the Armistice I wrote a letter to Koster asking him if it was permissible for him to try to get in touch with the German patentees and secure their patents. That letter was opened by the French authorities and it might have caused trouble only he cabled me, and I cabled to a personal friend of mine in Paris, an American who was almost a Frenchman, his mother had been intimate with the Queen, and he went around and saw the Secretary of the Navy and vouched for Koster. I think it was in that connection I was told that the French office looked upon Koster, because he was a Dutchman, more or less as what you might call an international spy.

Senator CLARK. You go on in this letter, Mr. Carse, and say:

In regard to Koster, the strong adverse opinion of Sir Basil should not be ignored because there evidently is some ground work for his antagonism, and since Koster was appointed by Mr. Rice in 1912 he has not secured a dollar's worth of business except the submarines and motor boats from Italy which were paid for from the United States Treasury, and he led us into the cargo ship proposition, which almost proved a mortal blow. I like Koster and admire his persistence but he does not produce anything, evidently not proving himself *persona grata* to the powers that be.

Our experience with Aubry shows that he has proper understanding and has been able to accomplish things which would probably have been impossible with anyone else. Of course if he were our representative in Europe he would not have any connection with our Spanish business, because Sir Basil insists upon that being kept away from our European representative, and, of course, the question is how would a Spaniard be received by the people of other European countries. Regarding that, my opinion would be of no value. I should say that we could agree to proposition (a) as outlined by Aubry, because he would be entitled in any event, at least morally, to commissions on any business we should develop in the near future from either Peru or Argentine and, as he states, he would not look to us for any other compensation while he was naval attaché for Peru. If we could retain an option on his services for the future without any obligation on our part, that would also be wise, but I do not believe that we should obligate ourselves to employ him as European agent until such time arrives as we may wish to decide the question.

Senator POPE. Mr. Carse, when was this man Passano your agent in Italy?

Mr. CARSE. He was not our agent in Italy. Passano had been our agent in Russia before the war, and through him we had secured some large contracts from Russia for submarine boats. When the revolution broke out in Russia, Passano went with some of his family east, and came around to this country, and we paid to him certain commissions that were due to him for the work he had done. He was a very presentable man, a great tall man with quite a showy figure. We retained him in our service because it was thought at that time by a great many people that the revolution would not last

and that there would be a resumption of a new government based upon the old, and in that event Passano would be very helpful in being able to get in touch with the business we had established in Russia. The Duma had voted quite a large program for submarine boats and had named our type of boat as the one to be used.

Senator POPE. Did he operate for you in Turkey?

Mr. CARSE. Yes; we sent him to Turkey on that business.

Senator BONE. Was he able to produce any business for you in the Turkish market?

Mr. CARSE. No; we have never had any business in Turkey. While we followed up all of these possibilities, in my mind I thought they were the barest possibilities and not probabilities, but we could not ignore anything, we needed the business to maintain our organization, so we followed these different matters, until I came to the definite conclusion that it was not possible for an American concern to secure any orders for submarine boats from a foreign government in continental Europe.

Senator POPE. Do you know when his connection with your company ceased?

Mr. CARSE. I think probably Senator Clark has something there that will show.

Senator POPE. In 1929 he was acting for you?

Mr. CARSE. Yes.

Mr. SPEAR. I think his connection ceased in 1930 or 1931. That was when Mr. Carse decided to abolish entirely the European representation.

Senator BONE. Who did the Turks buy submarines from?

Mr. CARSE. From Italy.

Senator BONE. What outfits down there manufactured submarines?

Mr. CARSE. There were a number of yards, but they are all Italian names, and I do not know them.

Senator BONE. Are they tied in with Vickers or Krupp by any stock relationship or anything of that character?

Mr. SPEAR. I do not think there is any stock interlocking. I never heard of one. There was one company in Italy that had some connection with Vickers, but whether that particular yard ever built a submarine I do not know. I think there are four private yards in Italy that build submarines.

Senator VANDENBERG. May I inquire, Mr. Carse, It was your opinion in 1927 that Mr. Koster—quoting you—"does not produce anything", and if that was your opinion of Mr. Koster in 1927, why did you double his salary in 1927?

Mr. CARSE. Did I double it?

Senator VANDENBERG. It went from \$6,000 to \$10,000 and it was \$5,000 previous to that; and that is in 1927 when it appears to be your opinion that he does not produce anything.

#### FOREIGN RELATIONS—GERMANY

Mr. CARSE. Well, Mr. Spear did not agree with me. Mr. Spear thought he was very helpful and useful over in Paris. And, then, we could not let him go because we were working on this Mixed Claims Commission with Germany for the infringement of our pat-

ents, and Koster was necessary to try to secure some data, which we could use in the suit.

Senator VANDENBERG. Would Koster make any threats of disclosures, and so forth, in the event you proceeded with his discharge at that time?

Mr. CARSE. No; he did not.

Senator POPE. What was the date that Sir Basil Zaharoff talked to you against your employment of this man Koster?

Mr. CARSE. I saw him in 1924, but this suit in this Mixed Claims Commission was pending for years, and Koster got us some data that proved to be the basis of any action at all, because the Germans refused to produce the plans of their boats that they built and said there were none in existence. After we had secured some data from Koster, the Germans produced the drawings of the interior of the boats.

Senator CLARK. Mr. Carse, your claim against Germany was for the manufacture of U-boats during the war?

Mr. CARSE. It was for the use of our patents in the building of submarine boats during the war.

Senator CLARK. You had never licensed Krupp?

Mr. CARSE. We had licensed the Vulcan Co. in Germany in the same manner we had Vickers, I think in 1909. Vulcan had not gotten any business, so Mr. Rice arranged with Krupp and during this agreement in the negotiations it was agreed to, as I understand, by the parties in the conference subject to confirmation by the directors of Krupp, and the directors finally refused to ratify it. But Krupp took all of the patent information from the Patent Office and proceeded to build submarine boats.

Senator CLARK. Was that during the war or before the war?

Mr. CARSE. Before the war.

Senator CLARK. How long before?

Mr. CARSE. Several years. We brought action against Krupp in the patents courts.

Senator CLARK. Of Germany?

Mr. CARSE. Of Germany; and the Government wanted to interplead as a party, and the court rejected that thing. We sued Krupp for a certain sum per boat or per tube, which was the thing in question, and they offered just a nominal sum, because they claimed that it was a minor part of the boat. It was the absolute essential part of the boat. That patent was very good.

So there was a judgment handed down in the patents court, and both parties appealed from it, being thought by one that it was too much and by the other that it was too little. Finally the Court of Appeals of Leipzig in 1913, I think, rendered a judgment in our favor, that they should pay so much for every torpedo tube in any submarine boat that was built, and then the war came on. I do not know whether we had appealed or not, but a settlement was made, and the war came on, and after a while they engaged in an intensive building of submarine boats, and after the war was over there was this American-German Mixed Claims Commission that was created to receive any claims from American firms. And from our Navy Department we obtained information that their records showed that Germany had built 441 submarine boats. So that we filed a



claim for a royalty of \$40,000 on each boat. And that, of course, pended for years. They simply denied any infringement of our patents and told us to produce the evidence.

The German submarine boats had all been sunk, as it was thought. Those that were taken by Great Britain had been sunk, and the couple which the United States had taken had been sunk, but we found that the French, instead of sinking all of theirs, had kept a couple. So that through Koster we arranged to have a commission, French commission, appointed by the French Government to make an examination of those boats, and they made certain drawings and sketches of certain of the internals of those boats, and they found in some way some drawings, some German drawings, that had been left in those boats. And on the basis of that we presented this thing as evidence of the infringement of our patents, and then the Germans found drawings which they said did not exist, and they presented them more or less in rebuttal.

Senator CLARK. You presented a claim for 441 times \$40,000?

Mr. CARSE. Yes, sir.

Senator CLARK. Which is roughly \$17,000,000?

Mr. CARSE. That is right.

Senator CLARK. Then in December 1925 Koster notified you that Germany had also made a number of U-boats for Austria?

Mr. CARSE. Yes, sir; I believe he did.

Senator CLARK. Twenty-seven. Did you include them in your claim?

Mr. CARSE. No.

Senator CLARK. You had licensed one German concern and one Austrian concern prior to the war, had you not, for the manufacture of U-boats?

Mr. SPEAR. There had been a license for the Vulcan Co., Senator, which I can tell you about, which existed for a number of years; and then the Vulcan Co. advised us that the German Government did not desire to have any German firm which was a licensee of any foreign company building submarines for it, and that they had made up their minds, as a matter of policy, that their construction of submarines should be by a private yard, Krupp, and in their own Government dockyard at Danzig, and, accordingly, the license was of no use to anybody, and it was canceled.

Senator CLARK. You had also issued a license to Whitehead in Austria?

Mr. SPEAR. We had issued a license to Whitehead in Austria, and they did some business, but the Vulcan Co. never did.

Senator CLARK. In other words, Whitehead had your plans, if they had done some business?

Mr. SPEAR. Whitehead had the plans of the boats we were building many years ago.

Senator CLARK. It was your idea, Mr. Carse, that these U-boats could not have been constructed except under your patents?

Mr. CARSE. They could not have been operated except under our patents. Is not that right?

Mr. SPEAR. It was our idea they used our boats, and the particular patent on which the issue came down was vital on the small-size boats and not the bigger ones, but we never supplied any plans to

them. I want to make that clear. There were no plans made by us in the hands of the Germans that they ever got from us.

Senator CLARK. Were they in the hands of the Austrians?

Mr. SPEAR. Naturally they had the plans of the particular boat which they built—one class of boat.

Senator CLARK. Of course you recognize, Mr. Spear, when you file your plans in another country, that in the event of war they will be seized by the government and will be used for any belligerent purpose?

Mr. SPEAR. Anybody knows that, Senator.

Senator CLARK. Yes; of course. So, really, the construction of the U-boats would not have been possible except for your patents?

Mr. SPEAR. I would not say that.

Senator CLARK. That is a statement that Mr. Carse made before.

Mr. CARSE. That is a claim.

Mr. SPEAR. That is a claim. I would not agree with it.

Senator BARBOUR. Mr. Spear, how many U-boats or submarines do you think were made by you or by others, that is, made under a license to use your patents? What would be the total number of boats?

Mr. SPEAR. I should think, going back to the beginning, Senator, and taking all the boats we built and those built by anybody who was our licensee, I should think it would be in the neighborhood of 175.

Senator BARBOUR. One hundred and seventy-five?

Mr. SPEAR. I should think so. (Conferring with associate.) Mr. Carse says I gave him some figures, and I want to correct that. Those figures were given to him some years ago, showing a larger number than that. I do not recall the number. I have the data in my office. My records show that.

Mr. RAUSHENBUSH. I think we will get to that later.

Senator BARBOUR. That would account directly or indirectly, so far as you people are concerned, for 175 submarines, approximately?

Mr. SPEAR. Whatever it may be. Mr. Carse thinks the figure was about 300. As I say, I do not remember the exact figure, Senator.

Mr. CARSE. I think Mr. Raushenbush has it in his papers; have you not?

Mr. RAUSHENBUSH. I think we will come to that a little later on.

Senator BARBOUR. I am trying to figure from my point of view, as a member of the committee, what that represented as to all U-boats at that particular time.

Mr. SPEAR. Of course, that dates back 30 years ago, Senator. This is just a mere guess, without the figures before me, but I should say that that represented 20 to 25 percent. That is a guess without figures in front of me, Senator, and I should say it represented between 20 and 30 percent.

Senator BARBOUR. That is what I wanted.

Mr. SPEAR. It may be inaccurate.

Senator CLARK. Mr. Carse, you said a moment ago that the French had two submarines. Was not that a violation of the Treaty of Versailles?

Mr. CARSE. I do not know.

Senator CLARK. Is it not?

Mr. SPEAR. I can tell you about that.

Senator CLARK. I would be glad if you would.

Mr. SPEAR. When the war was over, Germany was obliged, of course, to surrender all these submarines. The greater part of them were taken to Scapa Flow, as you will remember, and were eventually sunk by the Germans, but the victors proceeded to do what they liked to the defeated, and a certain number of ships were assigned to France, with an agreement between France, Great Britain, Japan, and everybody else on the other side, on the theory that during the war the French dockyards had been entirely devoted to building for the army and had not built any ships for themselves, and could not, and therefore their navy was getting worn out, and they were permitted by agreement between the powers to keep some cruisers and some submarines and some destroyers and were permitted to add them to their navy.

The agreement on the part of the other people, where they were permitted to take the things and look them over and sink them—and not add them to their navy, but sink them in a certain period of time—was carried out. That was what was done. As I recall it, there were 2 or 3 German submarines brought here by the Navy Department, which were kept for examination two or three months and then they sank them. The British Government did the same thing, and I think the Japanese Government did. That is my recollection.

Senator VANDENBERG. I am still interested in the fact that Mr. Koster's pay was doubled at the time that the president of the corporation said he did not produce anything. I would like to ask, Mr. Spear, if in 1927, when this paradox arose, Mr. Koster had any correspondence with you, in which he discussed, at least indirectly, threats of what he might do in the event that he was asked to resign.

Mr. SPEAR. I do not recall. There might have been such correspondence, Senator. If there is, it would be in the record.

Senator VANDENBERG. I have before me—I think there is no copy available—but I have before me a letter from Mr. Koster under date of June 28, 1927, in which he says among other things to you: "I have the impression that certain intriguers are playing a hidden hand."

Then he says:

I have always remembered what the late Mr. Albert Vickers told me: "Koster", he said, "never threaten."

That reads to me like a very adroit method of threatening. Does it not read that way to you?

Mr. SPEAR. It might bear that interpretation.

Senator VANDENBERG. Did any fear of what Mr. Koster might disclose enter into the doubling of his salary at a time that the president of the corporation said he was worthless?

Mr. SPEAR. Not the slightest. There was nothing which Koster could disclose which would cause us any alarm whatsoever.

Senator VANDENBERG. Apparently Mr. Koster thought there was something.

Mr. SPEAR. He might have thought so.

Mr. CARSE. I think I can explain that, Senator. I am just speaking from memory now, but you have a record of the salaries received from year to year by Koster.

Senator VANDENBERG. Yes, sir.

Mr. CARSE. Do you have them there?

Senator VANDENBERG. Yes, sir.

Mr. CARSE. You will note how small it became. That was caused by this: I think the original agreement made by Mr. Rice in 1912 provided for the payment to Koster either in pounds or dollars, and sometime afterward he asked to have that pay changed and made in francs. I think it was 50,000 francs, which was about the equivalent of \$10,000. Well, when the franc commenced to dwindle, of course his compensation, as far as we were concerned, dwindled until, as you will notice there, in some years it was very moderate, and he says in that letter that it was about the compensation that a stenographer might receive. We had had that in mind as being unfair to a man who had to have a certain standard of living, so that we increased his pay to make it a fair compensation.

Senator VANDENBERG. His utility was decreasing in the same proportion, according to your viewpoint?

Mr. CARSE. I did not think that he was accomplishing very much in the way of getting new business, but we had to keep him to trace out this German claim. We had to have somebody on the ground there. We had him go and consult the German consul from time to time, to meet some of the contentions of the opposition, and he got the information. It was based on that that we finally increased his salary.

Senator VANDENBERG. I would like to ask Mr. Spear, finally, whether he knows what Koster is talking about when he refers to "intriguers who were playing a hidden hand."

Mr. SPEAR. I think I know what he meant. His relations with Sir Basil Zaharoff were very bad, and he knew it. I think he was aware of the fact that Sir Basil was recommending to Mr. Carse that he dispense with Captain Koster's services. I think that is what is meant, Senator. In fact, I am quite sure of it, because at various times he had spoken to me about knowing that Sir Basil did not approve of him and was endeavoring to persuade Mr. Carse to dispense with his services.

Senator BONE. Mr. Spear, may I ask one question about a matter which has been touched on by Senator Clark? I gather from your testimony throughout this hearing that practically every country in the world has recording statutes which protect patents when they are filed.

Mr. SPEAR. Nearly every country; I think so.

Senator BONE. That is correct, I take it?

Mr. SPEAR. Practically every one. They ought to have, and I think they have.

Senator BONE. When you prepare or discover a new device in connection with your business, do you make a patent record of it in each of these countries to protect your patents?

Mr. SPEAR. Not now. We did in the early days of the company's existence.

Senator BONE. How do you record it now?

Mr. SPEAR. We record it in the United States.

Senator BONE. You would have to record it in Canada and Great Britain to protect yourself?

Mr. SPEAR. Not necessarily. I am trying to answer you accurately, Senator. For some years past we have concluded that it was

not good business policy to attempt to take out patents on every improvement we made in a submarine all over the world, so that we have limited it primarily to those countries for which we have been able to obtain business, or where we have had a licensee, whose interest we thought we should protect. We generally apply—not always, but we generally apply for it in Spain to protect our Spanish licensee.

Senator BONE. That is, in any of these various countries, when a company becomes your licensee, they have this information in their possession?

Mr. SPEAR. They would have the right.

Senator BONE. They would have the right to them?

Mr. SPEAR. To use the patent on boats built under license from us, and not on any other boats. If they built any other boats, they would have no legal right.

Senator BONE. How do you deal with the United States in relation to these patents?

Mr. SPEAR. There is no special arrangement about it now. From time to time, when we have got something which we think is quite important—and the Government does not always agree with us—we unofficially consult the Navy Department as to whether or not that is a matter that they think they would like to have kept confidential. It is not a matter of record, but I go personally. If they say, "This is something which we think we would be very much interested in", and they would probably not want us to apply for some patents on it, we do not do it. But unless they say they are particularly interested in it, then we use our own judgment.

Senator BONE. Who fixes the price for the use of these patents in the event the United States Navy wishes them? The Navy Department itself?

Mr. SPEAR. The Navy Department would fix the price. The only time that the Navy Department has ever paid us anything on account of patents was in this case: It was not patents solely, but patents and plans, and they fixed the price and said they wished to build 2 boats of a certain type, of which we were building 6 or 8 for them; they wished to build 2 in the navy yard, and they said, "This will be what we will pay you", and that was the end of it. I think they paid for the plans and patents, \$35,000 or \$40,000. It was some years ago, but it is a matter of record. Those are the only transactions for submarines. There have been one or two cases where they took a license for engines, which they wanted to build, and they paid a nominal sum for that license, but ordinarily they have felt free, I think, not to bother very much when they were designing a boat whether they used our patents or not, and we have not thought it was good policy for us to be pestering possible customers about paying for patents that we thought they were using, which they might not think they were. So that we have never felt, as I remember it, that we should do that. We prepared some papers once but never filed any claim, did we?

Mr. CARSE. No.

Mr. SPEAR. I think not. We have never claimed it.

Senator CLARK. Mr. Spear, or Mr. Carse, in 1929 Koster informed you that Dutch companies were helping German companies evade

the Treaty of Versailles in the manufacture of submarines, did he not? I refer to a letter dated the 25th of March 1929 from Koster addressed to the Electric Boat Co. at Groton, Conn., dated in Paris, which I will ask to have marked "Exhibit No. 148."

(The letter referred to was marked "Exhibit No. 148", and appears in the appendix on p. 417.)

Mr. CARSE. As I remember it, the German shipbuilders organized a corporation or corporations in Holland.

Senator CLARK. There are several enumerated in this letter, but it is not worth going into detail.

Mr. CARSE. I never realized existing Dutch shipbuilding concerns were utilized.

Senator CLARK. He says certain companies in Holland, and he names the German companies.

Mr. CARSE. He would know.

Senator CLARK. He was very much worked up about that, Mr. Carse, was he not?

Mr. CARSE. He was rather.

Senator CLARK. He said:

If I did let myself go, I would say that the entire thing is a huge camouflage and a lie, and I suppose that Mr. von Levinsky is shaking in his shoes as to the military sanctions which the Fatherland may incur (see objection 9). I will volunteer in the invading army, and I might go on in this strain, if I were not in such a hurry.

Koster has changed his mind after that, has he not, Mr. Spear?

Mr. SPEAR. I do not get the import of your question, sir.

Senator CLARK. In his letter to you of the 13th of February, 1934, he informed you that there was a company by the name of the Bergmann Co. in Berlin which was secretly manufacturing submachine guns for certain organizations in Germany.

Mr. SPEAR. He was not as familiar with German activities then.

Senator CLARK. That is my thought. Mr. Carse, when the war started you had under contract certain submarines which you were building under your supervision on the Black Sea for Russia, did you not?

Mr. CARSE. Yes, sir.

Senator CLARK. And the engines for those submarines were being manufactured in Germany?

Mr. CARSE. Yes, sir.

Senator CLARK. And at the outbreak of the war, of course the engines were seized by the German Government and used for their own purpose?

Mr. SPEAR. Yes, sir.

Senator CLARK. So that it follows that when you start in building in foreign countries, as has frequently seemed to be your plan by various bids which you have made, and when you manufacture abroad it is impossible for you to prevent some of the material from getting into the hands of a belligerent in the event of war?

Mr. SPEAR. I do not see that you can prevent it.

Senator CLARK. That is what I say. For instance, if you manufactured the submarines which you bid on for Argentine or Brazil in Belgium and there came a war between Belgium and Germany,

or Belgium and France, your submarines would be seized, if Belgium wanted them, and would be used by a belligerent power?

Mr. SPEAR. I presume they would.

Senator CLARK. That follows inevitably from the manufacturing of them in foreign countries; that is, that you cannot control the disposition of your product in the event of war, does it not?

Mr. SPEAR. I think not; that is correct.

Senator CLARK. In 1930, Mr. Carse, you were told by the State Department that they viewed with disfavor the exportation of military equipment to Russia, were you not?

Mr. SPEAR. Yes, sir.

Senator CLARK. And to discontinue it?

Mr. SPEAR. We were not doing any other.

Senator CLARK. You were talking about that?

Mr. SPEAR. We had an inquiry which we took to the State Department.

Senator BONE. To what country?

Senator CLARK. Russia.

Mr. SPEAR. We had an inquiry from the Russian representatives, the Amtorg Co., and we went to the State Department.

Senator BONE. At that time was the State Department looking with favor upon the exportation of munitions of war to other countries?

Mr. SPEAR. I could not answer that, Senator. I do not know.

Senator BONE. Is that a fair assumption?

Mr. SPEAR. I do not think at that time they were particularly concerned unless there was some disturbance.

Senator BONE. They must have come out against the munitions companies exporting munitions to the other countries at that time. Why should they put a barrier against the exportation of arms to Russia and not against other countries?

Mr. SPEAR. I do not know their reasons, Senator, but at any rate they looked upon it with disfavor, so that we dropped it.

Senator CLARK. I offer as "Exhibit No. 149" a letter dated in Paris, February 13, 1934, from Mr. Koster to Mr. Spear, to which I referred a moment ago.

(The letter referred to was marked "Exhibit No. 149" and appears in the appendix on p. 419.)

Senator CLARK. Mr. Spear, at that time you were communicating with Mr. Koster to represent you or represent somebody in Europe for the Davison gun, were you not?

Mr. SPEAR. I was in communication with him; yes, sir.

Senator CLARK. What is the Davison gun?

Mr. SPEAR. It is a new anti-aircraft gun for defense against aircraft attacks.

Senator CLARK. Is that controlled by the Electric Boat Co.?

Mr. SPEAR. It is not, sir.

Senator CLARK. That was a private venture?

Mr. SPEAR. That has nothing to do with the Electric Boat Co., which has at the present time no interest in the matter.

## FOREIGN RELATIONS—HOLLAND

Senator CLARK. Now, Mr. Spear, in 1921 Koster wrote you at length, which I will offer as "Exhibit No. 150", which is an undated letter from Paris, in 1921, evidently from the comment on it subsequently in the file.

(The letter referred to was marked "Exhibit No. 150" and appears in the appendix on p. 419.)

Senator CLARK. Koster wrote you at length about an understanding which he said existed between Schelde, which was your Dutch licensee at that time, was it not, Mr. Carse?

Mr. CARSE. Yes, sir.

Senator CLARK (continuing). And Feyenoord, another Dutch concern.

Mr. CARSE. Another Dutch shipbuilding concern.

Senator CLARK. Schelde, your licensee, had failed to bid on some submarines and allowed the matter to go to Feyenoord, and Feyenoord got the business, and Koster considered that a violation of your contract with Schelde. Is that correct?

Mr. SPEAR. That is correct.

Senator CLARK. And he wrote you a long letter, in which he set out that after consultation with Johnstone—he was another of your European agents, was he not?

Mr. SPEAR. He was not an agent but a technical engineer attached to the office for technical purposes.

Senator CLARK. You had him in Europe at that time?

Mr. SPEAR. Yes; and he had been in Holland.

Senator CLARK. And he did participate at times in the sale of submarines?

Mr. SPEAR. Yes, sir; as a technical man.

Senator CLARK. He was working with Koster at that time?

Mr. SPEAR. At that time.

Senator CLARK. Koster writes of a form letter which he suggests you write to Schelde with respect to this matter, and to make a complaint about the situation in connection with Feyenoord, for not bidding on the submarines, and threatening to take the matter into court; did he not, Mr. Spear?

Mr. SPEAR. Yes, sir; he attached here a draft of letter which he suggests we write.

Senator CLARK. And, Mr. Spear, under date of February 2, 1921, you wrote to Mr. Carse a letter, which I will ask to have marked "Exhibit No. 151", with reference to Koster's report.

(The letter referred to was marked "Exhibit No. 151" and appears in the appendix on p. 422.)

Senator CLARK. In that letter, "Exhibit No. 151", you say in part:

You will note that Koster makes some specific recommendations as to the steps that he thinks we ought to take.

You will recall that the whole situation is hooked up with our general contract with Vickers and that they have an interest in the Dutch profits. In view of the somewhat delicate nature of our general relations with Vickers and their recent active intervention in Holland, I am inclined to the belief that we should not open up the matter with Schelde by correspondence or otherwise until after we have conferred with Vickers. The main point in my mind is to avoid taking any action which Vickers might possibly construe into a violation of our contract with them.



What was the active intervention of Vickers in Holland, Mr. Spear, to which you referred, and why did you have to consult with Vickers before you could take up the matter with Schelde?

Mr. SPEAR. What happened was this, Senator: The Dutch company wished to acquire some submarines in one particular year—I do not know what it is—and in that year, instead of simply asking the Dutch builders or instead of placing their own designs and asking the Dutch builders to provide their own specifications, they attempted to spread it out and asked foreign bidders to tender also, and, as I recall it, they also asked some bids on these, and the tender was accepted to make some, so that the actual work would be done in Holland. And in that connection Vickers, with our consent, submitted a tender and a design, and that tender was eventually accepted by the Dutch Government, and provision was made between the Dutch Government and Vickers, I think, Schelde—I am not sure of that—to carry out the actual construction in Holland. That is it.

Senator CLARK. So that you did not feel yourself free to deal with your own licenses without consultation with Vickers?

Mr. SPEAR. They left it to them. Under that arrangement with Vickers, Vickers was then doing business with them, under that arrangement, which was more or less dictated by the Dutch company. We naturally felt that we did not want to start something about Schelde without consulting the other person who also was working with him at that time.

Senator CLARK. Did Bethlehem get into this Dutch picture at all?

Mr. SPEAR. I do not recall.

Senator CLARK. It was at about the same time they were trying to "chisel" in on the submarine business, was it not?

Mr. SPEAR. What date was that?

Senator CLARK. It is undated, Mr. Spear. Koster's letter is undated. You mean your letter referring to it?

Mr. SPEAR. It is February 2, 1921.

Senator CLARK. Yes, sir.

Mr. SPEAR. I do not recall, Senator. I do not recall any attempt by the Bethlehem Co.

Senator CLARK. I was trying to find out what this was, Mr. Spear.

I now offer as "Exhibit No. 152" a letter from Mr. Carse to yourself, under date of October 30, 1920, which reads as follows:

#### EXHIBIT No. 152

ELECTRIC BOAT COMPANY,  
Groton, Conn., October 30, 1920.

Mr. H. R. CARSE,

President Electric Boat Company,  
New York City.

DEAR MR. CARSE: Enclosed herewith please find copies of Vickers cable of October 27th, ours of October 29th, and our letter to them of today, all in reference to the question of a submarine engine tender to Bethlehem.

As there is a rumor going around to the effect that Bethlehem has recently come to an understanding with the English armament ring, viz, Vickers, Armstrong, etc., I have thought it just as well not to reveal in any detail our plans and policies with regard to enforcing the provisions of our contract with Bethlehem to which the letter briefly refers. In this general connection, I may say that we now have letters from practically all the Embassies acknowledging the receipt of the notice which we sent them and stating that their Governments would be informed in the premises.

While on the general subject, I might add that in view of Mr. Chapin's last letter, I feel that we ought not to accept Mr. Edmond's opinion as final, and as an opinion from a third source cannot be obtained on a moment's notice, I suggest that it might be wise to make a start now towards obtaining one.

Very truly yours,

L. Y. SPEAR.

LYS/NM

Enc.

That was the letter that you sent to all the embassies notifying them that Bethlehem was under contract with you and that they were not free to deal with others?

Mr. SPEAR. Yes, sir.

Senator CLARK. What does this refer to where they speak of a tender to Bethlehem? Was Bethlehem getting bids from Vickers on the building of submarines at that time? In the first paragraph they say, "all in reference to the question of a submarine engine tender to Bethlehem."

Mr. SPEAR. The question of submarine-engines tender to Bethlehem—yes.

Senator CLARK. To Bethlehem?

Mr. SPEAR. Yes.

Senator CLARK. Would that indicate that Bethlehem was getting in on the business of building submarines and getting bids from Vickers?

Mr. SPEAR. I do not recall, but what I should assume it to mean is this, that Bethlehem had asked these other people to give them a tender on engines for submarines and that had come to our notice. We would naturally think that they were asking somebody to get engines—

Senator CLARK. You mean that they were preparing to build some submarines?

Mr. SPEAR. That they were getting ready to make some bids on submarines, which was not permissible at that time.

Senator CLARK. That was at the time when you were notifying all these embassies that they could not deal with Bethlehem because Bethlehem was under contract with you; is that right?

Mr. SPEAR. In the contract it was provided that they had no right at that time to enter the business.

Mr. RAUSHENBUSH. When did that contract expire?

Mr. SPEAR. I think in 1923 or 1924. I cannot tell you exactly because there was a question of so many years—I think two or three—after the completion of the last work that we placed with them, that entered into it.

Senator CLARK. In this same letter that Koster wrote to you on this general situation, he informed you that he had recently been offered a prize in Holland for an essay on "The use and future use of submarines for our East Indian colonies." Also that the Naval Society had accepted his offer and had issued a call for competitors. He goes on to say:

During my stay in Holland, I visited my friends of the Navy League, which as you know, I created about 16 years ago, under which I am the only honorary member. We have agreed on a campaign for the strengthening of the naval defenses in Holland and India for which a prominent part will be played by submarines.

He was doing all of that as part of his agency for you, Mr. Spear, was he not?

Mr. SPEAR. Yes.

Senator CLARK. Drumming up business for submarines by organizing the Navy League and offering prizes.

Mr. CARSE. But we were not getting the business.

Senator CLARK. But that was the purpose of the Navy League in Holland, was it not?

Mr. SPEAR. Mr. Sutphen just called my attention to the fact—although I do not think it is material at all—that the League was established long before.

Senator CLARK. This was in 1920 that he went over there and got the League to put over this program, and he was an honorary member.

Mr. SPEAR. There is no question that he was trying to promote his business.

Senator CLARK. Later, Vickers cabled you in regard to the Shelders matter, which cable I offer as "Exhibit No. 153."

(The cable referred to was thereupon marked "Exhibit No. 153.")

Senator CLARK. This cable reads:

#### EXHIBIT No. 153

#### CONFIRMATION

ELECTROBOATCO, *New York:*

23-8-21.

For Sutphen Bentleys Code referring to Dutch submarine business for sake of good order we confirm arrangement made at interview with you when last in London as follows that £12,000 sterling is the total amount which Electric Boat Co. will receive on account of submarine ordered through Vickers from Schelde and also on account of drawings which we supply to other 2 builders and that neither we nor Schelders nor other 2 builders are under any other obligation to you stop we surrender all claims of division of Scheldes profits stop for record purposes kindly cable your agreement which we require so that we may formally confirm to the Schelde that they are under no obligation to you.

VICKERS.

That was the arrangement that you finally entered into?

Mr. SPEAR. Yes.

Senator CLARK. That was made through Vickers?

Mr. SPEAR. Yes.

Senator CLARK. So that submarine construction was according to Vickers' plans and patents rather than your own?

Mr. SPEAR. Yes; in Dutch yards.

Mr. CARSE. It covered our patent, too.

Mr. SPEAR. It covered our patents also.

#### FOREIGN RELATIONS—FRANCE

Senator CLARK. Mr. Spear, in 1919 Koster wrote a letter to the Submarine Boat Corporation, which I will offer as "Exhibit No. 154."

(The letter referred to was marked "Exhibit No. 154" and appears in the appendix on p. 423.)

Senator CLARK. In this letter Mr. Koster informs you that a representative of a French newspaper called "Lloyd Francais" had

called on him and undertaken to shake him down for 2,000 francs for publishing a letter which Mr. Koster had written to the paper; is that correct?

Mr. SPEAR. So I gather from what he said.

Senator CLARK. And he had indignantly repudiated this suggestion and told the newspaper man that, if he did not print it exactly to suit him, he would publish this offer of 2,000 francs. That is correct, is it not, Mr. Spear?

Mr. SPEAR. This was a letter to the Submarine Boat Corporation, but has nothing to do with the Electric Boat Co.

Senator CLARK. Well, the Submarine Boat Corporation controlled all the stock in the Electric Boat, Co., did it not?

Mr. SPEAR. Yes. But just to get the record clear, they are not talking about submarines here, but about merchant ships.

Senator CLARK. In any event, it is the same concern. The Submarine Boat Corporation was the holding company.

Mr. SPEAR. At that time; yes.

Senator CLARK. That is what I mean, at that time.

The CHAIRMAN. The Submarine Boat Corporation was a holding corporation?

Mr. SPEAR. It was. It is out of existence now. But, if you will allow me to interrupt you a moment, Mr. Chairman, it may help to explain matters, the Submarine Boat Corporation in its own name and not through the Electric Boat Co., constructed a large number of ships for the Government, the United States Government, during the war at Newark Bay. Subsequent to the war, they were unwise enough to take some of those ships from the Government, which they attempted through a subsidiary which they formed to operate. They were very anxious for a long time to get rid of them, to get somebody to buy them.

The CHAIRMAN. And the ownership or stockholdings of the Electric Boat Co., are they much smaller than they were in the Submarine Boat Corporation? In other words, was the ownership of the holding company confined to fewer hands?

Mr. SPEAR. I think it was about as widely spread as the original boat company was. It was very widely spread; yes, sir.

Mr. CARSE. We had at one time about 5,000 shareholders. I think it runs about 3,500 now.

The CHAIRMAN. Was Zarharoff a holder of stock in that corporation?

Mr. SPEAR. I do not know.

Mr. CARSE. I did not have any knowledge. He told me at one time that he was a stockholder in the company, but he never indicated how much nor did I ever ask him.

The CHAIRMAN. In the company, you say. Did he ever indicate to you that he was a stockholder in the corporation?

Mr. CARSE. Well, it was a corporation at that time, in 1924. It would have been the Submarine Boat Corporation in 1924.

The CHAIRMAN. Rather than the Electric Boat Co.

Mr. CARSE. Yes.

Senator CLARK. Mr. Spear, although Mr. Koster had exhibited great indignation, on the 27th of June, 1919, at this suggestion that he cough up 2,000 francs to this newspaper, by the 23d of July 1919,

just a month later, a change had come over the spirit of Captain Koster's dreams, had there not?

Mr. SPEAR. I do not know, sir.

Senator CLARK. In that connection I will offer a letter which I will ask to have marked "Exhibit No. 155."

Mr. SPEAR. I will have to refresh my memory on that, Senator.

Senator CLARK. This is a letter to the Submarine Boat Corporation signed by Koster. It is dated in Paris the 23d of July 1919. I will read the letter [reading]:

GENTLEMEN: I have received your favor of July 3d re Lloyd Francais and take great pleasure in sending enclosed clipping from this weekly paper which contains the article I sent them. I am glad to see that they were decent enough to publish without further asking for money, which I certainly would not have given them. Moreover, I have obtained that publications adverse to American shipping interests will be refrained from. This is quite satisfactory results, I believe, and I am glad to be able to report it.

I now want them to change their attitude entirely and to help us build up a fine reputation. For this I may need some funds from time to time and would request you to authorize me to do the necessary in a reasonable and rational way.

Yours faithfully,

(Signed) KOSTER.

What was your reply to that, do you recall?

Mr. SPEAR. I never saw the letter. I never got it.

Senator CLARK. Did you, Mr. Carse?

Mr. CARSE. I do not recall it.

Senator CLARK. You do not recall whether you authorized him "to do the necessary" or not?

Mr. CARSE. I do not think I did.

Senator CLARK. I take it that "doing the necessary" is about the same as "doing the needful" or "greasing the ways", using these trade terms, is it not?

Mr. CARSE. No; I think the larger part of this audience will concede that in order to get certain articles in newspapers, some payment has to be made of an advertising character, as that would be. But I do not recall what this was.

Senator CLARK. You understood Koster's negotiations with the French press had to do purely with advertising matters?

Mr. CARSE. I did not see why I should contribute. I would not say now, but I should say that my thought was that I could not see why I should spend any money influencing the press in France.

Senator CLARK. Let us step on further, Mr. Carse, in this matter, and go to the 13th of February 1922, when there was a letter written by Koster to you, Mr. Carse, which I will ask to have marked "Exhibit No. 156."

Senator CLARK. This letter is addressed personally to you in your capacity as president of the Submarine Boat Corporation, and it reads:

Confidential.

DEAR PRESIDENT: I address this letter personally to you as it contains a matter which is extremely delicate and about which I would not like to have misunderstandings later on.

As you know through former correspondence, the general director and the secretary general of "Penhoet" each want to get fifty thousand francs out of the contract which they eventually will make with us.

What was "Penhoet"?

Mr. CARSE. One of the large shipbuilding yards in France.

Senator CLARK. And the general director and the secretary general of "Penhoet" each wanted to get 50,000 francs out of the contract, Mr. Koster informs you. The letter continues:

Further, there are Mr. Aubin, the director of the office for foreign affairs of the French shipbuilders, and Mr. Delpierre, general business man and editor of the *Moniteur de la Flotte*, who have acted as intermediaries and helpers, and who expect to be paid.

They proposed that one hundred thousand francs should be divided in equal parts between them and me. This undoubtedly will surprise you, and they seem to think that I have the same mentality as their "Penhoet" friends. I think that it is unnecessary to say that I cannot for a single moment entertain this proposal, but in order to get the inside information about the matter which I wanted, I had to act as if I consented to the arrangement. As they think that I am cut out of the same kind of wood, and would take money belonging to my company, they talk very much freer before me than they would do otherwise.

One never knows how such things go, and I therefore want to have the matter on record, as I cannot let my reputation suffer, even if I am willing to act a part because of the business.

Without this kind of arrangement no deal can be made in France. Later, when the business is concluded, I will find means of letting the people here know that I did not abuse the situation, as they now think I do, and which, I am sorry to say, they think quite material. I am rather disappointed that they have thought that I would go in for their proposal, but on the other hand I must say, that nobody in the crowd knows me very well.

Having in this way unburdened my heart and eased my conscience, I will continue to play the villain.

With best regards and respects.

Yours faithfully,

KOSTER.

So that, according to Captain Koster, Mr. Spear, they do business in France so that it is not only necessary to grease the ways and do the needful with the press and with the officials of the companies with which you were doing business, but it was also necessary for your own agent to be pretending to plunder his company's treasury.

Mr. CARSE. Apparently.

Mr. RAUSHENBUSH. And there is an implication there that the French shipbuilding company was doing the same.

Mr. CARSE. Yes. Well, he did not get the money; I know that. I do not remember what I answered to him, but I know that he did not get the money.

Senator BONE. Mr. Carse, is that the general psychology of Europe? Does that letter present a fairly accurate picture of the way of doing business over there?

Mr. CARSE. Well, I do not like to say that, Senator. This is one of the cases that shows that in this particular instance it was. But, because one man or one group of men acted a certain way, it is not right to classify all Europe in that same class any more than you would do so in the United States.

Senator BONE. But this chap Koster seems to be giving a fairly accurate picture of the reaction that one would get from the way of doing business over there. That is correct, is it not, Mr. Spear?

Mr. SPEAR. I should say his judgment is pretty good. He is a European himself.

Mr. CARSE. We never heard of that in Holland, for instance, did we—anything of that nature?

Mr. SPEAR. No; not that kind of thing, so far as I remember. I think they have a little different standard from some of the other European countries.

Senator CLARK. You heard of your licensee going into cahoots with a rival company. That may not be exactly the same sort of thing, but that is pretty bad.

Mr. SPEAR. Yes. My own personal opinion is that it varies a good deal in the different European countries. I think in some it is more widespread than it is in others.

Senator CLARK. Mr. Spear, you had an equally bad opinion of the Balkans, as would be gathered from this exhibit was had in connection with France?

Mr. CARSE. We have never done any business in the Balkans.

Senator CLARK. I direct your attention to a letter which I will ask to have marked "Exhibit No. 157."

(The letter referred to was thereupon marked "Exhibit No. 157", and appears in the appendix on p. 423.)

Senator CLARK. This letter is to Mr. Carse from Mr. Spear and is dated September 14, 1931. At that time you had under consideration appointing a certain Mr. Menelas Metaxa of Athens as your agent in Greece for the sale of Davis guns, Y-guns, and depth charges to the Greek Government.

At the bottom of the page, I direct your attention to this language:

As to commission, I think it would be best to keep some elasticity in the arrangement. Unless there has been some recent improvement in morals in the Balkans, I judge that the commission will have to be rather liberal in order to make business possible.

Mr. SPEAR. I think that was the common opinion.

Senator CLARK. That indicated a rather low opinion of the Balkans as a whole.

Mr. SPEAR. I do not think anybody had a very high opinion of their business practices.

Senator CLARK. I do not either. I agree with you entirely.

Mr. SPEAR. I hope we do not do them any injustice.

Mr. CARSE. That had nothing to do with the Electric Boat Co.

#### FOREIGN RELATIONS—TURKEY

Senator CLARK. Mr. Spear, in 1924 you were trying to negotiate some business with Turkey, were you not?

Mr. SPEAR. Yes, sir.

Senator CLARK. You had your agent Mr. Johnson down there?

Mr. SPEAR. Yes. I do not remember the exact date.

Senator CLARK. I will refer you to a letter written in Genoa dated October 22, 1924, which I will ask to have marked as "Exhibit No. 158."

(The letter referred to was thereupon marked "Exhibit No. 158", and appears in the appendix on p. 424.)

Senator CLARK. This is rather a long letter, but parts of it are rather pertinent and I should like to refer to them. On the first page, you will note this language:

The armament wanted for these two boats is apparently the final decision of the technical committee and was supposed to have been given to us on the 8th of September but we did not receive the letter until the 29th. I am

certain that not one firm submitted bids to meet these requirements except us. The boat is to have four internal bow tubes and twin deck revolving tubes, total number torpedoes carried to be ten (10). Size of torpedoes, 18.

My letter no. 18 and my cable no. 7 explains what is meant by European prices.

I called on C.N.R. yesterday afternoon and saw Mr. Piaggio and told him what I wanted. Mr. Calcagno is in Palermo but is expected back here on Sunday. In the meantime I have started things going here in obtaining prices for main engines, main electric motors, and storage battery. When Mr. Calcagno returns I can take up the other questions and hope to be able to give you their figure within ten days from now.

Then I direct your attention to the following:

Shortly after I arrived in Angora the first time I was showing some of the designs to the officers of the Navy office. One young officer, Escher Bey, came to me and started talking about torpedoes. He is the torpedo expert in the Navy office and was trained in the British Navy and at Vickers. After I had finished with the designs he came to me and asked if I would write a letter for him in English. I told him I would be glad to and he gave me a draft of a letter to the Bucharest agent of the Baldwin Locomotive Works about a 14" railway-gun battery the Turks are interested in. He told me that he would come to my room at seven as he did not wish to be seen in any cafe with me.

At seven the same evening Escher Bey arrived at my room and I gave him the letter as I had written it. After a short talk about his stay in England he told me that the letter was only an excuse for him to come and see me as he had been waiting for several days to get a chance to speak to me but as I had not mentioned torpedoes before he was unable to do so. He said the main object of his visit was to tell me that if we wanted the business we would have to deal through an office called "Tessund" which handles all matters for the Minister of Defense. Two of the officers of the technical committee, Escher Bey and Avni Bey, are in this business and that unless we wished to discuss this with Tessund it would just be luck if we ever obtained anything in Turkey. I told Escher Bey that I had nothing to do with that end of the business but that I would speak to the Marquis and arrange a meeting with him the following day. He agreed to this and left.

Was that Marquis, Pesano who was down there representing you, as was Johnson?

Mr. SPEAR. Yes.

Senator CLARK. He continues:

I told the Marquis the whole story and advised him that we would look into the matter and see just what could be done. The following day that Marquis met Escher Bey and Ismail Hakki Bey at the office Tessund and they asked for Turkish pounds 50,000 for their help in case we got a contract. \* \* \*

That was about \$25,000 in our money at that time, was it not, Mr. Spear?

Mr. SPEAR. I think so, about that.

Senator CLARK. The letter continues:

As 50,000 pounds would not lose us the contract in any case the Marquis agreed to their terms and when he returned to Constantinople drew up a paper before a notary agreeing to pay to Tessund 50,000 pounds in case we received an order for a submarine, half to be paid with the order and the other half in proportion to payments received from the Government. The first half was to go to the Minister of Defense. Tessund then told us that we would receive a call from Colonel Edib Bey who is Tessund and the right-hand man of Kiazim Pacha. Edib Bey called in due time and talked with us about the business. Said our great trouble was our very high price and we went into detail explaining why our prices were high as compared to foreign firms. He said that he was going to Angora soon and that he would see the Minister.



One reason the price had to be high was that you had to pay 50,000 pounds to the Minister of Defense and his friends, is that correct?

Mr. SPEAR. I do not think so. The price had all been settled before that, so far as I know.

Senator CLARK. The letter continues:

When the Marquis joined me in Angora on the 27th of September Edib Bey was also there and it was through him we obtained the twelve-day extension to submit a tender for the boat with the deck tubes and the four internal bow tubes. The Marquis also saw Kiasim Pacha with Edib Bey and started the conversations which finally led the Minister to promise the Marquis two boats if we could give European prices for them. My letter no. 18 explains this matter.

Admiral Bristol's remarks about baksheesh do not hold good."

Do you know what he meant by that?

Mr. SPEAR. I think Admiral Bristol, who at that time was our diplomatic representative in Turkey—

Senator CLARK. I know he was.

Mr. SPEAR. I think Admiral Bristol was quite pro-Turkish and had reached the opinion that there had been a complete reform in Turkey at that time and that baksheesh had died out.

Senator CLARK. And Johnson found out that that was not true very soon after he arrived in town. He continues in this letter:

We watched the office Tessund during our stay in Angora but did not see any of our competitors enter there. De Perrot once told me that he had tried to talk to Escher Bey but that he was turned down by him. So it appears that they were not playing the game in every direction but acted on the square with us.

In other words, Mr. Johnson thought there was honor even among thieves, apparently.

This naturally brought up the question of the 5% to Ben Ayad. We told the Prince that owing to the keen competition we would have to reduce his commission and he agreed to accept one percent (1%). Thus to the price we submitted with his one percent we added \$25,000 to cover Tessund and also for the necessary stamps duties we would have to pay in case we received a contract.

Who was the Prince, Mr. Spear?

Mr. SPEAR. I have a very vague recollection, Senator, that this—whatever his name was—

Senator CLARK. Ben Ayad?

Mr. SPEAR. Yes. He had approached us sometime before—not as directly, but I think the Paris office and made some arrangement with them to act for Turkey.

Senator CLARK. And it was proposed to cut down his commission from 5 percent to 1 percent?

Mr. SPEAR. I should judge that would be the case from this letter.

Senator CLARK (reading):

Up to the time I left, a decision had not been given as to what firm would be given the one boat but general opinion was that Chantiers de la Loire would get it. It will be a French firm we knew. Just before the 28th of September, General Mougin arrived in Turkey on a mission and was in Angora that week. Edib Bey, who had told us that he would not go to Angora unless absolutely necessary, left hurriedly for Angora in response to a wire from Tessund. Also, just previous to that, France had given Turkey 50,000 pounds for the Ezerum earthquake victims. Putting all this together and adding the remarks of the

Minister to the marquis that he was "controlled", it seems to me that it developed into a political question and Turkey repaid France by giving the French firm the order for the first submarine.

The marquis had a very severe time of it with the Prince and worked for 3 or 4 days with him to keep him (the Prince) from making a scandal and injuring our future chances in Turkey. The Prince when he heard that we would not get the order went wild. He wanted to write open letters to the Opposition press in Constantinople about the submarine business and also wanted to send a telegram of protest to Ismet Pacha, the Prime Minister. For 3 days there was a struggle and at last the marquis convinced the Prince that the only thing to do was to keep quiet and keep on fighting for the future. The Prince agreed to this. Undoubtedly the Prince was a great help in the beginning and through him the marquis met Ohukri Bey and several other very influential naval officers in Constantinople and who have and will do everything in their power to help us in obtaining orders there. The marquis acted properly after he got to Angora and did not take the Prince into his confidence in any way. That was why the Prince wrote to Captain Koster complaining about the way he was treated. We were told by many people in Angora to get the Prince out of that place as soon as possible and keep him away as he was doing us more harm than good by his everlasting talking about things he knew nothing about. We did get him away and he remained in Constantinople the rest of the time. His uncle owns the paper of the Opposition and anyone connected with that crowd is not at all welcome in Angora. Another thing the marquis handled extremely well was the deputies.

Senator CLARK. I take it "deputies" in this case correspond to Senators and Congressmen over here?

Mr. SPEAR. I suppose so.

The CHAIRMAN. Did you say "correspond" or "resemble"?

Senator CLARK. I mean they would have the same functions in the government. [Reading:]

They hang about Angora and Constantinople trying to obtain their 1 percent commission on orders for the Government and really do more harm than good. They have no direct influence at all and only hope that luck will get them a commission. The marquis was approached by any number of such men but always turned them down. I, too, was approached in Angora by several men but passed them by. Here, people have come to grief in their dealings in Angora by mixing up with the deputies.

The marquis is in excellent relations with the Minister of Defense and the officers of the technical committee. Abdul Rahim Bey is the only man I am not sure of, but he is such a fool that one cannot expect anything from him at any time.

The marquis is also in good relations with very prominent members of the opposition, including Enver Bey, Rizza Bey, and the leader of the opposition, Renuff Bey, who was Prime Minister before Ismet Pacha.

The political situation in Turkey is serious and they expect a lively time at Angora during the special session which met last Saturday. Kiasim Pacha has held the office of the president of the national defense under both Prime Ministers and, no matter what happens to the present Cabinet, Kiasim will certainly remain at his post.

Chukri Bey, who is commander of all light craft and will also have the submarines under him when they are in commission, has written to the Minister of Defense protesting against awarding a contract for the submarine until after he has had a chance to examine the various projects submitted and can make his recommendations also. This the marquis asked of Chukri. Just what will come of it I do not know but, when I left, the rumor was about that a special committee would be formed to examine into the plans. I wrote you about that before but it then seemed to have died a natural death, but now seems to have come to life again. Constantinople is full of rumors all the time and one must use care in believing anything.

The marquis will stay in Constantinople until he receives the Y gun letter and then will go to Angora and see the Minister about the ordnance business. It is again a question of price, especially for the depth charges, and I suggested to the marquis to make a strong talk about the safety features of our type of charges. He has a copy of Winkler's letter to you, and there is also a short notice in Jane about the charge.

As soon as Mr. Calcagno returns we can get down to work and have the offer for you in plenty of time. We have until the middle of November and can probably get an extension if absolutely necessary, but I do not think that it will be necessary. I can talk to anyone at C.N.R. now that Mr. Calcagno is away and Ing. Ferrari has left. I can make Mr. Piaggie understand, but in the technical office it is hard work. Use a mixture of English, French, German, and Italian, and in that way can get things started, but I am not sure at all times that I am understood.

Captain Battaglio is in Rome and last night I wired him that I would be here for a week. This noon I had a wire from him saying that he would be here Friday. I will find out what the situation is in Italy and also about the two destroyers C.N.R. are building at Riva Trigossa.

Senator CLARK. Now, did anything come of all these negotiations with Escher Bey and all of the other Beys?

Mr. SPEAR. Nothing at all.

Mr. CARSE. The Italians got the business.

Senator CLARK. Now, in 1928, some several years afterward, you resumed negotiations with Turkey again; did you not?

Mr. SPEAR. Yes.

Senator CLARK. Your negotiations and your communication came to you through Mr. Sterling J. Joyner.

Mr. SPEAR. Yes, sir.

Senator CLARK. What is Mr. Joyner's connection with the company?

Mr. SPEAR. Vice president of the company, located in Washington.

Senator CLARK. What are his duties in Washington?

Mr. SPEAR. His duties are to handle any business we have here with foreign embassies, and things of that character.

Senator CLARK. Does he occasionally do a little lobbying on naval bills?

Mr. SPEAR. I do not know of any.

Senator CLARK. Or on construction bills?

Mr. SPEAR. I do not know of any.

Senator CLARK. He is vice president of your company?

Mr. SPEAR. Yes.

Senator CLARK. I now direct your attention to a letter dated January 19, 1928, from S. S. J. to yourself, which I offer as "Exhibit No. 159."

(Said letter was marked "Exhibit No. 159", and appears in the appendix on p. 427.)

Senator CLARK. I note this letter is signed "S. J. J.", that would be Mr. Joyner?

Mr. SPEAR. Yes; that would be Mr. Joyner.

Senator CLARK. I think this letter should be read in some detail although I dislike to take the time. I will read it as follows:

DEAR LAWRENCE: I ran into a situation that may prove to be very attractive and profitable. However, there are certain conditions that go with it which are absolutely and positively part of the bargain or understanding at the start—conditions over which I had no control, and which were not suggested by myself, and which are most arbitrary because of the fact that this whole proposition had been carefully canvassed before I was brought into it at all. It has to be absolutely confidential in every manner, shape, and form. However, for your information, on a separate card I will tell you who has approved of the primary proceedings.

I have been in long conferences with no. 1, no. 2, and no. 3, with no. 3 and no. 4 present and, secretly, this is the story: Because of certain conditions developing in their country, and "forewarned being forearmed", Kemal Pasha, head of the Republic, has communicated with his representatives, nos. 1 and 2,

expressing a desire to arrange to place orders in the United States immediately for submarines, for antiaircraft guns, for aircraft, machine guns, and for other necessary munitions for this equipment. When this request was forwarded to nos. 1 and 2, they immediately took it up with no. 4, and nos. 1 and 2 discussed it with no. 4. I think nos. 4 and 5 discussed it between themselves. Then it resolved itself upon the question of picking the man whom all parties could trust. That party was no. 6.

Now, no. 6 was the man that was writing the letter.

Mr. SPEAR. I think so.

Senator CLARK. He was the man that all parties could trust.

Mr. SPEAR. I think so.

Senator CLARK. No. 1 was Ahmed Moubter Bey, Turkish Ambassador; no. 2 was Ahmed Bedy Bey, counsellor; no. 3 was Kemal Djenany Bey, second secretary; no. 4 was Admiral H. E. Long; no. 5 was Admiral Hilary Jones; and no. 6 was Mr. Sterling J. Joyner.

Mr. SPEAR. Yes, sir.

Senator CLARK. Who was Admiral H. E. Long?

Mr. SPEAR. Admiral H. E. Long at that time was in active service of the Navy and I think he was the president of the Naval Board.

Senator CLARK. Who was Admiral Hilary Jones?

Mr. SPEAR. He is a very distinguished retired officer in the Navy.

Senator BONE. He had attended the Geneva Conference as an attaché, previously.

Mr. SPEAR. I think he was at both the Geneva and London Conferences as one of the officers of the naval delegates.

Senator CLARK. I read further from this letter as follows:

Of course, no. 6 was delighted to have an opportunity to discuss the matter. Nos. 4 and 6 met with nos. 1 and 2 at nos. 1 and 2's residence and had a very long discussion. It was then and there decided that no. 6 was to proceed to secure the information, arrange for a conference at no. 1's residence, and to bring about, if possible, a defensive program so far as the parties concerned were in a position to prepare and supply. This will necessitate certain men from various companies—after a conference here proceeding to Turkey and conferring with Kemal Pasha and his officials for the closing of the orders, meaning terms, payments, prices, deliveries, and types of equipment to be approved of in Turkey. This may lead to program of reorganizing to a fair extent their military program at this time. They have been buying large supplies of material in England, France, and other countries. They are now in a position to really purchase in the United States, and it is their desire and absolute disposition to do so because they believe that the United States Government has no selfish interest from a territorial point of view, and that the other nations really have. Also that the placing of the business in the United States will equip them in a diplomatic way to treat on other subjects which are being diplomatically considered at this time. The strength of our position is the fact that we are the only ones called in and that we will be the ones who will bring in the others, and that our position is absolutely confidential up to this point, and that you and the writer will bring about the meeting and will from time to time have private conferences and that we will be in a position to control the activities of anyone we bring in, provided we are careful in our choice and that we have the proper understanding in advance with those whom we bring into the picture. The machine gun they have in mind is the Browning gun, which is manufactured by license through the Browning interests by the Hartford, Colt Arms Company, of Hartford, Conn. They are also quite willing to consider other machine guns. They have spoken of the Driggs Company. However, having had dealings with that company and with the most friendly relations existing at this time. I do know their methods and strongly recommend against even giving them a hint of a possibility of an alliance in this business. I shall be glad to explain in detail.

The antiaircraft guns should be in line with our own recommendations and types.

The confidential feature of the matter is that no. 4 will really be the one whom they will largely depend upon in private conference, and it was no. 4 who, through courtesy and kindness, brought me into the picture, on the advice of no. 5. There are certain oriental conditions, quite confidential and personal, which will enter into this matter, which we will also have to discuss and which we will also have to control.

Do you know what those oriental conditions were?

Mr. SPEAR. I do not know what he had in mind.

Senator CLARK. I read further:

The last part of the picture is that they insist that I close the contracts with Kemal Pasha, and that such men as go over are simply technical experts, because they do not want to complicate the situation with too many executives, and unless these conditions can be met, they would discourage any further consideration. They give us considerable latitude, saying that they are perfectly willing to have us recommend various companies, so long as we can assume responsibility for their integrity and guarantee the quality of their output. I can arrange quite readily any time for a conference at no. 1's residence with you and such representatives of organizations that might be identified with our organization, and will do so after you have had a chance to discuss the situation thoroughly with the people whom you care to bring into the matter. So far, this is a cash proposition, properly protected and fortified in a business-like way. In addition to that, there are certain military requirements that will be purchased, such as tanks, etc. Also guns, one-pounders, etc., which will be used for antitank warfare. Aside from the above, there are certain industrial requirements, machinery and equipment for arsenal purposes and commercial purposes, which will also be purchased.

This business will be without competition because of its confidential nature, if I am correctly informed at this time. One of the essences of the whole future is speed. If you can arrange with the Colt people, or any other people who manufacture machine guns, to show to nos. 1 and 2 certain samples of their guns, or in any case to present photographs, specifications, and such other information as they may have available, it will serve the purpose of nos. 1 and 2 so far as their position here is concerned, and they in turn will then communicate with Kemal Pasha and such other officials as are to be associated in this matter, and make the necessary arrangements resulting from any decisions arrived at during our conferences. Am quite interested in learning your reaction just as soon as possible. Keep this entirely confidential, please.

Very sincerely yours,

(S) S. J. J.

Then there is a postscript as follows:

Since dictating the above, have talked to you on the telephone.

Now, Mr. Spear, what was done in pursuance to that communication?

Mr. SPEAR. In pursuance of that I got in touch with Mr. Lowney and the Wright Company.

Senator CLARK. They make airplanes?

Mr. SPEAR. Yes; they make airplanes, and I also got in touch with the representative of the Colt Co. and those two gentlemen, myself and Mr. Joyner held a conference with the Ambassador and his counsellor in regard to this subject, at which time they discussed a great many things they thought they were interested in. I do not recall what the net result of it was except that we went over the whole situation, endeavoring to check up whether Mr. Joyner had received the correct impression. I got the impression from that conference that the Ambassador who considered this matter was instructed by the Pasha to make these arrangements in the United States.

Senator CLARK. Were they executed here?

Mr. SPEAR. No, sir.

Senator CLARK. Did the scheme fall through?

Mr. SPEAR. It fell through.

Senator CLARK. Now, Mr. Spear, or Mr. Carse either one, can you tell us how long it has been the practice of the Electric Boat Co. of using naval officers as agents?

Mr. SPEAR. It has never been our practice.

#### FOREIGN RELATIONS—JAPAN

Senator CLARK. I refer you to a letter from Mitsui & Co., of Japan, dated 34 Lime St., London, June 6, 1912, which I offer as "Exhibit No. 160."

(The letter referred to was marked "Exhibit No. 160", and appears in the appendix on p. 428.)

Senator CLARK. This letter, "Exhibit No. 160", addressed to I. L. Rice, Esq., President of the Electric Boat Company, London, reads as follows:

In confirmation of the conversation the writer had with you on the 4th instant at the office of Messrs. Vickers L., Victoria Street, S.W., we beg to record by this letter the arrangement made with reference to our sole agency in Japan for the sale of your submarine or nearly submerged boats, on a commission basis, as follows:

We undertake to exercise due diligence and to make our best endeavor to secure orders, either directly or indirectly, from the Japanese Government.

What is meant by "We undertake to exercise due diligence and to make our best endeavor to secure orders, either directly or indirectly, from the Japanese Government"?

Mr. SPEAR. I do not know, sir. I do not think I ever saw this letter in my life.

Senator CLARK. I read further:

We will employ the services of Admiral T. Matsuo to cooperate with us in securing such orders from the Japanese Government.

Do you know who Admiral T. Matsuo was?

Mr. SPEAR. I have no direct knowledge.

Senator CLARK. Do you know whether he is on the active list or retired?

Mr. SPEAR. I presume he was retired or they would not have been so open in saying they had employed him.

Senator CLARK. Reading further, the letter says:

On all orders received by the Electric Boat Co., either directly or indirectly they will pay a commission of 10 percent on the total value of such orders.

Out of this commission we agree to pay for Admiral Matsuo's services as well as such other expenses as cablegrams and other incidental items.

Payments in respect of the above commission to be made to us as and when the Electric Boat Co. receive payments in cash.

It is clearly understood that, notwithstanding the agreement now recorded, we shall be at liberty to work for Messrs. Vickers L. for similar products whenever we are called upon to do so.

The agreement in question is terminable at any time by one year's notice to that effect, given by either party.

We shall be glad to have your confirmation of the above.

Then that was confirmed by Mr. Rice?

Mr. SPEAR. Yes.

(The letter of confirmation was marked "Exhibit No. 160-A", and appears in the appendix on p. 429.)

Senator CLARK. Do you know how long that agreement was in existence?

Mr. SPEAR. No; but from memory I should say that expired about—I think there is some mistake in copying that letter. I think that is of a much earlier date.

Senator CLARK. It is dated 1912, the copy I have.

Mr. SPEAR. The reason I say that, Senator, I recall having an agreement, and this makes no reference to any previous agreement of any sort from which you would infer one had previously existed and it does not refer to being a modification or continuation, and it is my knowledge that Mitsui was our agent in Japan as early as 1903, and I imagine this letter was 1902 instead of 1912.

Senator CLARK. How long did they remain your agents over there?

Mr. SPEAR. I think they were our agents for about 6 or 8 years.

Senator CLARK. Did you ever get any business out of them?

Mr. SPEAR. Yes; we received one order.

Senator CLARK. What was that order?

Mr. SPEAR. An order for some submarines.

Senator CLARK. For the Japanese Government?

Mr. SPEAR. Yes.

Senator CLARK. You never licensed them to manufacture for anybody except the Japanese Government?

Mr. SPEAR. We did not license them to manufacture for anybody. We never had any license agreement with them. They acted merely as our agents to sell our products in Japan.

Senator CLARK. Wasn't that 10 percent you gave them an unusually large commission on submarine business?

Mr. SPEAR. I should not think so at that time. I should say that is about what the business was able to pay.

Senator CLARK. Then, when it came along to 1926, you then found Mitsubishi, a different concern, were manufacturing submarine boats for the Japanese Government.

Mr. SPEAR. Yes.

Senator CLARK. You suspected they were infringing your patents, and I refer you now to "Exhibit No. 161" offered in evidence, which is a letter dated September 17, 1926, addressed to Mr. Spear from Mr. Carse.

(The letter referred to was marked "Exhibit No. 161", and appears in the appendix on p. 429.)

Senator CLARK. This letter, "Exhibit No. 161", says:

Mr. Joyner has returned and has gone over things very elaborately with us and, as previously advised you by cable and letter, he has in hand two submarines of 2,500 H.P.; two of 3,000 H.P. and two mine layers, also several of the other vessels mentioned. There is no doubt from the details he has gone over with us that he has this business in hand, and he having spent two days at Groton with Mr. Sutphen, they feel there that the company can without doubt fulfill the requirements. Mr. Joyner sails on the *Berengaria* on the 22nd and will meet you in London to discuss matters.

Were those boats to be constructed for Japan?

Mr. SPEAR. Yes.

Senator CLARK. When you said, "Mr. Joyner has this business in hand", you were referring to Japanese business, Mr. Spear?

Mr. CARSE. I wrote that letter.

Senator CLARK. You had in mind the Japanese business, when you made that statement in the letter?

Mr. CARSE. Yes.

Senator CLARK. I continue reading from this letter as follows:

He mentions that Mitsubishi has been building a large number of submarine boats for Japan for some years back and claims that the boats are from our designs. They have even been figuring with the Argentine Minister about building the Argentine boats in Japan. He states that Vickers had a very large office at Mitsubishi's plant and that Vickers has a claim against the Japanese Government of twenty four million yen, but just what it covers he does not know exactly but has an idea there is something in it about submarine boats. He states that Japan has offered Vickers twelve million yen in settlement, and I have thought that perhaps we might have some interest in this claim. It would seem as though Vickers had double-crossed us in Japan in not having the contract executed by Mitsubishi which I sent them in 1916, which provided for a royalty of ten per cent of the gross price. I know they have given you an explanation that the British Government had given the plans of the "K" boats to Japan and therefore Mitsubishi did not think it necessary to go forward with our contract, but this might be something that would be worth while your investigating pretty closely while in London. I do not like to say anything harsh about Vickers because they have proved to be our friends in a number of other cases. You will see Joyner and he will give you all this at first hand.

Did you pursue that investigation closely, Mr. Spear?

Mr. SPEAR. I looked into it as best I could. I think the question referred to was as to whether or not the Vickers people had any right or authority to make a license to Mitsubishi which allowed Mitsubishi to think they could use our patents, and that had been discussed with them before.

Senator CLARK. Yes; Mr. Carse says here:

I know they have given you an explanation that the British Government had given the plans of the "K" boats to Japan.

What were those plans?

Mr. SPEAR. They were special plans of a boat built by the British Government, a very high-speed boat.

Senator CLARK. As I understand, the British Government had given them those plans and they were not operating under your plans, but operating under the plans given them by the British Government, and they did not have to pay you anything.

Mr. SPEAR. That was the understanding.

Senator CLARK. Did you have any other negotiations about it?

Mr. SPEAR. No; it happened that we could not do anything, so it was dropped.

Senator CLARK. On page 2 the letter says:

Joyner, at request, is going to London to consult with Hayashi in regard to the trip of the Prince here next year, and it is further intimated that perhaps Hayashi has additional business. Matsaduria telephoned Joyner this morning that his business would probably be increased to three of the smaller submarines.

Now, who was the Prince?

Mr. SPEAR. That was some Japanese prince arranging a visit to the United States, Chicabu, I think.

Senator CLARK. Joyner was arranging this trip for the Prince to the United States, and was called to London to make the arrangement?

Mr. SUTPHEN. That was a brother of the Emperor.



Mr. RAUSHENBUSH. Senator Clark, Mr. Sutphen says that was a brother of the Emperor.

Senator CLARK. Down here it further says:

I have not heard anything from you in relation to the quotation on the cargo vessels and Joyner seems to be extremely confident that the Japanese friends will take six of our boats at at least \$100,000 a piece. If this should be so, we would of course prefer not to sell any more just now, especially at the lower price.

What were those cargo boats, Mr. Spear?

Mr. SPEAR. They were the same ones we have discussed before, built by the Mitsubishi Shipyards.

Senator CLARK. Did the sale of those boats go through?

Mr. SPEAR. No.

Senator CLARK. What happened to it?

Mr. SPEAR. It just died.

Senator CLARK. Did Joyner proceed and arrange for the trip for the Prince?

Mr. SPEAR. I think he continued to arrange where he would go, and made reservations.

Senator CLARK. Still you did not get the business, although he continued to entertain the prince?

Mr. CARSE. We did not entertain the prince. The Prince of Japan, I do not think, accepts those things. He was in mourning at that time, because his brother had died.

The CHAIRMAN. He was different from the ministers from some of these Balkan States?

#### VICKERS

Senator CLARK. Now, Mr. Spear, in 1930, you were informed by Vickers they were making contracts for Portugal's business and they were splitting that business with two other concerns. I refer you to this letter which I will ask to be marked "Exhibit No. 162", being a letter from Commander Craven dated November 28, 1930.

(The letter referred to was marked "Exhibit No. 162", and appears in the appendix on p. 431.)

Mr. SPEAR. What is the question about the letter, Senator?

Senator CLARK. They asked you again to cut your commission in order to get that business?

Mr. CARSE. I think they always did that.

Senator CLARK. Did you do it?

Mr. CARSE. I think I told them we would do the right thing that was necessary, if they secured the business. I think they never secured the business.

Senator CLARK. He says they had the business, in this letter.

Mr. SPEAR. It was some time later they secured the business.

Mr. CARSE. I suppose I met them half way; that was the usual custom.

Senator CLARK. Now, coming back to the Marquis Passano, how long was he your agent over there, Mr. Carse?

Mr. SPEAR. I can tell perhaps better than Mr. Carse. From about 1912, I should say, until the second revolution in Russia he was our representative in Russia. We had licensees there who did the business for the Government, but he was our representative. As Mr. Carse told you a while ago, he came to this country, and he stayed

for a while, possibly a year or more, then we moved him on to Europe, and he was attached to our Paris office up until we closed the office about 1930 or 1931. He has subsequently died.

Senator CLARK. Was he in the employ of your company when he died?

Mr. SPEAR. No.

Senator CLARK. I refer you to your letter of April 13, 1925, which I ask to be marked "Exhibit No. 163."

(The letter above referred to was marked "Exhibit No. 163," and appears in the appendix on p. 431.)

Senator CLARK. To quote this letter of yours of April 13, you had concluded that the whole record of Passano for 4 or 5 years seems to be a regular opéra bouffe, and you said you could not let him know Koster had anything to do with his expense account, because he would run Koster crazy, deviling him for money for expenses. Yet, in spite of that, Passano received more compensation than Koster?

Mr. CARSE. He did; yes.

Mr. SPEAR. That was on account of the franc depreciation.

Mr. CARSE. Yes; his contract was in indifferent money. But you know you cannot always do business the way your business judgment dictates. You have to have a heart sometime. Passano had worked very earnestly in our favor in Russia, and he had been driven out with his wife and boy, and the boy was not just exactly all there. He had a daughter that was left in the interior of Russia and I had located her; she had not been killed. Passano was a great big fellow with big bushy whiskers and carried himself like the emperor of the world. He had used up the commissions we paid him when he came from Russia, and if we had thrown him overboard, I do not know what would have happened, and naturally we kept him on the pay roll.

Senator CLARK. You did finally fire him in 1927, in spite of the fact you did not know what he would do to keep from starving?

Mr. CARSE. His wife had had a very serious illness and had died. We had advanced them money at that time for expenses in the hospital, and so forth, which he repaid, but times were getting so that our own finances were in such a position we had to stop and figure where we were going to get the money from, and as that office had not produced any money for a very long period of time, we had to take the bit in our teeth and do what was absolutely necessary. As I say, we hesitated and dragged along for some time, because it seemed cruel to treat a man, who had given us the best he had, any other way.

Senator CLARK. Mr. Carse, did you pay Koster in shares in your company at any time?

Mr. CARSE. No.

Senator CLARK. He bought shares.

Mr. CARSE. Yes; he bought shares.

Senator CLARK. He mentions in the letter he had 3,400 shares in your company.

Mr. CARSE. Yes, sir.

Senator CLARK. Do you know whether he still has them?

Mr. CARSE. I do not think so. There is no indication he has.

Mr. SPEAR. I understand he does not have them.

Senator CLARK. Now, Mr. Spear, in this letter from Carse about the Japanese business to which I referred a moment ago, it winds up with the statement, "If you see Sir Basil give him my very best regards." Did you see Sir Basil on that trip?

Mr. SPEAR. Yes, sir.

Senator CLARK. Did he have anything to do with the Japanese business?

Mr. SPEAR. Not a thing.

Senator CLARK. Did he have any connection with you at any time except on the Spanish business?

Mr. SPEAR. Yes; at one time he did.

Senator CLARK. What was that aside from the Spanish business?

Mr. SPEAR. From 1902 or 1903 to about 1912 he was our general representative for continental Europe, and about 1912 or 1913 Mr. Rice, then president of the Electric Boat Co., terminated that, and thereafter he has had no connection with our business except, as we already know, the Spanish business.

Senator CLARK. I direct your attention to a letter dated August 11, 1933, when you were contemplating a trip to Europe, which I offer in evidence as "Exhibit No. 164."

(The letter referred to was marked "Exhibit No. 164", and appears in the appendix on p. 432.)

Senator CLARK. In this letter, which is from Mr. Carse, on page 1, he says:

There is nothing of importance for us in Europe except the Lanova development at Munich, where Mr. Nibbs will be.

What was the Lanova development at Munich?

Mr. SPEAR. That was an improvement on an engine. We had built up a new engine and it was in a laboratory in Munich and it was being tuned up under the direction of an engineer named Lang.

Senator CLARK. I read further from this letter:

If, however, you should visit Spain, while a rumor was current sometime ago that Sir Basil Zarnhoff had died, I saw an article in one of the papers a few days later denying the early statement and declaiming that he was apparently in very good health; so that if Sir Basil is still alive, we would not be at liberty to discuss with either the Spaniards or with the Vickers any modification of the current agreement with the Spanish concern, as that is absolutely the business of Sir Basil.

Senator CLARK. Did you see Sir Basil on that trip?

Mr. SPEAR. I did.

Senator CLARK. You found him still alive?

Mr. SPEAR. He was still alive; yes, sir.

Senator CLARK. Now, in 1929 Mr. Koster proposed to you that he go to the Naval Conference at London as your representative, did he not?

Mr. SPEAR. He did; yes, sir.

Senator CLARK. I offer a letter from Mr. Carse to you, Mr. Spear, under date of November 20, 1929, as "Exhibit No. 165."

Mr. SPEAR. Yes, sir.

(The letter referred to was marked "Exhibit No. 165", and appears in the appendix on p. 433.)

Senator CLARK. And Mr. Carse very definitely turned down this representation?

Mr. SPEAR. Absolutely, and told him to stay away.

Senator CLARK. He said in that letter:

The conference will work itself out in its own way and without any advice, assistance or interference, actual or claimed, on the part of any of our representatives.

Mr. SPEAR. Yes, sir.

Senator CLARK. Mr. Joyner was actually there, was he not?

Mr. SPEAR. No, sir.

Senator CLARK. He was not?

Mr. SPEAR. No, sir.

Senator CLARK. What was your contract with Vickers with regard to paying them for contracts made by your own licensees in Dutch territory?

Mr. SPEAR. Let me see if I get the import of that. Paying them for contracts? You mean paying them something for work done by our licensees?

Senator CLARK. Yes, sir.

Mr. SPEAR. That is all covered, Senator, in the agreement which has been spread upon the record. I think that is what you refer to. If you will let me see the letter I can tell.

Senator CLARK. I do not believe it is of any importance; if it is, I can come back to it. That is all I have.

Senator VANDENBERG. I would like to ask Mr. Spear a general question. Mr. Spear, has there been any commercial utility developed with respect to submarines?

Mr. SPEAR. So far as submarines themselves are concerned, nothing of any importance, Senator.

Senator VANDENBERG. In other words, the submarine is exclusively an instrumentality of war?

Mr. SPEAR. Yes, sir.

Senator VANDENBERG. Then if the Government, either in the United States or in conjunction with other governments, were to undertake to control the submarine business, there would be no difficult question arising as to whether or not there is anything except a war use involved for the submarine?

Mr. SPEAR. No; the few applications which have been made in a very minor way to use it commercially are of no importance, Senator. Primarily it is a defensive weapon in war.

Senator VANDENBERG. It would be the simplest possible thing to use in the curtailment of war instrumentalities, in that it would not involve any collateral uses?

Mr. SPEAR. That is true of all types of war vessels.

Senator VANDENBERG. It is not true of airplanes and so forth.

Mr. SPEAR. No; not strictly of airplanes. It is of war vessels.

Senator VANDENBERG. Let me ask you this question: If the submarine production, being the production of a war instrumentality, were controlled exclusively in the United States, the net result would simply be to leave this field open in other countries. Is that correct?

Mr. SPEAR. Yes, sir.

Senator VANDENBERG. Now, will you state for the record what countries would have to join in an international agreement in order completely to control a submarine situation?

Mr. SPEAR. Great Britain, France, Italy, Spain, Russia, Holland, Denmark, Sweden, Norway, Finland, Argentine, Brazil, Peru, Yugoslavia, Rumania, and Turkey.

Senator VANDENBERG. Japan?

Mr. SPEAR. I should have mentioned Japan if I did not—Japan and Chile.

Senator VANDENBERG. In other words, there is submarine production in all of those countries?

Mr. SPEAR. No, sir; there is not submarine production in all of those countries. They all possess submarines. Some of them acquire them and some of them have no facilities for building them. Was your question directed to where they are produced?

Senator VANDENBERG. I am asking about the production.

Mr. SPEAR. Then I will give you a different answer. Great Britain, France, Italy, Spain, Holland, Denmark, Norway, Sweden, Russia, and I am not sure Yugoslavia, because there was a place down there which I do not know who got it. I am not quite sure of them, but I do not think they belong in the picture.

Senator VANDENBERG. You have not mentioned Japan in this list.

Mr. SPEAR. Japan. There are no South American countries which produce them now. I suppose we should mention Canada, because they have been produced in Canada in the past.

Senator BONE. Germany has facilities for producing them?

Mr. SPEAR. They have the facilities, but they are restricted by the Versailles Treaty.

Senator BONE. I understand that.

Mr. SPEAR. If that were abrogated, you would have to add Germany to the list.

Senator VANDENBERG. This list which you have now indicated would include all the countries which at present produce submarines or have production facilities?

Mr. SPEAR. I would not say it includes all the countries which possess production facilities, but I would say it includes all the countries which possess the facilities, together with the other things which go with it, like an organization and some experience. You might have the facility to do it and could not do it if you did not have the proper direction and knowledge, but those countries all produce submarines and have for a great many years past.

Senator VANDENBERG. Then an effective, world-wide control of existing production would require the cooperation of all these countries which you have indicated?

Mr. SPEAR. All of these countries which I have mentioned.

The CHAIRMAN. I am sorry to have to say to the witnesses that we have not accomplished our purpose in getting through by 1 o'clock. We must take a recess at this time until 2:15. I have good reason to believe that an hour more after we reconvene will enable you to be excused. So, if you will be back at 2:15, we would appreciate it. Until that time the committee now stands in recess.

(Thereupon the committee took a recess until 2:15 p.m.)

## AFTERNOON SESSION

## UNITED STATES GOVERNMENT RELATIONS

(The committee reconvened at 2:15 p.m., pursuant to the taking of recess.)

The CHAIRMAN. The committee will be in order.

The August 4, 1934, issue of *The Economist*, a British publication, contains a study revealing the interlocking interests of Vickers, a part of which I think properly belongs in the record of this hearing, and I offer it as "Exhibit No. 166."

(The statement referred to was marked "Exhibit No. 166" and appears in the appendix on p. 433.)

The CHAIRMAN. Mr. Spear, just a little in furtherance of matters with which we have already dealt: What is Rear Admiral A. T. Long doing at the present time?

Mr. SPEAR. He is in the marine geographic section under the League of Nations, I believe, and the director of that is elected by the different nations, and, so far as I know, he has always been a retired naval officer. It has to do with oceanography and that sort of thing.

The CHAIRMAN. I think you testified that he had been a delegate to the conference in Geneva.

Mr. SPEAR. Not a delegate. I think he went as one of the technical advisors to the delegates. I do not think he was a delegate.

The CHAIRMAN. Under date of April 9, 1925, from the State Department there comes a release to the press announcing as follows:

The President has designated the following as the American delegates to the conference to be held at Geneva on May 4 to consider the conclusion of a convention with respect to the control of the international trade in arms, munitions, and implements of war:

Hon. Theodore E. Burton, chairman.

Hon. Hugh S. Gibson, Am. Minister to Switzerland, v. chairman.

Adm. A. T. Long, Navy Dept.

Allen W. Dulles, Chief of the Div. of Near Eastern Aff., Department of State.

Brig. Genl. Golden L'H Ruggles, Asst. Chief of Ordnance.

In addition, attached to delegation as technical advisors and secretarial staff:

Mr. Chas. E. Herring, Commercial Attaché at Berlin.

Mr. Alan F. Winslow, Secy of Legation at Berne.

Maj. Geo. V. Strong of the War Dept.

Commander Herbert F. Leary, U.S. Navy.

Does that serve to freshen your memory?

Mr. SPEAR. Yes, sir. I was obviously mistaken in thinking he was merely an adviser.

The CHAIRMAN. You do not know whether there was any change from this order at that time?

Mr. SPEAR. I do not know about any change. It was just a mistaken recollection as to his exact status.

The CHAIRMAN. Mr. Spear, you have testified that you had access to the United States Departments of Government in furthering your negotiations abroad for contracts. In your contact with the State Department, for example, who there principally was the one dealing with matters in which you were interested?

Mr. SPEAR. It depended, Mr. Chairman, upon the country that was up. The State Department is so organized into sections that a

different personnel, for instance, would be dealing with it if it were Rumania, and another set of gentlemen would be dealing with it if it were some other country. So that it would depend upon what country was in question who the personnel would be which you would discuss it with.

The CHAIRMAN. Then, I take it, your contact was not of necessity directly with the Secretary of State.

Mr. SPEAR. Very seldom.

The CHAIRMAN. Very seldom?

Mr. SPEAR. I do not know when it ever was personally. A few letters were written to him, but, so far as I am concerned, I never myself discussed anything with the Secretary of State.

The CHAIRMAN. Through your own contacts with these departments, is it not true, as a general thing, that those whom you have had to deal with have been men who have served through various administrations?

Mr. SPEAR. As a rule I think so. They have been gentlemen who have been connected there for some years with the Department, although there would be changes from time to time.

The CHAIRMAN. Mr. Spear, I offer as "Exhibit No. 167" a letter on the stationery of the Electric Boat Co., addressed to Mr. Lawrence Y. Spear, signed by Luis Aubry.

(The letter referred to was marked "Exhibit No. 167" and appears in the appendix on p. 434.)

The CHAIRMAN. In that letter, "Exhibit No. 167", Mr. Aubry says:

I am glad to know, that you with your extraordinary foresights could see trouble ahead, by having any contract with Shearer.

Mr. SPEAR. Yes, sir.

The CHAIRMAN. Do you know Mr. Shearer?

Mr. SPEAR. I have met him; yes, sir.

The CHAIRMAN. I think you have testified that you never utilized his services.

Mr. SPEAR. In no respect whatsoever.

The CHAIRMAN. Never contributed to his employment?

Mr. SPEAR. Not one cent.

The CHAIRMAN. What is the meaning of this language here which rather indicates that had you used him, there would certainly have been trouble ahead?

Mr. SPEAR. I think that I had probably indicated—I am speaking by inference now, Mr. Chairman—I should judge from that, that I had probably indicated to Commander Aubry, in speaking of the matter, that the thing was obvious to my mind, that employment by a private concern was a matter that we—

The CHAIRMAN. This letter is dated the 9th of October, 1929.

Mr. SPEAR. Yes, sir; I think that was after the episode.

The CHAIRMAN. Shearer was in rather bad repute at that time?

Mr. SPEAR. Yes, sir.

The CHAIRMAN. Mr. Aubry's letter goes on to state:

I am afraid that the British-American negotiations, will tend to stop for some time any activities in regard to armaments in these countries, who are so emotives, and liable to copy.

Mr. Spear, what is the meaning of that?

Mr. SPEAR. I think at that time, Mr. Chairman, either the London Conference was going on or there were some other negotiations,

public negotiations, relating to the question of the limitation of armaments, and I think that the thought which he is trying to express is that the minor countries of that sort, are apt to copy what the bigger countries do.

The CHAIRMAN. I notice the word he resorts to there, that is "emotives."

Mr. SPEAR. He means emotional, sir. His English is not always perfect. He means that they are not governed simply by cold logic, or some other choice of words.

The CHAIRMAN. In other words, these negotiations being entered into between Great Britain and the United States and other powers would naturally be reflected in the action of the other countries. that is what he has in mind?

Mr. SPEAR. Yes, sir; I think that is the meaning.

The CHAIRMAN. He goes on in that letter to state:

I am expecting soon the data that you request regarding sea-keeping ability, and so forth, of the submarines from Burnett, and will send to you immediately.

Who is Burnett, and what is the meaning of that paragraph?

Mr. SPEAR. Burnett was a member of the American Mission, an expert submarine officer with the American Naval Mission to Peru at that time, who had under his charge the submarines which we had built for Peru, and I wanted to find how those boats were behaving at sea, and whether they were satisfactory.

The CHAIRMAN. I offer for the record a letter dated June 18, 1919, addressed to Sir Trevor Dawson, in care of Vickers Limited, London, which is not signed, and on which there is no indication of who the writer might have been. Mr. Spear, can you identify who was the writer of this letter?

Mr. SPEAR. According to this copy I have, apparently Mr. Carse wrote it.

The CHAIRMAN. Mr. Carse wrote it?

Mr. SPEAR. So it indicates here. It says, "Signed, H. R. Carse."

The CHAIRMAN. My copy has nothing to indicate the writer of the letter. What is the indication on that copy?

Mr. SPEAR. It says, "Signed—H. R. Carse."

Mr. CARSE. That is written in there.

The CHAIRMAN. Is that the letter of June 18, 1919?

Mr. SPEAR. That is the letter of June 18, 1919.

Mr. CARSE. Somebody wrote on there in pencil. I do not know whose handwriting it is.

The CHAIRMAN. Perhaps it is not so necessary to identify who the writer of the letter was, as to determine the facts with which it is concerned.

The third paragraph of the letter states:

We take this opportunity of confirming our cablegram to you extending our most sincere congratulations upon the magnificent performance of the aeroplane constructed by your organization, and if it should be your wish to have this company work in conjunction with you in relation to aeroplane matters that it is a subject we would also be very happy indeed to discuss with you in detail.

Evidently a new plane had been developed by Vickers that might find a market here in our own country.

Mr. SPEAR. Yes, sir; there was.

Mr. CARSE. There was.



**Mr. SUTPHEN.** An amphibian. That was the one which first crossed the Atlantic from Nova Scotia to Ireland.

**The CHAIRMAN.** Had your firm ever been interested in aeronautics or related subjects?

**Mr. SPEAR.** We never got actively into it, Mr. Chairman. We considered it at one time.

**The CHAIRMAN.** Was this your first thought, that maybe it was a field which might be profitable to you?

**Mr. CARSE.** No; we had had the thought before, at the time that the Wright-Martin patents were bought by some people in New York, and everybody was talking about seaplanes then, boats, and they had had a great deal of trouble in building a wooden boat that would stay tight on striking the surface. Some of the boats up at Hammondsport, the Curtiss boats, had difficulty getting off the water, after being in a little while, and they got water-logged, and we thought we could build those boats at our motor boat plant and took it up with those people at that time, but they concluded to do all their construction themselves. So that we have never done anything.

**The CHAIRMAN.** You have never gone into that field at all?

**Mr. CARSE.** No, sir.

**The CHAIRMAN.** The negotiations never went much beyond this point with Vickers?

**Mr. CARSE.** The negotiations never went much beyond this point with Vickers.

**The CHAIRMAN.** All right, the letter of June 18, 1919, will be received in the record as "Exhibit No. 168."

(The letter referred to was marked "Exhibit No. 168" and appears in the appendix on p. 435.)

#### SUBMARINE BUILDING OPERATIONS—DOMESTIC AND FOREIGN

**The CHAIRMAN.** I now offer as "Exhibit No. 169" a letter addressed to Sir Trevor Dawson. That letter is dated February 5, 1924.

(The letter referred to was marked "Exhibit No. 169" and appears in the appendix on p. 435.)

**The CHAIRMAN.** I take it that the letter of February 5, 1924, "Exhibit No. 169", was signed by Mr. Spear. It is not signed, but the initials "L. Y. S." appear. I would call your attention, Mr. Spear, to the reference which this letter has to your Finnish business.

**Mr. SPEAR.** Yes, sir.

**The CHAIRMAN.** It reads in part as follows:

Referring to your cable of January 22nd reading as follows:

"Many firms will compete Finland including Norman Thornycroft. Stop. Consider it advisable we should compete as well as you including Finland in mutual countries. Stop. Please cable."

And you replied to Mr. Dawson at that time as follows:

On account of contract with Sandviken impossible to include Finland in mutual countries now. Stop. Matter really is not urgent. Will write.

Perhaps I am repeating, but what is Sandviken?

**Mr. SPEAR.** Sandviken is a Finnish shipbuilding company which then held our license.

**The CHAIRMAN.** So that you were rather duty bound not to bid, not to offer any proposal in these countries in which you had extended licenses?

Mr. SPEAR. We could not properly do so. They had the right, unless they chose to modify it.

The CHAIRMAN. On the third page of that letter, Mr. Spear, I find this language [reading]:

Mr. Carse and I both think that we had better postpone discussion of the financial arrangements between you and us until we know what terms can be made with Sandviken and have a clearer idea as to price and profit possibilities. In this connection, I hope it may be possible to arrange the matter so that any contracts for you which may result will pass through us so that we can avoid the British income tax. Obviously, any saving which we can make in this way would benefit the whole situation.

What was the difficulty being experienced at that time which occasioned any understanding?

Mr. SPEAR. I do not know that there was any particular difficulty at the time, Mr. Chairman, but there was at that time a very high income tax in Great Britain, and these were technical matters as to how to handle your business. If it was handled one way, it was made subject to a tax, and, as we understood it, if it were handled another way it would not be subject to that tax. We were seeking, if anything did result from it in which they had any interest, that instead of having the matter go to them and pay a very heavy income tax, they should come to us and pay a smaller one.

Mr. CARSE. On our part.

Mr. SPEAR. In other words, our part would be taxed in Great Britain and here also, if it passed through a certain channel.

Mr. CARSE. If it passed through Vickers' accounts. If it passed through our accounts, our portion would be subject to the United States tax and Vickers' would be subject to the British tax; while if it passed through Vickers' accounts, both Vickers' and ours would be subject to the British tax and then the balance which we got would be subject to the American tax.

The CHAIRMAN. On December 28, 1928, Mr. Carse, you addressed a letter to Capt. L. F. Orlandini, New York city, which I offer as "Exhibit No. 170."

(The letter referred to was marked "Exhibit No. 170", and appears in the appendix on p. 436.)

The CHAIRMAN. In the third paragraph of that letter of December 28, 1928, "Exhibit No. 170", you state:

In relation to our arrangement with shipbuilding companies in foreign countries, our agreement with Vickers Limited in Great Britain dates from 1901 and has many years yet to run. This in general provides that we shall furnish all information, data, plans, etc. required in the construction of the submarine boats, giving superintendence if so desired, and payment to us is arranged in different ways. We have or have had agreements somewhat similar in form to that of Vickers with leading shipbuilding concerns in Holland, Belgium, Norway, Russia, France, Spain, Italy, and Japan, so that the Electric Boat Company is able with perfect confidence to enter into contracts for the building of submarine boats in any part of the world which the buyer may choose, the cost varying in accordance with the basic price of labor in the different countries together with facilities of transportation, manufacture, etc.

In just what respect did your contracts with these others resemble your contract with Vickers?

Mr. CARSE. They were based on Vickers' contract. I think they were practically the same.

Mr. SPEAR. They were based on the original Vickers' contract.

Mr. CARSE. They were based on the original Vickers' contract, practically, providing that we were to get a certain share that might be realized, a certain share of the profits derived from the business, and we, in exchange, would give them the right to use our patents and give them advice and supply plans and all that sort of thing.

The CHAIRMAN. In this letter I note the fact is raised that you could build these boats cheaper in some lands than you could in others. Did that fact largely influence the place where your boats were built during these years?

Mr. CARSE. I am sorry to say that it did not help us any because we did not build any in any of these licensees' countries. We did not take any business from a place like Argentina to any of these licensees, because Argentina went direct to Italy.

The CHAIRMAN. On December 27, 1926, Mr. Spear, you wrote a letter to Mr. Carse which I would like to offer as "Exhibit No. 171."

In that letter you stated:

In connection with the inquiry of the Argentine Naval Commission, I am enclosing you herewith duplicate and up-to-date memorandum showing submarines constructed and under construction by ourselves and licensees.

Very sincerely yours,

(Signed) L. Y. SPEAR.

Attached to that letter is a statement which I think you have before you now, and which will be included as a part of "Exhibit No. 171", being a statement of the submarines built by Electric Boat Co. and its licensees.

(The document referred to was marked "Exhibit No. 171", and appears in the appendix on p. 437.)

The CHAIRMAN. I am not going to bother reading all of that statement, which is a part of "Exhibit No. 171", but you contend that at that time you had built 391 submarines. Does that mean from the inception of your business?

Mr. SPEAR. Yes, sir; that is from the beginning. That included all we built ourselves and what were built by any concern which held a license from us.

The CHAIRMAN. Of these 391, am I right in understanding that 165 of them were built in the the United States in your own yards?

Mr. SPEAR. I observe that there is one thing which is not quite right there. Great Britain is wrong. That number should have been 10, and the rest should have been Canada. There is an error there, Mr. Chairman.

The CHAIRMAN. That should be corrected in the statement, and where it shows that the submarines constructed by the Electric Boat Company in the United States for Great Britain were 22, it should be 10!

Mr. SPEAR. Yes, sir.

The CHAIRMAN. And that would mean 153 instead of 165?

Mr. SPEAR. That is correct, sir.

The CHAIRMAN. This statement shows that in the United States you constructed boats to the number, then, of 153; for the United States 115, for Great Britain 10, for Russia 12, for Italy 8, for Japan 5, for Peru 2, and for Spain 1.

Mr. SPEAR. By the way, there is another error, I am sorry to say, Mr. Chairman. Those Italian boats were built in Canada.

The CHAIRMAN. Built in Canada?

Mr. SPEAR. Yes, sir; eight Italian boats there were built in Canada.

The CHAIRMAN. Who builds in Canada?

Mr. SPEAR. We built them.

The CHAIRMAN. You have yards there?

Mr. SPEAR. No, sir; but we obtained the use of the facilities of a shipyard, made an arrangement with them, and we constructed them ourselves.

The CHAIRMAN. The balance of the statement reveals the ships which were built under your licenses elsewhere?

Mr. SPEAR. Yes, sir. That corrects my guess of this morning, Senator, as to the number.

The CHAIRMAN. Did you lease these Canadian yards?

Mr. SPEAR. We temporarily leased them. We did not enter into a definite lease with them for any definite period of time, but made an arrangement with them to use their facilities for the construction of those particular vessels.

The CHAIRMAN. Did you take American labor up there to do the work?

Mr. SPEAR. Very largely; yes, sir. Some local and some American.

The CHAIRMAN. Is there skilled labor in Canada?

Mr. SPEAR. Yes, sir; there is some shipbuilding in Canada and some shipbuilding trade labor is available there; not very much, but some.

Mr. CARSE. The vital men we took from the United States.

The CHAIRMAN. On April 20, 1927, Mr. Craven of the Vickers Co. wrote you a letter, which I will offer as "Exhibit No. 172."

(The letter referred to was marked "Exhibit No. 172" and appears in the appendix on p. 438.)

The CHAIRMAN. In this letter, "Exhibit No. 172", it makes reference to the trial of one Mayers on serious charges. Who was Mayers?

Mr. SPEAR. He was an ex-British naval officer who got himself in trouble. With the consent of the Admiralty he left the Admiralty and retired and entered into the employment of Vickers. He was charged by the Admiralty, and I think he was convicted of it, of taking away when he left the Admiralty information that he had no right to take. I know there was a public trial about the matter.

Mr. CARSE. He came to us and endeavored to persuade us to employ him, but we considered that we did not want him.

The CHAIRMAN. And he pretended to have information that might be valuable to you?

Mr. SPEAR. He did not say that he had information, but he pretended to me that he had made, as an operating submarine officer, studies of the actual United States submarines which demonstrated to his satisfaction that all submarines ever built were all built wrong, and that they should all be radically changed, and if he entered into our employ he would tell us all about it.

The CHAIRMAN. What is Mr. Craven's interest in advising, as he does, concerning this?

Mr. SPEAR. He knew that that man had been here to see me, to try to get employment from me.

The CHAIRMAN. Which accounts for him writing you 20 days later, on the 10th day of May 1927, keeping you advised?

Mr. SPEAR. Yes, sir.

The CHAIRMAN. I will offer that second letter as "Exhibit No. 173."

(The letter referred to was marked "Exhibit No. 173" and appears in the appendix on p. 438.)

The CHAIRMAN. And he advised you in this letter which has been offered as "Exhibit No. 173" that he himself had been called as a witness for the defense in this action against Mayers?

Mr. SPEAR. Yes, sir.

The CHAIRMAN. Was this embarrassing to him or to you?

Mr. SPEAR. It was not at all embarrassing to me. I do not know whether it embarrassed him or not, Mr. Chairman.

The CHAIRMAN. Was the Lieutenant Commander Cumming who is referred to in that letter of May 10 an American?

Mr. SPEAR. No; he was a British naval officer.

The CHAIRMAN. I will offer as "Exhibit No. 174" a letter dated June 18, 1931, addressed to Mr. Carse by Mr. Spear.

(The letter referred to was thereupon marked "Exhibit No. 174" and appears in the appendix on p. 439.)

The CHAIRMAN. In this letter, Mr. Spear, you say:

• • • we have a free hand all over continental Europe, except in Spain, and can do what we like.

What is the meaning of that?

Mr. SPEAR. Where do we find that, Mr. Chairman?

The CHAIRMAN. The last sentence of the letter.

Mr. SPEAR. If you will refer to the first paragraph, you will see that I there advised Mr. Carse that the various license agreements that had existed on the continent of Europe had all been canceled, except with Spain and those of Cockerill for Belgium and Burgerhout for Holland. So that outside of that we have no commitments on continental Europe.

The CHAIRMAN. Well, speaking of a free hand, did not there enter into that consideration the thought that you did have the upper hand by reason of the patent holdings that were yours?

Mr. SPEAR. No, sir; all I meant to convey was exactly what I have said there, that in all those other countries we were not restricted in what we might want to do by any existing license agreements.

The CHAIRMAN. Mr. Spear, something was said this morning about the possibility of a world monopoly. I think you showed that there were many concerns manufacturing submarines that would have to be included to form a monopoly.

Mr. SPEAR. Yes, sir.

The CHAIRMAN. What of the situation here in the United States? Do you not have what amounts to a monopoly?

Mr. SPEAR. At the present time we are the only private builder who specializes in that work. We are the only private builder who is now doing any of that business.

The CHAIRMAN. How many plants in the world are operating without licenses from you, in the manufacture of submarines?

Mr. SPEAR. You will have to give me a moment to try to count in my mind and you must not take this as an exactly accurate statement.

The CHAIRMAN. I hope that you will not include governments that are doing their own building.

Mr. SPEAR. No, sir; I will leave those out. You mean private concerns?

The CHAIRMAN. Yes.

Mr. SPEAR. I should say approximately 20.

The CHAIRMAN. Approximately 20?

Mr. SPEAR. Yes.

The CHAIRMAN. That are not using your patents?

Mr. SPEAR. Oh!—I did not quite understand the question.

The CHAIRMAN. Let us get it straight. These 20 to whom you refer, how do you consider that they are not in any way related to you?

Mr. SPEAR. Well, they are not; they have no relationship at all.

The CHAIRMAN. No license running between you and them?

Mr. SPEAR. In the 20 that I gave you as an approximate figure, that did include 2 or 3 concerns that still have a license—2, I think. In other words, in the 20 there would be 2 or 3 which hold a license from us.

Senator GEORGE. How many concerns in foreign countries hold licenses from you, if you are able to say?

Mr. SPEAR. There are only two who now hold licenses.

The CHAIRMAN. Only two?

Mr. SPEAR. Yes, sir.

The CHAIRMAN. Have not most of them held licenses at some time or other?

Mr. SPEAR. No, sir.

The CHAIRMAN. They have not?

Mr. SPEAR. No.

The CHAIRMAN. What of the situation here at home? How many American companies have sought a license from you?

Mr. SPEAR. I do not think there has ever been any American company that sought a direct license from us.

The CHAIRMAN. You never have had to deny any American request then for the opportunity to build submarines?

Mr. SPEAR. No.

The CHAIRMAN. So that if you have what amounts to a monopoly here in America it is quite strictly so because no one has ever sought to become competitors?

Mr. SPEAR. No. We had a competitor for a good many years. Then we have had people who sought to become competitors, but they did not seek to become competitors as licensees of ours; they did not come to us for licenses.

Senator GEORGE. How many American concerns have in the past manufactured submarines?

Mr. SPEAR. Two.

Senator GEORGE. Besides your company?

Mr. SPEAR. Besides ourselves.

Senator GEORGE. When did they operate?

Mr. SPEAR. One of them continued to operate, Senator, until after the war. The other one, which was the old Cramp Shipbuilding Co., a very well-known company—their operations were quite limited and terminated I think about 1910 or 1912; I could not tell you the exact date. But it was before the war.

Senator GEORGE. When you speak of a license, do you distinguish between a general license, that is of all your patents, or the right to apply them and use them, or a licensee that has the right to use only certain limited appliances?

Mr. SPEAR. Most of these contracts that we have made where we have had a submarine license, Senator, have been inclusive of all the patents that we do own. I do not think we have ever had any case of an application of a granting of a license on any particular patent. I do not know of any such case.

The CHAIRMAN. How long has Vickers held a license from you?

Mr. SPEAR. I think the original contract was dated in 1901.

The CHAIRMAN. And has continued right through up to date?

Mr. SPEAR. The licenses—

The CHAIRMAN. With the alterations that have been noted?

Mr. SPEAR. Yes, sir.

The CHAIRMAN. Is it not a fact that your control of the patents which Vickers was using gave you a pretty positive control, in a measure, over Vickers?

Mr. SPEAR. So far as the submarine business was concerned, in the early days, that gave us quite a strong position, because we were—not I, I was not with the company then—

The CHAIRMAN. What has happened in more recent years, then, to alter that element of power or control?

Mr. SPEAR. I will tell you, Mr. Chairman. Countries have different terms for basic patents. Seventeen years in the United States and in European countries most of the patents run shorter terms. The original basic patents which place quite a good control in our company's hands begin to expire. That was our case. Then the patent situation became one of a combination of detailed patents, which meant not so much of a control, because if a designer chose to adopt some other method of doing that particular thing it was possible to do it without infringing the patent. He might not get such a good result, but he would build a boat which would work. There is quite a little difference between holding something that is basic and something concerning which it is possible to use engineering ingenuity to get around it.

The CHAIRMAN. This, then, was what we are to understand accounts for the more evident power exercised by Vickers in recent years, in occasioning reduction in your royalties and in your commissions?

Mr. SPEAR. Yes, sir. If we had in recent years controlled the patents which absolutely governed their action, unless we thought that the royalty was so high as to preclude their getting business, we certainly would have insisted on having more royalties. In other words, they were not getting so much out of our licenses from us in recent years as they had in the beginning.

Mr. CARSE. I think, Mr. Chairman, I can give you a little explanation there. Their original contract was 50 percent of their profit. That ran for a period of years. Well, as time passed on and before the expiration of that period, they thought those terms were onerous and wished them modified. In arranging a modification, we also arranged an extension of the agreement. Then, when they wanted

another modification, before the expiration of that agreement, we assented with the extension of the agreement over to 1937.

Senator GEORGE. Do you, in turn, use the patents of Vickers and of other manufacturers?

Mr. SPEAR. We are entitled to use the Vickers patents.

Senator GEORGE. You have the right?

Mr. SPEAR. Yes.

Senator GEORGE. In other words, you have reciprocal arrangements by which they use your patents?

Mr. SPEAR. Yes, sir.

Senator GEORGE. And you have the right to use theirs?

Mr. SPEAR. Yes, sir.

The CHAIRMAN. However, it has been testified that you pay no royalties to Vickers.

Mr. SPEAR. That is correct.

The CHAIRMAN. Vickers does pay a royalty to you?

Mr. SPEAR. Yes.

Senator BARBOUR. During this period under discussion, who, in your judgment, sold submarines in this market besides yourselves?

Mr. SPEAR. The only people that ever sold any submarines in the United States, who ever built any except ourselves, were the Lake Torpedo Boat Co. and William Cramp & Sons, the old shipyard which is now also out of business.

Senator BARBOUR. I think this committee is particularly interested to know who was selling submarine boats at this time when you were making the effort which has been described here very vividly to sell them, and if you had not sold them, who else would?

Mr. SPEAR. It would have been our foreign competitors in the foreign business. No foreign competitor could sell here. That is, the United States Government would not ever place an order for submarine boats abroad. But outside of the United States, all of these other builders I have just mentioned—that is, I said I thought there were about 20—they were our competitors for all business outside of the United States.

Senator BARBOUR. Were they your competitors inside of the United States?

Mr. SPEAR. No, sir.

Senator BARBOUR. In other words, if you did not sell the boats one of the others would have sold them?

Mr. SPEAR. Not one of them.

Senator BARBOUR. Who would have sold them?

Mr. SPEAR. I do not think anybody. I think the Government would have built them themselves, unless they had some concern in whom they had confidence, with whom they could place orders.

The CHAIRMAN. Has the United States Government made purchases of submarines from any concern other than yours?

Mr. SPEAR. Yes, sir.

The CHAIRMAN. They have?

Mr. SPEAR. Yes, sir.

The CHAIRMAN. Extensively?

Mr. SPEAR. Quite a good many.

The CHAIRMAN. In foreign countries?

Mr. SPEAR. No; not in foreign countries.



The CHAIRMAN. That is what I was trying to get at.

Mr. SPEAR. No, no. They have never bought foreign boats.

Senator CLARK. What became of the Lake Company?

Mr. SPEAR. They went out of business after the war, Senator.

Senator CLARK. Did not they have a lot of patents?

Mr. SPEAR. They had a lot of patents, yes; but they were on features that did not commend themselves to the military people.

Senator CLARK. What I was getting at was this. I have seen Lake referred to as the inventor of the submarine. Is that true?

Mr. SPEAR. I think that is a little exaggerated. It was pretty good advertising.

The CHAIRMAN. It was testified this morning, I do not know by which one of you gentlemen, that there had been afforded in Boston Harbor a demonstration before some foreign emissary of an American submarine; is that correct?

Mr. SPEAR. No, sir; not an American submarine.

The CHAIRMAN. Did you give the testimony this morning?

Mr. SPEAR. I gave that testimony.

The CHAIRMAN. What was that, then?

Mr. SPEAR. Those were the 10 boats that we started in the United States and completed during the war for Great Britain. Of course, they could not be delivered. It was known that they could not be delivered. So when they were completed they were interned in the Boston Navy Yard. They were the property of Great Britain. The United States never had anything to do with them. Then when the United States entered the war, they sent their officers over here; took 5 or 6 of those boats to Great Britain. The other 5 were the ones that we referred to the other day in some deal between the Chilean Government and the British Government. The British Government turned over the other 5—I think it was 5 or 6—to Chile after we entered the war.

The CHAIRMAN. How many instances do you recall where submarines of the American Navy or being built for the American Navy were demonstrated for agents for some foreign government?

Mr. SPEAR. In the very early days, many years ago, thirty or forty years ago, the Navy Department was not particularly interested in whether there were secrets. They used to then quite frequently grant permission to countries to whom they wanted to be courteous, to see their boat. In recent years they have been very strict about that. They guard their submarines as something confidential. As a matter of fact, we do not even permit a foreign visitor into our works, whether he is going to look at the submarines or not, without their permission and their consent.

He has to arrange with the Government and be escorted around by one of the naval officers stationed at our works. It is one of the matters that they now look on as something they are not going to give to anybody unless they get something in return.

Once in a while the Navy sends to us some foreign representative with permission of the Navy to look at certain things. That they tell me is because they obtain in return for that certain information from that country which they want. In other words, they occasionally make a trade in information. But that is in the Navy's hands entirely.

The CHAIRMAN. In other words, you permit of no demonstrating to or sight-seeing by agents of foreign powers unless they are armed with credentials from our own Government.

Mr. SPEAR. Unless they are armed with credentials and escorted by an American naval officer.

The CHAIRMAN. How well attended are your annual stockholders' meetings?

Mr. SPEAR. Mr. Carse can answer that better than I can.

Mr. CARSE. There is not a very heavy attendance except by proxy. We have meetings in our Bayonne office in New Jersey. We may have a half a dozen people there.

The CHAIRMAN. How has Mr. Zaharoff voted his stock?

Mr. CARSE. I do not know.

The CHAIRMAN. Have you ever held his proxy?

Mr. CARSE. No, sir.

The CHAIRMAN. Do you know of anyone who has held his proxy?

Mr. CARSE. No, sir.

The CHAIRMAN. Has Zaharoff shown any interest that you know of in these annual stockholders' meetings?

Mr. CARSE. No, sir.

The CHAIRMAN. At any time?

Mr. CARSE. Never.

The CHAIRMAN. How much stock do you suppose he might hold in your company?

Mr. CARSE. I have not the faintest idea. I was never able to trace it. He told me he was interested in the stock and I went over the stock list to see whether I could analyze the names to find out whose might be his. I thought I was a little conversant with that business of analyzing stock lists but I could never check out anything that gave me an idea of how much belonged to him.

The CHAIRMAN. Can you suggest to us any way by which we might find out how much stock he does hold?

Mr. CARSE. I cannot. I have gone over that list and I cannot see it myself. So I cannot tell you where you could see it.

The CHAIRMAN. Do you suppose Mr. Wiggin or some officer of the Chase National Bank might have knowledge of that?

Mr. CARSE. That I do not know. Whether he is doing business through the Chase Bank at the present time, I do not know. I really know nothing about it.

The CHAIRMAN. On the stockholders' list, which you have submitted to the committee, there is no ownership openly shown, at least of your stock, in the hands of any foreign individual.

Mr. CARSE. No, sir; I do not think there is. I do not think there is a foreigner on it now.

Senator VANDENBERG. You say now. Was there at one time?

Mr. CARSE. Oh, there was back in the early days. There were a hundred shares here or a hundred shares there. We were talking the other day about Count Hoyas of Austria. He had a hundred shares. Koster had some stock. It was not in his name, though. But he arranged that we receive the proxy on it.

The CHAIRMAN. We have had a great deal of testimony concerning the commissions which were paid by your company to Zaharoff.

Would you have any knowledge whether or not Zaharoff drew commissions from Vickers?

Mr. CARSE. I do not.

The CHAIRMAN. Or from the Spanish company?

Mr. CARSE. I do not know anything about it.

The CHAIRMAN. Mr. Spear?

Mr. CARSE. If I might interrupt you. I do not know about Zaharoff's business, except the payments by us to him of 5 percent when we received it from the Spanish concern.

The CHAIRMAN. Mr. Spear, do you have any knowledge along that line?

Mr. SPEAR. I can say something about which may be accurate. When Mr. Zaharoff was very active, he was primarily directing continental European business of Vickers. I have been told—I do not know how accurate this is—that that was another form of an agency and the sales that he effected for Vickers he was paid a commission on. This is hearsay, Mr. Chairman, and I do not know that it is so. I think that it is so. However, I think he has not been active for some years and I imagine it is not going on now.

The CHAIRMAN. Have you any knowledge of stock ownership in Vickers?

Mr. SPEAR. It was reported at one time—this is not definite knowledge, it is hearsay—that he was a very large stockholder and subsequently it was reported that he had disposed of his holdings either entirely or had become a very small stockholder. Those are simply current reports that you hear about a man of that kind and I cannot guarantee that they are so. That is what I have heard.

The CHAIRMAN. There was testimony yesterday or the day before by one of you concerning your conviction that the submarine was an instrument of national defense. How long did it remain an instrument of national defense.

Mr. SPEAR. I think you could say safely, Mr. Chairman, it remained solely an instrument of defense up to the World War. Then there was the use of it made by the Germans. By that time they began to build somewhat bigger boats that were capable of going to sea and staying at sea for 2 weeks. You, of course, recall—I do not have to recall to your mind—the German campaign against commerce and that could hardly in my mind be regarded as a defensive measure.

The CHAIRMAN. Can it not be said that that ability to wage that offensive that Germany did is traceable to the fact that the United States Government did not have absolute control over the American patents relating to the building of submarines?

Mr. SPEAR. No, sir.

The CHAIRMAN. Germany built their own submarines under your patent, did they not?

Mr. SPEAR. Germany built many submarines which were designed by them and it was eventually demonstrated to the satisfaction of the Mixed Claims Commission, in the case of one patent in a certain number of boats that they built—not all—there was an infringement of that patent. Outside of that, we were unable to prove any infringement of patents and speaking from the technical standpoint I can advise you that the designs were entirely dissimilar.

The CHAIRMAN. You say dissimilar?

Mr. SPEAR. Absolutely dissimilar, a type of boat that had never been built or designed by us, a different notion of how to design and construct submarines, which was entirely done by German engineers.

The CHAIRMAN. Mr. Spear, on July 2, 1919, Mr. Carse wrote you a letter which I offer as "Exhibit No. 175."

(The letter referred to was thereupon marked "Exhibit No. 175", and appears in the appendix on p. 439.)

The CHAIRMAN. This letter, "Exhibit No. 175", says in part:

Mr. Parker tells me that the performance bond has been fixed at a million dollars for the six boats and that the premium agreed upon by the Department is 2 percent, or \$20,000, for the full term including acceptance. This is higher than the last rate but as it being paid by the Government and has been agreed to by the proper officials I do not see that it is of any special concern to us, except of course in the matter of our proportion of the saving.

What are we to understand the meaning of that? This follows the grant to you in 1919 of a contract with the Navy.

Mr. SPEAR. No, sir. The contract was placed by Presidential order, mandatory order while the war was on, in 1918. The President gave us a mandatory order to build 12 submarines of a certain design. Then along came the armistice and the order was reduced to six, but no formal contract was entered into until 1919. All those war-time contracts, as you may recall, were originally placed on a cost-plus basis.

The CHAIRMAN. Did this cost-plus basis prevail as it was fixed in this contract?

Mr. SPEAR. When this contract was entered into, sir, it was a cost-plus contract. Ultimately, before the ships were finished, it was transformed into a fixed-price contract but at the time the bond was arranged, it was a cost-plus contract.

The CHAIRMAN. What United States business have you done since that contract was entered into?

Mr. SPEAR. We have completed 1 submarine for the United States Government and have 2 under construction.

The CHAIRMAN. You completed the one when?

Mr. SPEAR. We completed one this year.

The CHAIRMAN. This year?

Mr. SPEAR. Yes.

The CHAIRMAN. From 1919 up to this year there has been no contract between you and the United States Government?

Mr. SPEAR. We received no orders from the United States Government between 1918 and 1931.

The CHAIRMAN. You subcontracted this 1919 contract, did you not?

Mr. SPEAR. Just the hulls, yes.

The CHAIRMAN. Only the hulls?

Mr. SPEAR. Yes.

The CHAIRMAN. To whom?

Mr. SPEAR. The Fore River Shipbuilding Yard which was a subsidiary of the Bethlehem Shipbuilding Corporation.

The CHAIRMAN. Which in turn is a subsidiary of the Bethlehem Steel Co.?

Mr. SPEAR. That is correct.

The CHAIRMAN. Was that arranged entirely on a cost-plus basis?

Mr. SPEAR. The arrangement between us and the Bethlehem Co. was entirely on a cost-plus basis. I think there was a little difference in the terms, Mr. Chairman, between the boats that we built on a fixed price and the boats that we built on a cost-plus basis. The arrangement on the cost-plus basis was this, that Bethlehem should receive whatever the Government paid for that part of the work. In other words, what was given them to do, the Government would determine what the cost was, and they were obliged to take it.

The CHAIRMAN. And then the Government paid them direct?

Mr. SPEAR. No. The Government paid them through us.

The CHAIRMAN. Did you get a cost mark-up on top of the Bethlehem's cost?

Mr. SPEAR. No, sir.

The CHAIRMAN. Would not that be the ordinary course?

Mr. SPEAR. It was a course that we would like to have followed, but they were not willing to do it and they did not do it.

The CHAIRMAN. In a letter dated May 19, 1919, which I offer as "Exhibit No. 176" for the record.

(The letter referred to was thereupon marked "Exhibit No. 176" and appears in the appendix on p. 439.)

The CHAIRMAN. This letter is addressed to H. S. Snyder, vice president, Bethlehem Shipbuilding Corporation, by Mr. Carse and says:

And in view of the fact that this business has been done by the Bethlehem companies on cost-plus basis, without any risk or responsibility for uncontrollable actions of the Department, and giving further consideration to the fact that in 1917, 1918, and 1919, we paid the Bethlehem companies about \$3,000,000 on account of wage increases directed by the Navy Department, for which we have not as yet received compensation, and on which we have lost interest all these years, I must say that I am somewhat surprised to have received this memorandum from you, as it would seem to me that your company would only be too glad to share in some slight degree the burden of arbitrary rulings over which we have no control.

What is the committee to gather from that?

Mr. CARSE. Why, I think, they probably were dunning us for some accounts that they had against us in relation to this work. I felt that they were pressing the thing pretty hard because really in effect it was more or less of joint account and there should be some consideration given, so that when we did not collect promptly from the Navy Department the amount expected, there was no reason why he should insist on having his full payment.

You see, this was connected with that order of the Navy Department, the same as the other Departments of the Government, to pay increased wages to workmen under the Macy Board ruling, with the agreement that those increased wages would be repaid to us. When that expenditure on our part ran to about a million and a half, we suggested the Navy Department make some payment. They said they were too busy to audit our accounts but they would pay us 50 percent of that if we would give a kind of bond or security, so we took the \$700,000 and deposited with them \$700,000 of United States bonds. Then it dragged along until after the war and we took it up, and there seemed to be some consideration there as to whether the officials of the Navy Department had any authority to make that agreement. The Comptroller took that position.

The CHAIRMAN. It was decided they did have the right, was it not?

Mr. SPEAR. Yes; they decided that in the Court of Claims.

Mr. CARSE. We took it to the Court of Claims, and they held they did have the power to do that.

The CHAIRMAN. Mr. Carse, a postscript to this letter says:

Mr. Taylor tells me that since I became connected with this company in October 1915 we have paid the Bethlehem companies \$42,564,073, all of which has shown a substantial profit to you.

You did, then, a very large business with the Bethlehem Corporation during the war?

Mr. CARSE. Yes, in the United States and up in Canada. But I never heard anything more from them, that is, I never received any more dunning letters after that.

The CHAIRMAN. I offer as "Exhibit No. 177" a letter dated March 28, 1922, addressed to D. J. Murphy, 1024 Connecticut Avenue N.W., Washington, D.C., by Mr. Carse.

(The letter referred to was marked "Exhibit No. 177", and appears in the appendix on p. 440.)

The CHAIRMAN. Mr. Carse, who is Mr. Murphy?

Mr. CARSE. I don't know. This is the time of the contest for the management of the company—this belongs to the Submarine Corporation, and is the time of the contest instigated by Mr. Frost, who joined with young Rice, and they got out a circular and sent it to all of the stockholders accusing the management of all sorts of things. This was some stockholder who wrote me asking about it. I don't know who he was.

The CHAIRMAN. You knew he was a stockholder?

Mr. CARSE. Yes; he was on the list. So I prepared an answer for him, and I thought that would be a good thing to send to the other stockholders, which I did.

The CHAIRMAN. In this letter reference is made in paragraph 3, as follows [reading]:

In regard to no. 2, the plant at Newark Bay: It would be a very long explanation but the directors feel that is the asset of the future of the company.

Then on page 6 of the letter you say [reading]:

Our statement speaks for itself; we owe no money to anyone except the Shipping Board for material purchased for the ships and for the purchase of the plant at Newark Bay. We have been endeavoring to arrive at a modification of the amount paid for this material, because of the great fall in the price at which the Shipping Board is offering its ships which come in competition with our own, but taking all in all we owe them less than eight million dollars against which we will have a plant, upon which the Emergency Fleet Corporation spent \$17,000,000, and 32 ships, or 170,000 deadweight tons, which would cost at least \$100 a ton to replace, or a value of \$17,000,000 which they undoubtedly will have in the course of a few years.

Now, Mr. Carse, on the face of this it appears you made a deal there whereby you came into possession of property at a value fairly fixed at \$34,000,000 at a cost to you of approximately \$8,000,000. Is that true?

Mr. CARSE. That was a dream that never came true. The Submarine Boat Corporation had had a contract with the Emergency Fleet Corporation to build 150 ships of 5,350 tons, and like all of the ship contracts originally it was on a practically cost-plus, and

was on an estimated basic cost, which was adjustable by the rise in labor and material, one of those very complicated methods. We were going along very well and some of the juniors or representatives commenced to interfere with our people, who were managing the transaction, in small things.

For instance, they wanted to make it a rule I could not hire or discharge an office boy without the consent of this representative at the plant.

So, we took that up with Mr. Hurley and Mr. Schwab, and we had a meeting over in our yard. It was proposed to us then that we had done so well, we were away ahead of the average on construction; they had a chart down in the Emergency Fleet Office with a line showing their progress and our line was about so long [indicating] and the next fellow's about that long and they come down to about like that [indicating].

Then Mr. Schwab spoke about the progress we had made and admired it very much and asked us, "Why don't you take it over on a straight price contract, then you can do as you please?" Then Admiral Bowles made a proposition, and they urged it upon us. I told them I would take it under consideration, and we did that and studied it very carefully. At that time our general manager had been very sick and we went down and consulted him, then decided we would accept their proposition.

Mr. Schwab tried to get other shipbuilders to do the same thing and he was not successful in any case.

We went along building these ships, delivering them all satisfactorily until the armistice came; then they sent word to cancel the construction of the last 32 ships and limited the contract to 118, although all of the material for those remaining ships was then in the yard or in nearby storehouses. We thought we ought to go through with it because there seemed to be a great demand through the world.

In making this straight-price contract we had agreed to pay a certain rent for the use of the plant, and then after the armistice they came around and wanted us to buy the plant and suggested we buy this material that was in the yard and put it in the form of vessels.

Then, about that time we had word from Koster in Paris that the Italian Government was very anxious to get merchant vessels, that they could not get the steel to build them in their own yards, that the yards in Great Britain were signed ahead for four or five ships for each way they had, and there was a great demand for vessels.

He stated the Italian Government wanted to buy about 18 with the probability of 10 more, and at the same time the representative of a Palermo yard came over to see what they could get in the way of shipbuilding material, they having a good yard but no material. We negotiated to sell them the material for 4 ships—they to load it on some of their own ships and take it over and pay us. The question was the terms. They sent over half a dozen or more men who worked on our ships to find out how we put them together. You see, this was fabricated material, fabricated all over the United States in different shops and from our plans and templates, and under our direction, and when brought together in our shipyards it fitted. So, we were able to construct the ships very rapidly.

We negotiated with the Italian Government, and I think somewhere in the office there is a copy of the contract drawn by the Italian Government covering the purchase of these 18 ships. With that in hand the Shipping Board brought up with us the question of buying the yard and buying the material, and we started negotiations with them on it.

Those negotiations with the Shipping Board were a little slow, and by the time we got this finished, and we did not yet sign the contract—

The CHAIRMAN. Were those the negotiations you were referring to in this letter in that paragraph we read on page 6?

Mr. CARSE. Yes; that was about the case. We agreed to buy the plant and buy this material, and then we started the ships, and the Italian Government faded out of the picture. Then the collapse came in shipping, and there we were.

We tried to use the ships—first in the Cuban trade, then in the Gulf trade and the Pacific trade, and some ships were chartered to carry coal to Europe—but the shipping game, as you have seen, became very depressed, because commerce between nations stopped, and they turned out a loss.

We separated the two companies in 1925 so as to keep the Electric Boat business by itself. On the Submarine Boat some outsiders applied for a receivership in 1929, and these wonderful things we thought they were at that time, this \$17,000,000 yard, the best price we got for it was \$130,000, and the ships at \$17,000,000 we sold them to the Dollar Line at \$400,000, and taking notes payable over a period of 5 years carrying 2 percent interest.

They told us down at the Shipping Board that in our adjustment with the Shipping Board we had paid them more money than anybody else, except the British Government.

The CHAIRMAN. And with Sir Basil Zaharoff it was about the same thing?

Mr. CARSE. His transactions are very great, very vast.

The CHAIRMAN. Mr. Carse, last year you received a contract for two submarines from the United States Government?

Mr. CARSE. Yes, sir.

The CHAIRMAN. At what figure?

Mr. CARSE. The contract did not include certain of the machinery which the Government is providing, and it is about \$2,750,000.

Mr. SPEAR. It is a little more than that.

The CHAIRMAN. The figure I have before me is \$2,770,000.

Mr. SPEAR. That is right.

The CHAIRMAN. I offer for the record "Exhibit No. 178", being a letter by the Secretary of the Navy, Claude A. Swanson, to the Electric Boat Co., revealing that this contract had been authorized.

(The letter referred to was marked "Exhibit No. 178", and appears in the appendix on p. 443.)

The CHAIRMAN. Do you have new contracts this year, additional contracts?

Mr. CARSE. They have awarded us a contract for three boats.

The CHAIRMAN. At what price?

Mr. SPEAR. It is \$2,387,000. That contract has not yet been executed. It is in the state of an award, but the formal contract has not yet been executed.



Senator BONE. Was that a bid price on the boats?

Mr. SPEAR. That was a bid price; yes.

Senator BONE. How does the Government attempt to determine whether that is a fair price, by offsetting it against a possible similar cost on business of that kind and through engineering figures?

Mr. SPEAR. They do two things, of course, they compare that with the other bids, if they receive any, and on top of that they check it with their cost in the navy yard.

Senator BONE. Were there other private bids?

Mr. SPEAR. Yes; there were.

Senator BONE. Were they made by companies in this country?

Mr. SPEAR. Yes.

Senator BONE. What other companies bid?

Mr. SPEAR. The Sun Shipbuilding Co. bid on the last two.

Senator BONE. What outfit is that, who owns it?

Mr. SPEAR. It is owned by the Sun Oil Co. They have a shipyard in Chester, Pa., but hitherto it has confined itself to building tankers for the oil company which owns it. Their bid was much higher than ours.

Senator BONE. Did the Bethlehem or any of the other big shipbuilding companies bid on these?

Mr. SPEAR. They did not bid this year. The New York Shipbuilding Co. did bid in 1931.

Senator BONE. One of the rather peculiar parts of this picture is that all of the shipbuilding in this program appears to be going to four or five big yards on the Atlantic coast, and I wonder if it is the policy of the Government to confine its business to the North Atlantic coast?

Mr. SPEAR. I could not speak as to what its policy is, but I think they are a good deal concerned in the Navy Department to make sure wherever they place a contract, there is a sufficient organization to produce the kind of workmanship they want. What their policy is I do not know.

Senator BONE. They have not made that evident to you?

Mr. SPEAR. No, sir.

The CHAIRMAN. Mr. Sutphen, on day before yesterday as we were closing, reference was being made to a letter dated November 22, 1930, to Sir Basil Zaharoff. We had not gotten very far into the letter, and I do not know definitely that it was offered as an exhibit. My copy is marked "Exhibit No. 50", and if it is not a part of the record we will let it be known as "Exhibit No. 179."

(For the above exhibit see "Exhibit No. 50", heretofore appearing in the record on p. 83.)

You state in this letter, Mr. Sutphen, the following:

Knowing of your interest in the Chase National Bank, upon my return I called upon Mr. Wiggin and told him of the very pleasant visit I had with you in Paris, and he was very sorry to learn of your illness.

Perhaps I asked the other day, but do you know what Mr. Zaharoff's interest in the Chase Bank is?

Mr. SUTPHEN. He told me he was a stockholder.

The CHAIRMAN. Do you know how extensive, or did he say?

Mr. SUTPHEN. He intimated it was quite large.

The CHAIRMAN. In this letter you have revealed the visit which you and Mr. Kettering, Mr. Codrington, and others had taken through Europe.

Mr. SUTPHEN. Yes.

The CHAIRMAN. Mr. Kettering and Mr. Codrington, I think you testified were connected with the General Electric?

Mr. SUTPHEN. No; with General Motors Corporation.

The CHAIRMAN. What was the general nature of your visit in Europe, what sort of industrial plants were you visiting?

Mr. SUTPHEN. It was an accident that I met on board ship going over Messrs. Kettering and Codrington, whom I had known some years. They were making a trip through Europe to study Diesel engines and their progress up to that time, and I informed them I was on a visit to Germany to discuss matters with our foreign licensor, the M.A.N., the Maschinenfabrik Augsburg, Nuremburg.

The CHAIRMAN. What did you call that M.A.N.?

Mr. SUTPHEN. The Maschinenfabrik Augsburg, Nuremburg.

The CHAIRMAN. Now, you visited at the Sulzer plant?

Mr. SUTPHEN. Yes.

The CHAIRMAN. Where else did you visit?

Mr. SUTPHEN. We were in Bern, Switzerland, and from there we went to Zurich, and from there to Munich, then to Augsburg where they spent a day with me, then they went on visiting other plants.

The CHAIRMAN. Mr. Kettering, you state in this letter, had reported his visit to Essen, there being in operation a 15,000-ton press, the largest in the world. In comparing things with each other, you say we all received the same impression, that the firms we visited were all engaged in building new war equipment so as to be ready to supply it when called upon.

Mr. SUTPHEN. That was the impression we received.

The CHAIRMAN. Were you studying munitions plants?

Mr. SUTPHEN. No; my interest was only in engines.

The CHAIRMAN. But you did observe they were busy getting ready for more war?

Mr. SUTPHEN. The inference was in the report made by Messrs. Kettering and Codrington that they saw the Junkers Airplane and they saw the Krupp activities and they thought they were preparing themselves in case of hostilities.

The CHAIRMAN. Did there not seem to be any secrecy about these plants that you were observing?

Mr. SUTPHEN. There was, of course, I think, secrecy shown by the engine builders to strangers if they did not know them; but to us, with my introduction of these two gentlemen with me, they showed us quite openly the new engines they were building for use in the German pocket battleships which were not then completed, and they were a very advanced type of Diesel engine.

The CHAIRMAN. In writing Sir Basil, as you did of your trip in Europe, one cannot help but gather there had been some understanding you were to report to him concerning this visit.

Mr. SUTPHEN. None whatever; it was simply a friendly gesture on my part to keep him advised of what we saw in our travels that might be of interest to him.

The CHAIRMAN. Were you by any chance designated, or felt, by Zaharoff to be his personal representative on the board of directors of Electric Boat?

Mr. SUTPHEN. None whatever.

#### UNITED STATES GOVERNMENT BUSINESS

The CHAIRMAN. Now, we have had, such as it has been, a glimpse of the Electric Boat Co.'s relationships with foreign countries, involving in those glimpses the agreement for splitting the field of activity, and splitting the profits to be derived in the submarine manufacture; we have had a glimpse of the Electric Boat Co.'s relationship with Zaharoff involving the commissions paid him and his stock holding in the Electric Boat Co. Senator Clark has very ably brought out the business methods and the relationship of the Electric Boat Co. in the South American field and the European field. And now the question naturally arises, and it is that we will be interested in, in concluding with the present witnesses, what has been the interest, the methods, or the activities of the Electric Boat Co. in obtaining business in the United States—business primarily with the United States Government. What part of your business has been American and which one of you feels best prepared to answer that?

Mr. SPEAR. I think I am best prepared.

The CHAIRMAN. All right, Mr. Spear.

Mr. SPEAR. The statement we went over this morning, Mr. Chairman, and which I corrected two errors found therein, as you will recall, I think shows, so far as boats are concerned, a large percentage of our business has been American. That gives you accurately the number of ships we have built up to that time, that we have built for the United States Government.

The CHAIRMAN. Knowing the manner of help the State Department, the Commerce Department, and the Navy Department have given you in your foreign fields, what help have you had from the same sources in winning American business?

Mr. SPEAR. None whatsoever.

The CHAIRMAN. It would seem to me the costs and difficulties you have been up against in obtaining this foreign business have been extraordinary, and would be really a thing you would like to get away from.

Mr. SPEAR. I think there is a great deal of truth in that. I think we have taken a great deal of trouble with very little return, especially in recent years.

The CHAIRMAN. Why do you stay in that field?

Mr. SPEAR. The reason we have been so active in it in the last 10 years was because we had that interregnum between 1918 and 1931, when we received no business whatsoever from the United States Government. We had our organization on hand and the expense of maintaining the organization and keeping it up, and with the amount of commercial business we could gain in these particular times, we could not continue to operate without going in the red all of the time.

The CHAIRMAN. Is it not true, Mr. Spear, that your business abroad has a tendency to boost business at home.

Mr. SPEAR. I don't think that the American Government pays any attention to that. They judge their proposals by the technical merit of the enterprise, and I do not think what we do abroad has any influence on the judgment of the Navy Department as to whether or not they should entrust us with a contract. Does that answer the question?

The CHAIRMAN. Yes; generally. However, there is very good authority for the belief that the domestic consumption of munitions is largely dependent upon foreign consumption, and that it is good business for an American manufacturer to sell his wares abroad if he wants to sell them to the Army or to the Navy at home. It has less to do with the competition factor that quite naturally enters into it.

You have testified that Mr. Koster, or it has been testified to, and there is evidence to support it, that Mr. Koster organized the Navy League in Holland. Tell us, Mr. Carse, how much has the Electric Boat Co. or its directors contributed to the support of the Navy League of America?

Mr. CARSE. Not one cent that I know of.

The CHAIRMAN. Lieutenant Spear?

Mr. SPEAR. I think not one cent, to my knowledge.

The CHAIRMAN. Mr. Sutphen?

Mr. SUTPHEN. Nothing.

The CHAIRMAN. Now, we have had testimony revealing that these commissions you have paid to agents over the world might be commissions which were to his own profit, or commissions which he was paying to others. Can you testify whether or not your Washington office ever contributed anything to the Navy League of America?

Mr. CARSE. I am quite positive nothing has been paid.

The CHAIRMAN. How can you be positive of it?

Mr. CARSE. The accounts pass through my office, and no such account has passed.

The CHAIRMAN. Yes; but accounts to Mr. Aubry and others show that there have been paid thousands of dollars of commissions to him, and as you testified, you have no knowledge of what those commissions went to.

Mr. CARSE. That is true, but I think the Washington office is different. The Washington representative is an officer of the company.

Mr. SPEAR. No commissions are paid to anybody in the Washington office. Does that make it a little clearer to you?

Senator CLARK. Was that true in Mr. Chapin's time, too?

Mr. CARSE. I think so. It was merely a salary and expense account.

The CHAIRMAN. Expenses that are shown for the Washington office include salaries, rent, office expense, traveling expense, expense of motor boat used for demonstration, and residential expense. You feel then that you have never made any contributions to the Navy League as a corporation?

Mr. CARSE. I am quite positive, neither as a corporation nor as individuals. I have received lots of their circulars and a number of letters, but I have not contributed in any form.

The CHAIRMAN. Have you ever been personally solicited for contributions?

Mr. CARSE. I may have been. I do not recall. I have been solicited by a great many.

The CHAIRMAN. Mr. Spear, have you ever been personally solicited for contributions to the Navy League?

Mr. SPEAR. My recollection of it, Senator, is that some years ago I was advised by the Navy League that it was their policy not to accept even voluntary subscriptions from anybody who was interested in any way in building ships for the Navy. I think they have adopted that policy.

The CHAIRMAN. Did they receive your advertising?

Mr. SPEAR. I do not think they conducted any advertising, none that I know of. I do not think they have any publication.

Senator BONE. Do any of your subsidiary organizations belong to the Navy League?

Mr. SPEAR. No, sir.

Senator BONE. Or contribute to it?

Mr. SPEAR. So far as I know, no individual, or none of our companies, and it is practically all one now, and to our knowledge no individual in our employ is a member of the Navy League.

The CHAIRMAN. Have you been solicited to make contributions to the American Defense Society?

Mr. CARSE. I do not recall anything. I know we have not done it.

The CHAIRMAN. You know you have not done it?

Mr. CARSE. No.

The CHAIRMAN. How about the National Security League?

Mr. CARSE. Same answer.

The CHAIRMAN. You never have been solicited and never have contributed to them?

Mr. CARSE. I do not know. A lot of people come out in the ante-room and send in their cards, but I do not see them.

The CHAIRMAN. Who does see them?

Mr. CARSE. The usher at the desk, and tells them that I am somewhere else. I do not know what he tells them.

The CHAIRMAN. Mr. Carse, did your company take any part in accomplishing the passage of the Vinson Naval Bill last fall and winter?

Mr. CARSE. No, sir.

The CHAIRMAN. This had been pending in some measure or other for a couple of years. Have you ever taken any part in accomplishing its passage?

Mr. CARSE. No, sir.

The CHAIRMAN. You were, however, interested in its passage?

Mr. CARSE. Certainly, we were interested in naval construction.

The CHAIRMAN. Who is Mr. Davison?

Mr. CARSE. Mr. Davison many years ago was our engineering technical officer, up in New London. He resigned many years ago.

The CHAIRMAN. What is the Davison Ordnance Co.?

Mr. SPEAR. That is a company that belongs to Mr. Davison. It is a company which he has formed, in the hope that he can do something. This new invention of his, to which I testified I think this morning.

Senator POPE. His anti-aircraft gun?

Mr. SPEAR. Anti-aircraft gun.

Senator CLARK. That is the one Koster was talking about?

Mr. SPEAR. That is the one Koster was talking about.

The CHAIRMAN. Who is Gregg?

Mr. SPEAR. That is Mr. Davison.

The CHAIRMAN. Under date of December 1, 1932, in a letter which I ask be identified as "Exhibit No. 179", Mr. Davison is telling you about a new gun that he has a large interest in. Had he perfected it himself?

Mr. SPEAR. Under the date of that letter, sir, no gun existed. This was the design of a gun.

The CHAIRMAN. Just the design?

Mr. SPEAR. That he had gotten out himself.

(The letter referred to was marked "Exhibit No. 179" and appears in the appendix on p. 443.)

The CHAIRMAN. In paragraph 3 of that letter, "Exhibit No. 179", the writer declares in the closing sentence:

The only way they—

And that means the Army Ordnance, I expect—

will ever buy these guns is for them to be first manufactured and sold to some foreign power or to be developed abroad.

In continuation of that he says:

I have made up my mind to go ahead and develop this gun regardless of the financial situation or outside help.

He was soliciting your help, was he not?

Mr. SPEAR. He was endeavoring to interest me generally in this project and get my advice, and so forth. He was endeavoring to get me to be interested in this matter.

The CHAIRMAN. He goes on to state:

When I was in Washington a couple of weeks ago I saw Admiral Larimer, of Navy Ordnance. We discussed landing equipment for the marines and blue jackets. He tells me that their present equipment is not what it should be and showed great interest in the gun. In fact we arrived at an understanding, as follows: I am to prepare description, specifications, and drawings. These will be checked over by his experts and unless they discover something impracticable he will order a gun.

Then on page 2 we find Mr. Davison declaring:

From what I hear of Caulkins, his health does not seem to have improved, and I cannot count on using him to any great extent \* \* \*

Who is Caulkins?

Mr. SPEAR. He is a young engineer in Mr. Davison's employ.

The CHAIRMAN (continuing):

He may, however, be able to do some drafting work from sketches and dimensions I will send him and also to skirrnish around to pick up materials. If he does improve, I will later pick up some young fellow from Annapolis, West Point, or one of the technical colleges.

Is it possible for business to pick up men from the colleges, from the Naval Academy and the Military Academy?

Mr. SPEAR. They sometimes have graduates, Mr. Chairman, who do not obtain commissions in the Navy or Army and sometimes some of these young fellows who do graduate and have graduated

high enough to be commissioned, sometimes they prefer, at the close of their agreed term of service, to resign from the Navy and go into private enterprise.

Senator CLARK. The honor man at the last graduating class at the Naval Academy resigned without serving a day as an officer in the Navy, did he not, Mr. Spear?

Mr. SPEAR. I am not familiar with that.

Senator CLARK. That was announced in the public press at the time.

Mr. SPEAR. I am not familiar with that.

The CHAIRMAN. On the last page of that letter, "Exhibit No. 179", the following sentence appears in the closing paragraph:

You will see from the above that I expect to go ahead with this job regardless of Mr. M.

Who is Mr. "M"?

Mr. SPEAR. Mr. "M" is a private citizen, a banker, to whose attention this matter had been called, and he said he would like to consider whether or not he thought it was worthy of advancing some money to Mr. Davison to endeavor to develop this gun.

The CHAIRMAN. Mr. Davison seems to have been very greatly convinced that he had something which was really worth while here and something which was going to make obsolete Army ordnance generally.

Mr. SPEAR. He is very enthusiastic about it.

Senator POPE. All inventors have that same attitude.

The CHAIRMAN. Mr. Spear, you were speaking a while ago about the influence that must at times be brought to bear to sell our goods abroad, before our own Army and Navy will buy. In this same letter Mr. Davison declares in the next to the last paragraph on page 2 as follows:

It will be a very strenuous job to completely redesign the gun to meet General Summerall's recommendations. But I fear he is right. If I do what he recommends I will not only have an antiaircraft gun with a muzzle velocity equal to that of the Army's mobile antiaircraft gun, but I will also have a field gun far superior in range to their latest 75 M/M.

That was not the exact reference I had in mind as to General Summerall's advice regarding this.

That is contained in another exhibit which I am offering as "Exhibit No. 180", being a letter written by G. C. Davison to you, Mr. Spear, under date of December 23, 1932.

(The letter referred to was marked "Exhibit No. 180" and appears in the appendix on p. 444.)

The CHAIRMAN. In "Exhibit No. 180" Mr. Davison says in part:

DEAR LARRY: I have just received from General Summerall a letter signifying his willingness to come in on the gun business for foreign countries. He cannot have anything to do with U.S. business on account of the fool law pertaining to officers of the Army and Navy.

What is this "fool law" to which he makes reference?

Mr. SPEAR. What he is referring to there, Mr. Chairman, is the existing law, which has existed for a good many years, under which it is illegal for a retired officer, certainly of the Navy and I think of the Army, to accept any kind of employment from any corporation,

firm or person who has business relations, contracts with the Government. That has been the law for a good many years.

The CHAIRMAN. So that when Mr. Davison wanted General Summerall on his retirement to come in with him as a partner, providing for building and producing this gun, General Summerall could not do it because the Davison Co. would have relations with our Government. Is that the case?

Mr. SPEAR. The Davison Co. hoped to have, and, of course, if they did, General Summerall could not be in it.

The CHAIRMAN. General Summerall did go in it finally, did he not?

Mr. SPEAR. I think not, from the latest information I have. I think at one time he said he was going in, but I do not think he has. I am quite certain that no arrangements have been made. The last I heard from Mr. Davison, that was it. General Summerall is a cousin of Mr. Davison.

The CHAIRMAN. In the second paragraph of the letter of December 23, 1932, it states as follows:

In view of this, please do nothing in regard to Vickers, for the present. Summerall now being my partner in regard to all foreign business I will now have to work with him.

Mr. SPEAR. I understand that that has since been changed.

The CHAIRMAN. And that he has no connection?

Mr. SPEAR. I understand not. That is the latest information I have about it.

The CHAIRMAN. In the letter December 1, 1932, "Exhibit No. 179", Davison had stated in paragraph number 2:

Summerall is the only general beside Pershing who wears four stars and they are due primarily to his work with artillery. He is very hard boiled and practical. For that reason and the fact that he is not an enthusiast, statements such as he made to me can be safely accepted at 100 percent of their face value.

He goes on to state:

As regards my plan to organize a company with a couple of generals and a couple of admirals on the board, and with a view to starting some real competition with Army ordnance, he tells me I would get nowhere. He says that Army ordnance first of all will have absolutely nothing to do with anything which they do not develop themselves. Also that they are so powerful with the military committees of Congress it would be useless to fight them there. The only way they will ever buy these guns is for them to be first manufactured and sold to some foreign power or to be developed abroad.

That seems to be General Summerall's advice to Mr. Davison.

Mr. SPEAR. I would judge that is substantially what he told him.

The CHAIRMAN. Mr. Joyner, one of your vice presidents, whom we had hoped was going to be here, but as to which the affidavits have been afforded showing him to be an ill man—how is he progressing?

Mr. SPEAR. I went to see him last evening and he is a very sick man.

The CHAIRMAN. Is there anything at all to indicate when he might hope to be up and around again?

Mr. SPEAR. Nothing at all yet. I think he is in a very serious situation.



The CHAIRMAN. Has he made available to you any of the correspondence that the committee indicated they would like to have?

Mr. SPEAR. He gave me all the information that he had, such as is mentioned in the subpoena which I showed you yesterday.

The CHAIRMAN. Which correspondence Mr. Raushenbush tells me is not of any consequence to us. It consisted of two letters?

Mr. RAUSHENBUSH. It consisted of two letters.

Mr. SPEAR. It consisted of two letters, yes, sir; about personal matters.

The CHAIRMAN. We shall want, of course, to hear Mr. Joyner, when he is able to be heard, but I think we need not refrain from offering certain letters that he received or that he has written, and which were taken from the files of the Electric Boat Co.

Mr. CARSE. on December 18, 1928, Mr. Joyner wrote you at your New York address a letter, which will be offered as "Exhibit No. 181."

That letter reads in full as follows:

EXHIBIT No. 181

ELECTRIC BOAT COMPANY,  
HIBBS BUILDING, WASHINGTON, D.C.  
December 18, 1928.

Mr. HENRY R. CARSE,  
President, Electric Boat Company,  
11 Pine Street, New York City.

DEAR MR. CARSE: Successfully managed campaign for candidate Rules Committee, which is most important to us, when any legislation is up.

Brought in some Western States, New England States, New York, Pennsylvania, and Michigan in Fort case, and New Jersey, Michigan, New York, Illinois, South Dakota, and Pennsylvania in Martin's case.

Candidates successfully elected to Rules Committee:

Honorable Jos. W. Martin, Jr., Mass.

Honorable Frank Fort, New Jersey.

The Rules Committee is the most important committee in Congress. It absolutely controls legislation.

Thanking you, with kind regards,

Sincerely yours,

A. J. JOYNER.

How long has your company been interested in accomplishing the selection of Members of Congress to these important committee assignments?

Mr. CARSE. I have had not had anything to do with it, and I did not know anything about it. Whether Mr. Joyner had anything to do with it or not, I do not know.

The CHAIRMAN. He says here he did.

Mr. CARSE. I know he says that.

The CHAIRMAN. And he is a vice president of the company, is he not?

Mr. CARSE. Yes, sir.

The CHAIRMAN. And addressed this letter to you as president of the company?

Mr. CARSE. A lot of people down in Washington think that they run everything. I do not know.

The CHAIRMAN. I know that is true, and every member of this committee knows it is true, that there are men parading around

Washington, scraping acquaintance with Members of Congress and officials generally, and then going out in the business world and selling their services because of that acquaintance, and in selling themselves they always happily reveal how close they are to this one or to that one. But surely Mr. Joyner would not report to you, the head of the corporation, in such a way, he being a vice president. He had no purpose to serve by any such representation, no gain to be made.

Mr. CARSE. I do not like to make a criticism, but he might wish to show how important he was. It did not interest me at all. I do not know the members of any committee of Congress. I do not think it is any of my affair.

The CHAIRMAN. What could be Mr. Joyner's interest in wanting to have friends on that committee?

Mr. CARSE. Perhaps he was personally acquainted with those gentlemen, and would see a good friend here and there when they were candidates. He did not consult me about what he was doing or anything of that kind.

The CHAIRMAN. Having placed men in important positions——

Mr. CARSE. Did he place them?

The CHAIRMAN. He says he did.

Mr. CARSE. I know he does.

The CHAIRMAN. He says:

Successfully managed campaign for candidate Rules Committee, which is most important to us, when any legislation is up.

What does that mean?

Mr. CARSE. You gentlemen know a good deal more about that thing. You know about these committees. You know how they are selected. Do you gentlemen on this committee believe that Mr. Joyner could pick up a candidate and have him elected a member of that committee?

The CHAIRMAN. It would depend entirely upon what connections and how influential Mr. Joyner was with the leaders of the Congress.

Mr. CARSE. I do not know. I would not be able to answer that.

Senator POPE. That was not your part of the work, was it?

Mr. CARSE. No, sir; I do not believe in those matters at all. I just believe in letting things take care of themselves.

The CHAIRMAN. Did you ever observe that there was any return to the Electric Boat Co. that was traceable at all to any of these men in these influential places?

Mr. CARSE. No, sir; not a particle.

The CHAIRMAN. Mr. Joyner reported to you, did he not, from time to time, such success, or lack of success, as was being made with regard to legislation in which you would be interested?

Mr. CARSE. He may have; but nothing definite that I have in mind. I do not think that any legislation which was passed could in any possible way be traced or charged to any activities of this company. You take the naval bill, for the reconstruction of the Navy. Why is that? It is because the old boats are being worn out. For instance, the London Naval Treaty gave life to submarine boats of 13 years, and that would leave the United States with only about 5 or 6 submarine boats within that time. That would explain why there was an increase in the submarine program, be-

cause they have to have them. Some people may go and talk to somebody and come around and say they accomplished wonders, but I never take any stock in it.

The CHAIRMAN. Mr. Carse, Mr. Joyner, in addition to being vice president of the Electric Boat Co., was also in charge of your Washington office, was he not?

Mr. CARSE. Yes, sir; he was.

The CHAIRMAN. And on March 11, 1929, about three months after the writing of this letter marked "Exhibit No. 181", in which he advised how successful he had been in managing the campaign for election of a certain man for the very influential Rules Committee, he reported to you further in that regard, and I offer that letter as "Exhibit No. 183."<sup>1</sup>

The CHAIRMAN. That letter of March 11, 1929, was addressed to Mr. Henry R. Carse, president, Electric Boat Co., 11 Pine Street, New York, N.Y., by Sterling J. Joyner. I will read the letter in its entirety:

DEAR MR. CARSE: Now that the session of Congress is closed and our legislative activities are temporarily held in abeyance, it is a pleasure indeed to report to you and to the board of directors that all of our legislative efforts have borne fruit.

The Cruiser bill is passed, the submarine appropriations have been passed, and as I sincerely promised you the day we lunched together in New York, we did manage after overcoming a number of handicaps and jumping some burdles to get the second deficiency bill through, and in doing so we succeeded in getting our claim through, and we expect to receive payment at two o'clock this afternoon or early tomorrow morning.

Mr. Carse, what was "our claim"?

Mr. CARSE. A judgment of the Court of Claims.

The CHAIRMAN. What did that amount to?

Mr. CARSE. That amounted to about 3 million dollars, and a surrender of the \$700,000 of bonds that were held by the Navy Department. We needed the money.

The CHAIRMAN. 1929 was a good time to get money.

Mr. CARSE. Yes; but they should have paid it to us in 1918 and 1919.

Senator GEORGE. That claim had gone through the Court of Claims?

Mr. CARSE. That claim had gone through the Court of Claims.

The CHAIRMAN. I continue to read from Mr. Joyner's letter:

Members of the Navy Department have seen fit on several occasions lately to not only write, but to personally express their appreciations and congratulations on the success of such parts of the program as we were directly interested in and for the help we gave the Navy Department. I am not prepared to write you, however. I shall be glad to verbally tell you what really happened with reference to the deficiency bill, and the part this office played in getting the bill through. I absolutely and positively believe and feel safe in making the statement that if it had not been for actions taken in this office on the day before the bill was passed, and the day the bill was passed, that the second deficiency bill would have gone over until next session; or, in other words, until the special or extraordinary session, which is called for the 15th of April.

My reason for not putting this in writing is out of respect for those who helped, and who were so powerful and so friendly. The code of honor between men makes it unethical to name persons. However, my words and belief stand, and today we have succeeded again in having our claim and papers and

<sup>1</sup> No exhibit was marked no. 182.

certificates moved up ahead of over three thousand some hundred other claims, and inasmuch as our claim is the very largest, you can quite readily understand the Treasury Department would naturally hesitate at any advancement, particularly at this time when there is a threatened deficit. There is no question but what the situation could have been maneuvered for the next three months because of the right of the Treasury Department to recheck and check, audit and do a number of other things, which while they are not doing it in our case, they are actually engaged in doing so in a number of cases.

Our designs are meeting with approval. Our advice and specifications are being received favorably, and generally speaking, little is left to be desired up to this time, except that all important part, the actual signing of any contracts that we might receive.

With good will and a friendly attitude existing in the Army and Navy, in Commerce and the Shipping Board, and the Treasury Department, and a good will does exist, which is true, as is the statement of pleasant friendly relations, we may well feel that a brighter future has opened up for this Company, with less sales resistance, and pleasant hours free from the past worries and cares.

In the final, the writer wishes everyone in the organization without exception to feel and to know that all have played a part in loyalty, kind considerations and cooperation, and that they are entitled to share the pleasure and delight in a final victory, and in my humbleness desire to express my sincere thanks to all.

Sincerely,

(Signed) STERLING J. JOYNER.

Mr. Carse, that letter cannot be read without the reader knowing that there has been, and had been up to this time, March 1929, a great deal of interest on your part in connection with the passage of legislation; that you had run into obstacles, and now the last obstacle had been overcome and it was a day for rejoicing, and Joyner was rejoicing, and assuming that you were rejoicing with him.

Mr. CARSE. I think that the manner in which you read that indicates just your opinion of the aspect of the man making that statement.

The CHAIRMAN. Is not that his attitude?

Mr. CARSE. That is just it. I do not know what he did. I did not give him any instruction to do anything.

The CHAIRMAN. Do you think, Mr. Carse, that that letter could be read by anyone and that they could draw any different conclusion than I seem to have drawn?

Mr. CARSE. But your tone of voice sort of indicated that you considered it somewhat bombastic.

The CHAIRMAN. Not knowing Mr. Joyner, I could not undertake to in any way know precisely his own manner.

Mr. CARSE. You did very well.

The CHAIRMAN. Surely I could not read this, as I have read it just now, without gathering something of the spirit that must have been Mr. Joyner's when he wrote that letter.

Mr. CARSE. That is just it.

Senator CLARK. Mr. Chairman, you could not read a general order congratulating all the troops on a great victory in any other way.

Senator BONE. Just taking the whole text of the letter, what do you think he means in saying "our legislative efforts", using the plural?

Mr. CARSE. I made no effort. I gave no instructions to him.

Senator BONE. He may be a host in himself and have used the term in the plural, as editors say "we", and I was wondering what he meant by that term.

Mr. CARSE. He knew that we needed to get that money, which had been awarded to us by the Court of Claims. We had been 10 years out of that, and had spent interest, and had had a mighty hard struggle to get along, and that was included in this second deficiency bill, as he stated.

Senator BONE. I am not interested in your Court of Claims case.

Mr. CARSE. That was up to be passed, and I do not know anything about Washington, and I have never been down there trying to do anything in Congress or anything of that kind, but I do read the papers and find out that very often very important bills are lost or passed in the last hour of the session, and so I judge he was down there and was probably going around seeing different people he knew and urging that they try to expedite that deficiency bill and see that it went through.

Senator BONE. He refers to political activities in Western States. Being a westerner, I am particularly curious about that. Who do you suppose he meant when he referred to work for candidates in Western States? Can you enlighten us on that?

Mr. CARSE. His acquaintanceship in Congress is very broad.

Senator BONE. Undoubtedly. I imagine that is why you keep him in Washington, because of his wide acquaintance.

Mr. CARSE. No. That is one of the reasons, of course. For instance, Senator Bone, if he knew you pretty well, I think he might stop and say that so and so is a candidate for the Rules Committee, how do you feel about him?

Senator BONE. I understand. But he is referring to his activities in Western States. I am not aware of Mr. Joyner's work out in my State, but if there is any connection out there with any political outfit, I would be interested in knowing about it. If they are politically active in my State, I would be interested in knowing that.

Mr. CARSE. No; that is not what he meant. What he meant was that he had talked to Representatives from Western States.

Senator BONE. He says in the letter something about—

Successfully managed campaign for candidate Rules Committee which is most important to us. Brought in some Western States.

He does not designate whom he is talking about. He says he brought in some Western States.

Mr. CARSE. Well, Representatives from Western States.

Senator BONE. That is the same thing. When he brought in a Representative, he brought in a State.

I believe there is an indication here that he has a yacht or a cruiser on the river; is that so?

Mr. CARSE. No.

Senator BONE. What sort of a boat is that?

Mr. CARSE. Back, I think, 3 years, our sales department of the Elco works were very ambitious of extending their sales. I did not very much agree with them, but there was some idea around at that time that the motor-boat trade was going to develop like the automobile trade.

Senator BONE. Was that one of these Elco cruisers?

Mr. CARSE. Yes.

Senator BONE. I have seen them.

Mr. CARSE. We sent it down here and it was down here for 3 years. We had an agent in Washington.

Mr. SUTPHEN. It was only one year; was it not?

Mr. CARSE. Not according to that list. The expenses are down there for 3 years. We had that down there as a demonstration boat, on the Potomac. The total expense involved in that demonstration was \$10,000. Just before I left I asked what the sales of boats had been in Washington at that time and I was told that the direct sales had been over \$45,000, and there might have been some collateral sales caused by this demonstration on the Potomac River.

Senator BONE. Of course, you can understand, Mr. Carse, that everybody out West—if these gentlemen of the press send out this story—must be interested in who that Congressman from the Western State was on the Rules Committee. Of course, all of these Western States were brought in, so to speak.

Mr. CARSE. That is not the way I read it. He got the votes of some Representatives of Western States for those two members of the Rules Committee. I do not know how it was constituted. There was one from Massachusetts and one from Jersey.

Senator BONE. Is there any possibility of this gentleman coming here so we can ask him how he brought in these States; what his technique was?

Mr. CARSE. I hope there will be. He is a very sick man just now. I think he will come back. He has snapped back two or three times. He has not been well for 3 or 4 years.

The CHAIRMAN. Again I remind you, Mr. Carse, that Mr. Joyner is a vice president and he has been in charge of the Washington office and presumably is in charge of it today. Why do you have a Washington office?

Mr. CARSE. Well, Mr. Spear can tell you that.

The CHAIRMAN. Mr. Spear, why do you have a Washington office?

Mr. SPEAR. Because practically our only customer of any importance is the United States Government.

Mr. CARSE. There has to be somebody here who will keep in touch with the Navy Department, find out what they want and get in touch with Mr. Spear, have him draw up the plans and specifications and take those plans and specifications back and forth constantly.

Mr. SPEAR. I used to do all of that personally, traveling down here all the time to discuss these matters, but I am getting a little aged for that now, so I do not do it any more.

The CHAIRMAN. Since 1919 you have spent \$7,000 a year and upwards maintaining Washington offices and up until 1927 you had a C. S. McNeir in charge.

Mr. SPEAR. Yes.

The CHAIRMAN. Where is he now?

Mr. SPEAR. I do not know.

Mr. SUTPHEN. He is dead.

Mr. SPEAR. Mr. Sutphen says that he is dead.

The CHAIRMAN. From that time on, in 1927, Mr. Joyner had been here?

Mr. SPEAR. Yes.

The CHAIRMAN. He is here for some good reason; you have confidence in him, do you not?

Mr. SPEAR. Yes.

Mr. CARSE. Well, Mr. Spear explained that yesterday. They keep in touch with the Navy Department and with the different legations in Washington. He has been in very close touch with the Turkish, with the Japanese and he has discussed things with the Argentine and Brazilian representatives, different work of that kind.

The CHAIRMAN. How much salary does Mr. Joyner receive as vice president?

Mr. CARSE. \$15,000 now.

The CHAIRMAN. Is that included in this statement that was supplied covering the salaries and expenses of Mr. Joyner?

Mr. CARSE. Yes.

The CHAIRMAN. It was a salary of \$18,000.

Mr. CARSE. That is what it was. It is \$15,000 now.

The CHAIRMAN. It was reduced in 1932 to \$16,250 and in 1933 to \$15,000?

Mr. CARSE. Yes.

The CHAIRMAN. That is what he is drawing now?

Mr. CARSE. Yes.

The CHAIRMAN. Is he a large stockholder in the Electric Boat Co.?

Mr. CARSE. I do not think he owns a share; not that I know of.

The CHAIRMAN. Does he have such influence as would enable him to force you to employ him in Washington?

Mr. CARSE. No, sir.

The CHAIRMAN. Then why do you employ him here, if you do not have large confidence in him?

Mr. CARSE. Oh, I have confidence in him, but sometimes one gets a little exaggerated opinion of what he may have done or his ability to do certain things.

The CHAIRMAN. In addition to his salary, he is allowed clerical help which in 1931 amounted to \$2,200. It has ranged from that down to \$1,500; office rent of \$1,092 a year, office expenses which in one year, amounted \$3,405, and it has ranged from that down to \$1,700; traveling expenses of various items, \$400, \$600, \$400, and \$1,000 in a year.

Mr. CARSE. Some of those were European trips. Those are a little larger amounts.

The CHAIRMAN. Then you paid his residence expense here.

Mr. CARSE. When he first came here, his residence was in Brooklyn. He maintained a home in Brooklyn, at the Hotel Bossert and it seems that an expense account of \$500 a month was a proper sum to allow for his expenses, living in Washington.

Senator VANDENBERG. Who was he before you picked him up? What was his job before you picked him up?

Mr. CARSE. I would not say, picked him up.

Senator VANDENBERG. I do not mean that invidiously.

Mr. CARSE. When I was over in Berlin in 1924, I met an officer of the Submarine Signal Co. In talking about matters, he said he thought that there was a very good opportunity for our company to do business in Japan, that he had done some very good business

there. When I came back, I took up the subject with the other officers and discussed it back and forth as to whom we might send, because this man said, "Now, do not send any foreigner, because the Japs won't care to talk with anybody except an American."

So we discussed it and Mr. Spear said he thought he knew a man who had been to Japan and was acquainted with the people and he brought in Mr. Joyner. He came with us at that time solely on a commission basis on business that he might secure from Japan. He would not take a salary or anything of that sort. We were to advance his expenses which would afterwards be deducted from the commissions we might pay him. He made two trips to Japan and showed that he had a wonderful acquaintance with the Japanese and I think that he has been very useful here in Washington in connection with unofficial communications between the two Governments.

Senator VANDENBERG. Had he had any previous Washington relations? That is what I was getting at.

Mr. CARSE. I never had heard that he had any here at all.

Senator CLARK. Do you know what his business was at the time you first employed him on a commission basis?

Mr. SPEAR. I think at that time he was connected with Lockwood, Green & Co., which is a large construction company in Boston, and which was also largely engaged in the textile business.

Prior to that connection—he seemed to have had a number of different connections—prior to that connection, he had been connected with the New York Shipbuilding Co. at the time that that was owned by the American International Co. It was a subsidiary at one time.

In that connection, while he was stationed—his office was at the shipyard or in New York—he used to visit Washington in connection with the naval contracts that that company had, and it was my understanding from a mutual friend that it was Mr. Joyner who used to be in the steel business, cast-iron collier business and it was my understanding that on account of the connections that he had made with people in Japan while he was in that business he had proven useful to the New York Shipbuilding Co. in procuring a contract for a collier in Japan. In other words, he was the only American we knew at the time who knew the Japanese and also knew at least the bow of the ship from the stern. He had had some connection in the shipbuilding business.

The CHAIRMAN. In any event, in his last complete year of service for the Electric Boat Co., he received a total of compensation, salaries and expenses, of \$30,533.44. Now, did Mr. Joyner's ability to show how influential he was have a tendency to increase his salary or extend his employment in the Washington office, at your hands?

Mr. CARSE. Do you mean in relation to Congress?

The CHAIRMAN. Yes.

Mr. CARSE. No; I do not think so.

The CHAIRMAN. So that then he would have no purpose in trying to make himself any bigger or any different than you knew him to be, would he? You would have nothing to gain by it?

Mr. CARSE. He would have nothing to gain by it.

The CHAIRMAN. It appears in the years, leading up to the dates of the correspondence that we have just read, Mr. Joyner was laying



something of a foundation, for whatever purpose it might have been.

I offer in evidence as "Exhibit No. 184" a copy of a letter dated August 30, 1928, addressed by Mr. Joyner to Mr. Carse.

(The letter referred to was marked "Exhibit No. 184.")

The CHAIRMAN. The letter reads as follows:

VERY DEAR MR. CARSE: For your information on Saturday and Sunday Admiral A. T. Long, U.S.N., and party used *Sumeru*.

By the way, is that name right, A. T. Lang?

Mr. SPEAR. I think it was Admiral Long.

Senator CLARK. Just on that point, Mr. Spear, I was asking you this morning about the notes 1, 2, 3, 4, 5, and 6 at the end of Mr. Joyner's letters. They referred to Admiral H. A. Long.

Mr. SPEAR. Yes; I think it was Admiral A. Long.

Senator CLARK. It should have been A. T. Long. I understand the Navy says there never was an Admiral H. A. Long. Evidently the admiral mentioned was A. T. Long.

The CHAIRMAN. What is the *Sumeru*?

Mr. CARSE. That was the name of the motor boat.

The CHAIRMAN. What motor boat?

Mr. CARSE. That we had in Washington here for demonstrating purposes.

The CHAIRMAN. Reading this letter to Mr. Carse, it says:

For your information Saturday and Sunday Admiral A. T. Long, U.S.N. and party used *Sumeru*.

What is it, a sort of a launch?

Mr. CARSE. Yes; a 50-foot launch.

The CHAIRMAN (continuing reading):

Today the Turkish Ambassador is to use it. Tomorrow the Acting Japanese Ambassador has arranged to use it. Probably on Sunday Admiral Hughes, Chief of Operations, will use it. Monday I am inclined to believe some of the Shipping Board are using it, Commissioners, I mean. Friday to Saturday will be given over to painting it up. On Saturday, some of the Hoover people will use it for two days—meaning Saturday and Sunday next week if clear. This party will cover several Members of Congress of importance. I am told today that Mr. Charles will buy another boat soon. He showed a check to Captain Cogswell as a part payment. I believe he has some complaint on the one he did just buy and wants to see me—something about the paint coming off. Captain Cogswell tells me his complaint is apparently justified. I will not say anything until I see him (Mr. Charles).

You can see from the schedule that I am not sailing on the boat or joy-riding on it. These parties are entirely on their own. I am not with them, "purposely so."

I do want you to know you can be proud of your guests and it shows confidence in us by using the boat.

Cordially and obediently,

STERLING.

The copy from which I was reading was copied from a letter written in pen.

Mr. CARSE. I might say that they all supplied their own provisions.

The CHAIRMAN. On May 23, 1929, Mr. Joyner wrote you a letter, or wrote Mr. Spear a letter, which I now offer as "Exhibit No. 185."

(The letter referred to was thereupon marked "Exhibit No. 185", and appears in the appendix on p. 445.)

The CHAIRMAN. In this letter Mr. Joyner refers to a Turkish matter and says he had—

two talks with the Ambassador today, one just a few minutes ago. The net of the situation is that he is moving every power reasonable to believe possible to see that we get the other three boats, and these on a basis of no competition, no bonds, or guarantees, no more dilly-dallying, but a straight proposition from his Government

He met the Cabinet officer in New York, and has been visiting with him up to last night. The Cabinet officer will be in this city in a fortnight or so. If I understand the situation correctly, they are both in accord, and are making a united effort in our favor.

Who might that Cabinet officer be?

Mr. SPEAR. He was an officer in the Turkish Cabinet.

The CHAIRMAN. An officer in the Turkish Cabinet?

Mr. SPEAR. Yes, sir; I do not know his name.

The CHAIRMAN. You have, of course, used the services of your Members of Congress in what you considered was legitimate business in which Members could interest themselves?

Mr. SPEAR. Whenever there has been any matter before Congress I considered it interested me personally or interested the company, I have never hesitated to call upon the gentlemen from my State where I reside and ask them if they considered it consistent with their duty to support it.

The CHAIRMAN. And you got pretty thorough cooperation from the Members of Congress in Connecticut?

Mr. SPEAR. I always got very polite answers and I think in most cases they thought my requests were reasonable. Where they did not agree with me, they did not do anything.

The CHAIRMAN. Are you employing at the present time any former Members of Congress?

Mr. SPEAR. No, sir.

Mr. CARSE. No, sir.

The CHAIRMAN. Are you turning any law practice to former Members of Congress?

Mr. CARSE. No, sir.

The CHAIRMAN. I offer as "Exhibit No. 186" a letter by Mr. Spear to Mr. Carse, the letter being written from Groton, Conn.

(The letter referred to was marked "Exhibit No. 186.")

The CHAIRMAN. The letter, "Exhibit No. 186", reads:

#### EXHIBIT No. 186

ELECTRIC BOAT COMPANY,  
Groton, Conn., October 22, 1929.

Confidential.

H. R. CARSE, Esq.,

President, Electric Boat Company, 11 Pine Street,  
New York City.

DEAR MR. CARSE: Right after I talked with you this afternoon, I called Joyner and found that his friend ATL was then in the office, which gave me a chance to chat with him a little over the phone. He confirms just what I said to you today and repeats the advice previously given, this advice being based partly on what he thinks is good for our interests and partly on what he thinks the people in the Department are entitled to from us.

We understand that the departmental people are all to be very busy with some special business tomorrow, and accordingly Joyner is figuring on Thursday for his interview.

I have marked the letter "Confidential" because I think it would not be wise for us to reveal to anyone, including the board, the names of any of the people who have been kind enough to assist us with information in an unofficial way.

Very truly yours,

L. Y. SPEAR.

Admiral Long was giving you information?

Mr. SPEAR. He was giving advice, presumably. I do not know that he says information. This related to a question, Mr. Chairman, of design, what would be more likely to meet the approval of the Department people among a number of alternatives. As I recall, that question was up then, and I was preparing some designs for submission to the Department.

The CHAIRMAN. What was Long's position at this time?

Mr. SPEAR. I think he was on the general board.

The CHAIRMAN. Chief, was he not?

Mr. SPEAR. Yes; he was the senior member, I think.

The CHAIRMAN. I offer in evidence "Exhibit No. 187", a letter dated September 23, 1930, by Mr. Joyner, to the Honorable John Q. Tilson, Hotel Roosevelt, New York City.

The CHAIRMAN. This letter reads:

DEAR CONGRESSMAN TILSON: (Confidential) Replying to your communication of September 18th. The subject of work in New London for the Electric Boat Company Shipyard in New London has been under discussion in the Department many times during the last year or more, in the effort to see what could be done to award to that company some of the Government's work of building submarines.

This is in the interest not only of the workers to whom you specifically refer, but also in the interest of the technical staff of the company. As this is the only private company at present in America specializing in the design and construction of submarines, the Department considers it necessary to do everything possible so far as it is permitted by the laws of Congress to give that yard its reasonable share of submarine construction. Therefore you may be assured that I will do everything in my power to further that result.

In accordance with the terms of the London Naval Treaty, we are permitted to build a definite amount of submarine tonnage in the immediate future and we can by the terms of that treaty start construction of two submarines during the present fiscal year. So it will work out that these submarines be assigned to the private ship building company at New London as understood.

With best wishes,

Sincerely yours,

Signed by ERNEST LEE JAHNCKE,  
The Assistant Secretary of the Navy.

Now, what understanding existed relative to where these ships were to be built, if and when they were authorized?

Mr. SPEAR. At that time it was the intention of the Department apparently as revealed in their conversation with me to place those two ships in private yards. Subsequently they changed their mind about that policy. They did not carry out the policy they then were discussing and they decided to build one in the navy yard and open the other to competition by private firms.

The CHAIRMAN. Appended to this letter which I have just read and which I understand is a copy of a letter taken from the files of the Electric Boat Co., was a sheet in longhand, carrying this information:

Read the enclosed and don't let your right hand know what the left is thinking.

This is a copy of a letter to John Q. Tilson. I saw the copy through Mr. Jahncke.

Note blue slip that explains how.

This should be really a fair confirmation of past chatter.

S. J.

Very confidential.

To whom was this note sent?

Mr. SPEAR. I do not know.

The CHAIRMAN. Do you recall having seen it, Lieutenant Spear?

Mr. SPEAR. I recall having seen some letter which I take to be this letter that is appended. I do not recall anything about this slip that is on here, and to whom that was sent I could not tell you.

Senator CLARK. You know Mr. Joyner's handwriting?

Mr. SPEAR. I think this is in his handwriting. It looks like it to me.

Mr. CARSE. I think that was found in our office, was it not?

Mr. RAUSHENBUSH. I think so.

Senator CLARK. Do you know to what that refers?

Mr. CARSE. What?

Senator CLARK. That handwritten memorandum?

Mr. CARSE. It refers to that letter of Mr. Tilson's which the chairman has just read.

The CHAIRMAN. The reference here is that this is a copy of a letter to John Q. Tilson and "I saw the copy through Mr. Jahncke."

Mr. CARSE. Yes. Mr. Jahncke showed it to him.

The CHAIRMAN. Who was Mr. Jahncke?

Mr. CARSE. Assistant Secretary of the Navy at that time.

Mr. RAUSHENBUSH. Mr. Chairman, the first letter that you read was signed by Mr. Jahncke.

The CHAIRMAN. The exhibit 187 has a note on it "Signed by Ernest Lee Jahncke, the Assistant Secretary of the Navy."

Mr. CARSE. This copy Mr. Jahncke allowed Mr. Joyner to take.

The CHAIRMAN. What understanding existed that would enable Mr. Jahncke to advise you when the ships were authorized that would be built in private shipbuilding yards?

Mr. SPEAR. I do not know that I could say there was any understanding. We were soliciting them to give us some work. We had not had any work from them in many years.

Senator BONE. Mr. Tilson was one of the majority leaders in the House at that time.

Mr. SPEAR. Yes; he was.

Senator BONE. One of the most energetic majority leaders.

Mr. SPEAR. He was a majority leader in the House from Connecticut.

Mr. CARSE. Yes; from the Groton district.

Mr. SPEAR. We had been dealing with the Department, submitting designs endeavoring to get in a position where they would be willing to place some contracts with us, because we had not had any in many years. At the time that communication was dated, there remained two authorized submarines in the old 1916 program and we were given to understand that—no formal agreement—but we were told by various people in the Department, that the Department would contemplate awarding those two vessels to private firms. Subsequently they changed their mind and did not award any con-

tract until 1931. By the time they decided to award a contract, they changed their mind and decided their policy would be to build one of the vessels at the Portsmouth Navy Yard and award the other to a private concern on competitive bidding. We were the low bidder on that ship and obtained the contract, and the ship has now been delivered to the Government.

The CHAIRMAN. Now, recalling the best you can at the time of the receipt of this, what did the blue slip, that was explaining how Joyner came to get a copy of this letter through Mr. Jahncke, say?

Mr. SPEAR. I have no idea. I don't think it ever came to me.

The CHAIRMAN. Mr. Carse, do you recall the blue slip?

Mr. CARSE. I do not. That pencil copy I think was found in the desk of the treasurer of the company, and I have no recollection of it. It was some years ago—when was that?

The CHAIRMAN. September 23, 1930.

Mr. CARSE. That is 4 years ago.

The CHAIRMAN. The fact remains you got, in 1931, two submarine contracts, did you not?

Mr. SPEAR. One, not two.

The CHAIRMAN. I think the Chair should say for himself, if he is not speaking for the committee, that there is not any pleasure in the revealing of this correspondence, and I have not any doubt but what Mr. Tilson, Martin, and Mr. Fort will want to be heard on this, and that there is an explanation for it. But I cannot feel, and I do not think the members of the committee feel it within their province to refrain from offering into the record this information which we have gained by reasons of our studies, which the Senate by resolution instructed us to make.

Mr. CARSE, what are your relations with Mr. duPont?

Mr. CARSE. None at all. I don't know him.

The CHAIRMAN. Does Joyner have any relation with Mr. duPont?

Mr. CARSE. Not that I know of.

The CHAIRMAN. Has he ever reported to you any relation with Mr. duPont?

Mr. CARSE. I think he has stated that years ago he superintended the construction of one of duPont's homes.

The CHAIRMAN. I have here a letter dated October 21, 1930, addressed to Mr. John R. Macomber, 24 Federal Street, Boston, Mass., and signed by Mr. Joyner, which I offer as "Exhibit No. 188."

(The letter referred to was marked "Exhibit No. 188", and appears in the appendix on p. 447.)

The CHAIRMAN. Do you know Mr. Macomber?

Mr. CARSE. Yes, I have met him.

The CHAIRMAN. Who is he?

Mr. CARSE. He was the head of Harris, Forbes & Co. that was absorbed by the Chase Securities Co. and I think since the separation of the Chase Securities Co. from the Chase Bank there has been organized another corporation which includes perhaps the Chase Securities Co. of Boston as I understand, although I do not know that Mr. Macomber is the head of that organization.

The CHAIRMAN. In this particular letter Joyner advises Mr. Macomber that the Italian commercial attaché, one signor Romolo

Angelone, will call on him next Friday at your New York office, and he says further:

The gentleman will visit me here today, Tuesday, at which time I will advise him to make an engagement, meaning to communicate with you in order to learn your convenience.

Then he said further:

In order that you may be somewhat informed in advance I wish to state our experience with Italians has not always proven attractive. However, do not let that deter you.

I have a tentative week-end engagement with Du Ponts at Wilmington, Del., which I will pass over to the week following if you could dine with us Friday. In that case I would run up to New York Friday afternoon. I hope you can accept.

Did Mr. Joyner make any report to you concerning this visit with duPont?

Mr. CARSE. No.

The CHAIRMAN. "Exhibit No. 189", which I offer in evidence, is a copy of a letter written by Mr. Spear to Mr. Carse dated January 21, 1931.

The CHAIRMAN. This letter, "Exhibit No. 189", says:

I received word this morning from our New Haven friend that he would see the Secretary this afternoon or tomorrow morning, probably the latter, in which case we should know a little more about the true inwardness of the situation tomorrow afternoon or Friday morning.

What was that situation, Mr. Spear?

Mr. SPEAR. That was the situation where these contracts we have been recently discussing were pending in the Department, and it was a question of whether or not they were going to give private concerns an opportunity to bid on them. I don't think that had been settled at that time but eventually, as I told you, they told me, or gave me to understand they would probably give out 2, and they eventually gave out 1. But it was always uncertain up to the last moment what they would do about it.

The CHAIRMAN. Was the President going to have any hand in that matter?

Mr. SPEAR. I have always understood that in the Navy Department, when they wanted to know what they would do in the Navy Department, they would finally take it to the President for his approval before it was done.

The CHAIRMAN. Under date of January 2, 1931, you were found writing Mr. Carse again a letter which I offer as "Exhibit No. 190."

The CHAIRMAN. In this letter, "Exhibit No. 190", you say:

This morning, I have a note from our friend in New Haven suggesting that our meeting in Washington be held on Tuesday instead of Monday, because he has been asked to breakfast at the White House Monday morning. As a matter of fact, Tuesday would suit me better than Monday because it gives us a chance to present the new designs Monday and to get a last checkup on the departmental situation.

I plan to go to Washington Sunday and, so far as I can see now, will have to stay there from three to five days.

What was the award after that conference at the White House; did you get your contract at that time?

Mr. SPEAR. No, sir; I am trying to recall if I can. It is very difficult to remember these things. I cannot say I have any exact

recollection of what happened then, but I do recall I felt that the matter was still open, that there had been no adverse decision with regard to placing any of these contracts in private yards, but that is merely my impression. I did not tell you exactly what was said, because I cannot remember it. I know up to the time the contracts were actually let it was always my impression, from all of the information I got, that at least one of them would be given out to private industry in open bidding.

The CHAIRMAN. I offer as "Exhibit No. 191", a memorandum dated February 10, 1931, from C.E.M. for Mr. Joyner.

(The memorandum referred to was marked "Exhibit No. 191", and appears in the appendix on p. 447.)

The CHAIRMAN. In that memorandum the writer discusses the tariff on oil and the delegation of 70 men with \$1,000,000 at their disposal coming to Washington on the oil tariff, and then the memorandum declares:

The sole resistance of any effective character is coming from the Standard of Indiana.

I note this memorandum is signed C. E. M. Who is C. E. M.?

Mr. RAUSHENBUSH. That was from Mr. Joyner's files, Mr. Chairman.

Mr. SPEAR. I cannot place him at all.

The CHAIRMAN. Then in its closing paragraph this memorandum declares:

My guess is that the Navy Department would very much prefer to have this measure defeated since it wants to buy its oil purely on the basis of price and strategic location. I venture the suggestion that you ascertain whether it would not be regarded as a considerable service on your part to use your extensive influence with Mr. Tilson and others in effectively blocking the measure if that is what they would like to have done.

Mr. SPEAR. I don't know anything about that.

The CHAIRMAN. Has Mr. Joyner apparently been always in thorough accord with the company, or have you had differences of opinion regarding administration and methods of getting business?

Mr. CARSE. I should not be surprised that we have. It is one of these families where we all have our opinions and voice them, and the majority decides what to be done.

The CHAIRMAN. I offer "Exhibit No. 192", being a letter marked "Confidential", from Joyner to Sir Basil Zaharoff, dated March 7, 1931.

(The letter referred to was marked "Exhibit No. 192", and appears in the appendix on p. 447.)

The CHAIRMAN. In this letter Joyner says:

I am not in accord and never have been in accord with the methods which this company adopts and sees fit to carry through in their endeavor to handle or obtain new business.

That is on page 2, the fourth line in the second paragraph. And you will notice later on in that paragraph he advises Sir Basil that—

The Secretary and the Assistant Secretary of the Navy, Admiral Jones, and other admirals in the Navy Department, Colonel Tilson, leader of the Republican Party, the party in power, the White House, and other people brought me into conference and asked me to remain in the organization in

order that they might have faith in an honest construction of any program they favored us with and also that their dealings might be without conflict or confusion, enmity or doubt.

Did he ever threaten to resign?

Mr. CARSE. That is the first I ever heard of it. Why he is writing to Sir Basil Zaharoff I do not know.

The CHAIRMAN. You think he is selling himself to Sir Basil Zaharoff now?

Mr. CARSE. It kind of sounds that way. He never saw Sir Basil. I gave him a letter of introduction to Sir Basil, but Sir Basil was down at Monte Carlo when Joyner was over there, and he did not see him. I think that was in 1926. This is rather amusing to me. Now, don't you see what I said before, that sometimes there existed an exaggerated ego.

The CHAIRMAN. I have known that type, but I don't know Mr. Joyner.

On page 3, in the second paragraph, Mr. Carse, Mr. Joyner is declaring:

I wrote you with reference to Sir Henri Deterding of the Shell organization, whom I am informed is a personal friend of yours. We ought to be doing some of his business in the United States. They have a large powerful and successful organization, and aside from this, they are now deeply interested in the present embargo controversy.

Have you had any knowledge at all of any relation with oil matters with Deterding?

Mr. CARSE. Absolutely nothing.

The CHAIRMAN. I offer in evidence "Exhibit No. 193", being a letter dated April 23, 1931, and addressed to Sir Basil Zaharoff.

(The letter referred to was marked "Exhibit No. 193" and appears in the appendix on p. 449.)

The CHAIRMAN. This letter, "Exhibit No. 193", is to serve as a letter of introduction of the Honorable Mrs. Ernest Lee Jahncke and Miss Adele Townsend Jahncke, of Washington, D.C., and New Orleans, La., the wife and daughter of the Honorable Assistant Secretary of the United States Navy Ernest Lee Jahncke, and we find Mr. Joyner saying:

I shall sincerely appreciate, and I can assure you that the Secretary and his family will dwell in a long life of gratitude for any favors you may find it your pleasure and convenience to extend.

Mr. Carse, the approach to Sir Basil here is rather that of one who knows him intimately.

Mr. CARSE. That is what he might be saying to everybody. He probably knows you very well.

The CHAIRMAN. I would not be surprised.

I offer in evidence "Exhibit No. 194", a letter confidential and personal to Admiral Andrew T. Long, signed Mary and Sterling.

(The letter referred to was marked "Exhibit No. 194", and appears in the appendix on p. 449.)

The CHAIRMAN. Mr. Joyner's name is Sterling, is it?

Mr. SPEAR. Yes, and his wife is named Mary. They are very close friends of Admiral Long.

The CHAIRMAN. Who is Mr. Johnstone, was he a foreign representative of yours?



Mr. SPEAR. He was one of our engineers who was abroad for a number of years.

The CHAIRMAN. I am rather amused to find in this letter this language:

Strictly and absolutely confidential to you, it is now definitely decided, and very definitely, that I am going to Japan via Europe in June. As a matter of fact I neglected sending out for the transportation today but I am going to do so this afternoon.

Mr. CARSE. What year was that?

The CHAIRMAN. This is April 1931. Then the letter proceeds as follows:

Nobody has been informed of this fact except you and a couple of members of our organization with whom it has been arranged. For business reasons we are keeping it very, very secret. I dislike taking the long route in the hot weather, but there are reasons why I should go to Europe first, and there are further reasons why I should not tell anybody of my intentions.

Andrew T. Long was connected with the International Hydrographic Bureau at Monte Carlo. was he?

Mr. SPEAR. Yes.

The CHAIRMAN. Anything as secret as this mission seems to be here, why should Admiral Long know anything about it?

Mr. SPEAR. He was an old friend of Joyner's.

The CHAIRMAN. They were really very close friends?

Mr. CARSE. Very close. I don't know anything about the trip, and the trip was never taken.

The CHAIRMAN. In this letter Mr. Joyner speaks very intimately of Admiral Hughes, Admiral Blakely, and Admiral Shag Taylor, and then he says:

Now for a very, very important and absolutely secret communication. Mrs. Ernest Lee Jahnce and Miss Adele Townsend Jahnce will arrive in Paris on the *Golden Arrow* the afternoon of May 20, and I have instructed our European manager, H. H. Johnstone, 48, Avenue de la Bourdonnais, Paris, France, cable address code word Retsok, to meet the steamer at Calais, and to accompany these splendid ladies, your friends, to Paris, and arrange for their hotel accommodations, likewise to give them such of his time as they may require.

Johnstone was a former United States naval officer?

Mr. SPEAR. I do not think he was ever a commissioned officer. He was in Annapolis once, but I do not think he graduated.

Mr. CARSE. He was in Russia doing some work for us, and got caught by the revolution.

The CHAIRMAN. Mr. Joyner says in his letter that:

Secretary Jahnce, as you know, is an old friend of mine, and a very loving friend of yours. He is one of the keenest and one of the finest companions a man can have on this earth, a prince of men among men. He is not aware of this letter being written. However, I am sure he would not disapprove of me writing you because of his great friendship and admiration for both you and VI.

Yet, I notice there was typed on this same copy of the letter a notation, "Copy for Hon. Ernest Lee Jahnce."

Likewise in this letter Mr. Joyner says:

I am having some trouble fighting against any wage reduction. On Tuesday last the board of directors voted to make a very serious reduction, and to put it into effect covering everybody excepting, strange to say, "Yours truly", and I fought that out this morning and saved that.

**Mr. CARSE.** The records show when the reduction went into effect, and he told me that he was perfectly satisfied with anything I might determine to be right.

The **CHAIRMAN.** He goes on and says the following:

There is a general feeling all over this country to cut wages. My feeble effort will not avail much generally speaking, but it does amount to something in the organization. In other words, about 80,000 shares in one block, and possibly another 100,000 in another block. These two blocks and the stock that I can command outside by proxy makes it possible for me to speak up occasionally out of turn. In doing this, I am supporting the hand, in my limited way, of President Herbert Hoover.

Does he hold that much stock?

**Mr. CARSE.** No.

The **CHAIRMAN.** Did he at that time hold that much stock?

**Mr. CARSE.** Oh, no; not that much stock.

The **CHAIRMAN.** Could that by any possible chance indicate that Joyner was holding and voting the Zaharoff stock?

**Mr. CARSE.** No.

The **CHAIRMAN.** Not a chance?

**Mr. CARSE.** He never saw Zaharoff.

The **CHAIRMAN.** I offer, merely for the record, "Exhibit No. 195", the same being a copy of a letter written by Joyner to Sir Robert McLean, care of the Vickers-Armstrong Co., Ltd., London, England, dated April 28, 1931.

(The letter referred to was marked "Exhibit No. 195" and appears in the appendix on p. 451.)

The **CHAIRMAN.** In this letter, "Exhibit No. 195", Joyner says, after speaking of Mrs. Jahncke and her daughter, the following:

After their arrival in London you will read much about them. I cannot write you why I make this statement, however, you will be charmed when you read it, just as you will be supercharmed when you meet them. Any help or assistance that you can give them will be sincerely appreciated by all parties concerned.

Was Mr. Joyner something of a press agent, do you know?

**Mr. CARSE.** He is a very affectionate writer.

**Mr. SPEAR.** I think Mrs. Jahncke was to be presented to court, and I think that is the news he had in mind.

The **CHAIRMAN.** I offer in evidence "Exhibit No. 196", being a letter headed "Personal and Confidential", dated May 22, 1931, from Joyner to Sir Basil Zaharoff.

(The letter referred to was marked "Exhibit No. 196", and appears in the appendix on p. 451.)

The **CHAIRMAN.** In that letter, "Exhibit No. 196", Joyner says:

I am in a position today to tell you that I kept my promise to you made some time ago, but, nevertheless, not forgotten. I succeeded in restoring the company to the old respected position it enjoyed some twenty-five years ago.

We were the low bidder and succeeded in securing the building of the *SCS* today. Bids went in May 19th, and I was assured by the Acting Secretary of the Navy today that we would be given the contract. Being low bidder did not mean what it seems, because the navy yard still had the privilege of coming in and offering a price much under ours, which I believe they did. However, the honorable position which we have taken through all of this situation and the helpfulness which we have rendered to the Department in various manners and various ways has borne fruit. Where we had nothing but disrespect we today have great respect.

Was there conveyed to you at all any knowledge concerning this transaction—did the Navy offer to do the job for less?

Mr. SPEAR. Not to my knowledge.

Mr. CARSE. Perhaps Mr. Spear can explain how the Navy estimates are made lower than the contractors bid.

Mr. SPEAR. The only figures I saw really that came from the navy yard are not bids at all. They are estimates, and they do not include all of the items which are included in a private contract, and cannot be comparable to the bid. They make them up in the navy yard and the two dockyards that are concerned they use them and finally decide on what is the final estimate, and they say they have got to be built inside of that figure. I was told at the time the final estimate from the yard was made that the estimated cost to them of building this duplicate boat in the Portsmouth Yard was somewhat higher than our bid figure.

Senator VANDENBERG. You don't know anything about this statement he made that after you made your bid they let the navy yard come back and make another bid which was lower than yours, but still let the contract to you through the influence of the Assistant Secretary of the Navy.

Mr. SPEAR. I don't know anything about that.

The CHAIRMAN. In this letter Joyner further says:

Chase National Bank stock sold at 70 or under today. I secured some, I think. At least I put in a bid through a brokerage house. I know that you are one of the largest holders of Chase National stock in the world, and I believe Chase is one of the finest institutions in the world.

I now offer in evidence "Exhibit No. 197", being a letter by Joyner to Mr. Lyman S. King, of the King-Knight Co., Balboa Building, San Francisco, Calif.

(The letter referred to was marked "Exhibit No. 197", and appears in the appendix on p. 454.)

The CHAIRMAN. In this letter, "Exhibit No. 197", Mr. Joyner says:

If the Shipping Board is to take part in any financing we are in a better position than any other organization to help the owners.

This was evidently in connection with the Electirc Boat Co.

Mr. SPEAR. These gentlemen in San Francisco are agents for Diesel engines. The *Harvard* which is referred to there, as I recall was a ship that was on the Pacific coast and she wrecked or something happened to her sometime and the question arose of building a ship to replace her. We were interested if it was going to be a Diesel engine ship to see if we could get the order.

The CHAIRMAN. Mr. Spear, has your company shown any pronounced leaning in a political way?

Mr. SPEAR. No.

The CHAIRMAN. Are you as a private citizen interested in politics?

Mr. SPEAR. I am not at all active in politics. I vote.

The CHAIRMAN. Mr. Carse?

Mr. CARSE. I vote, that is all.

Mr. SPEAR. I vote and have occasionally contributed to various candidates in my town and in the State when requested to. You know we all get these requests, but my contributions have not been very large, and not large enough to make much difference.

The CHAIRMAN. Are your contributions dependent upon whether the candidate in whose behalf they are made is of one party or the other?

Mr. SPEAR. I have not contributed to anyone recently, because I could not afford it, but I was brought up in what they used to call a "black Republican State" where we thought a Democrat ought to be put in jail. You know you inherit those feelings, so for many years my allegiance, such as it was, has been Republican. I have never contributed, as I can recall, to any Democratic candidate, although I came close to it once or twice because they happened to be personal friends of mine.

The CHAIRMAN. In correspondence we touched upon here a little bit ago reference is repeatedly made to our friend in New Haven. Who was that?

Mr. SPEAR. Congressman Tilson.

The CHAIRMAN. Mr. Carse, have you made contributions to political campaign funds?

Mr. CARSE. Not in a long while. I served my apprenticeship back in 1892 in the Twenty-third Assembly District of New York, when they made me chairman of the finance committee; but after I found we were defeated two or three years, I think I had enough of it.

The CHAIRMAN. Without casting any reflection upon the propriety or impropriety of it—and I see nothing to show that it was not proper—I want to call your attention, Mr. Spear, to the fact that you did make contribution to the campaign fund that was raised in behalf of Senator Bingham.

Mr. SPEAR. I did.

The CHAIRMAN. And professed a very decided interest in his welfare.

Mr. SPEAR. I did.

The CHAIRMAN. In a letter dated November 5, 1932, which is offered as "Exhibit No. 198", you say in part as follows [reading]:

You are correct in thinking that I am very much interested in the election of Senator Bingham. \* \* \*

I am enclosing my check for \$50 as a contribution to your fund, which is additional to other contributions.

Mr. SPEAR. Yes, sir.

The CHAIRMAN. What were these other contributions?

Mr. SPEAR. I think there was a local. I think I made a contribution to the local town committee, if I remember correctly.

The CHAIRMAN. Senator Bone, I handed you some exhibits to look at, which I thought you would be interested in perusing and might want to pursue the matter further.

Senator BONE. I do not think it is material.

The CHAIRMAN. This letter of June 2 has already been introduced as an exhibit.

Senator BONE. I do not think the other amounts to anything. It only dealt with some small stuff out there.

The CHAIRMAN. Very well.

Senator GEORGE. Mr. Carse, I would like to ask one question which I think is pertinent to a matter which has gone in the record. How long was your personal case, the case of the company, the claim

against the Government, pending in the Court of Claims before you finally had favorable decision?

Mr. SPEAR. I think, Senator, that the decision was handed down on the third or fourth year after the suit was filed.

Senator GEORGE. And then how long after the decision before the appropriation was made to cover it?

Mr. SPEAR. It was made at the next session of the Congress.

Senator GEORGE. It was made at the next session of the Congress?

Mr. SPEAR. Yes, sir.

Senator GEORGE. Did you have an attorney here representing you?

Mr. SPEAR. Yes, sir; McKenna, Flannery, and somebody else, three names, in the Hibbs Building, Washington. They were our attorneys who prosecuted this case in the Court of Claims.

Senator GEORGE. Did those attorneys represent you before the Appropriations Committee, or do you know?

Mr. SPEAR. I think they did. I think they took charge of it, and it was part of their duty to follow it through until we received the award which the court made to us.

Senator POPE. I have one question I want to ask. In a recent magazine article, a magazine issued in September, I find this statement, it being taken from a national magazine [reading]:

So during the third week in June another sort of conference was held in Switzerland. It was not a disarmament conference. It was an armament conference, and it was held in the utmost secrecy among representatives of the American munitions manufacturers, the Vickers-Armstrong group of England, and the Schneider-Creusot interest of France. Not a word was published in any newspaper about this conference despite the importance in financial and industrial affairs of the men who attended it. Probably no American newspaper was aware of it. Most significant.

Do you know anything about this conference held in June?

Mr. CARSE. This is the first I have heard of it.

Senator POPE. Was your company represented?

Mr. CARSE. It was not represented.

Senator POPE. Do you know, Mr. Spear?

Mr. SPEAR. I never heard of it before, and our company was not represented in any way. This is the first I have heard of it, of any such conference being held.

Mr. CARSE. We never consider ourselves a munitions company in any way.

The CHAIRMAN. I will offer the letter I referred to from Mr. Spear to Mr. W. H. Putnam, Hartford, Conn., as "Exhibit No. 198."

(The letter referred to was marked "Exhibit No. 198", and appears in the appendix on p. 454.)

The CHAIRMAN. Gentlemen, I think we are through. For my own part, and from what I have overheard, I know I am speaking the mind of other members of the committee, and I will say that I think you have been mighty decent with us, I think you have been mighty clean in the way you have dealt with the committee, and I can only express the hope that others who are going to have to follow in your footsteps are going to be as frank with us as you have been. In any event, we do very, very much appreciate the manner in which you have cooperated with us.

With the expression of our thanks to you, the committee will stand in recess until 10 o'clock tomorrow morning, and you are excused to go about your work.

Mr. SPEAR. Thank you, Mr. Chairman.

Mr. CARSE. We only regret that all this detail in relation to other people had to be made public.

The CHAIRMAN. I can understand fully that you would, and I think the members of the committee feel a sense of regret that that needs be done too, but we have been instructed to do a given work.

Mr. CARSE. We appreciate that.

The CHAIRMAN. There is not any other way for us to do it except in the manner in which we are proceeding with it.

Thank you, Mr. Carse, Mr. Spear, and Mr. Sutphen.

(Whereupon the committee took a recess until tomorrow, Friday, Sept. 7, 1934, at 10 a.m.)

# APPENDIX

## EXHIBITS

### ELECTRIC BOAT CO.

#### EXHIBIT No. 1

*Electric Boat Co.—Henry R. Carse, president*

	Salary	Extra compen- sation	Commis- sion	Expenses	Dividends	Total
1919.....	\$30,000.00	-----	-----	\$98.00	-----	\$30,098.00
1920.....	30,000.00	-----	-----	-----	-----	30,000.00
1921.....	30,000.00	-----	-----	193.00	-----	30,193.00
1922.....	30,000.00	-----	-----	-----	-----	30,000.00
1923.....	30,000.00	-----	-----	100.80	-----	30,100.80
1924.....	30,000.00	-----	-----	1,354.00	European trip.....	31,354.00
1925.....	30,000.00	-----	-----	324.07	-----	30,324.07
1926.....	30,000.00	-----	-----	125.55	-----	30,125.55
1927.....	30,000.00	-----	-----	534.15	-----	30,534.15
1928.....	30,000.00	-----	-----	-----	-----	30,000.00
1929.....	30,000.00	-----	-----	-----	-----	30,000.00
1930.....	30,000.00	-----	-----	-----	-----	30,000.00
1931.....	30,000.00	-----	-----	-----	-----	30,000.00
1932.....	26,562.50	-----	-----	-----	-----	26,562.50
1933.....	26,250.00	-----	-----	-----	-----	26,250.00
1934 (to 8/15).....	16,406.25	-----	-----	-----	-----	16,406.25
	459,218.75	None	None	2,729.57	None.....	461,948.32

#### EXHIBIT No. 2

*Electric Boat Co.—L. Y. Spear, vice president*

	Salary	Extra compen- sation	Commis- sion	Expenses	Dividends	Total
1919.....	\$25,000.00	-----	-----	-----	-----	\$25,000.00
1920.....	25,000.00	-----	-----	-----	-----	25,000.00
1921.....	25,000.00	-----	-----	7,645.59	European trip.....	32,645.59
1922.....	25,000.00	-----	-----	3,513.62	-----	28,513.62
1923.....	25,000.00	-----	-----	999.25	-----	25,999.25
1924.....	25,000.00	-----	-----	1,031.83	-----	26,031.83
1925.....	25,000.00	-----	-----	1,579.67	-----	26,579.67
1926.....	25,000.00	-----	-----	2,900.25	-----	27,900.25
1927.....	25,000.00	-----	-----	1,269.66	-----	26,269.66
1928.....	30,000.00	-----	-----	1,831.41	-----	31,831.41
1929.....	30,000.00	-----	-----	1,446.07	-----	31,446.07
1930.....	30,000.00	-----	-----	1,888.50	-----	31,888.50
1931.....	30,000.00	-----	-----	1,436.88	-----	31,436.88
1932.....	26,562.50	-----	-----	1,182.31	-----	27,744.81
1933.....	26,250.00	-----	-----	1,125.72	-----	27,375.72
1934 (to 8/15).....	16,406.25	-----	-----	545.68	-----	16,951.93
	414,218.75	None	None	28,396.44	None.....	442,615.19

## EXHIBIT No. 3

*Electric Boat Co.—H. R. Sutphen, vice president*

	Salary	Extra compensation	Commission	Expenses	Dividends	Total
1919.....	\$12,000			\$2,402.18	European trip....	\$14,402.18
1920.....	20,000			45.28		20,045.28
1921.....	20,000			3,357.81	European trip....	23,357.81
1922.....	20,000			20.00		20,020.00
1923.....	20,000			59.53		20,059.53
1924.....	20,000			119.70		20,119.70
1925.....	20,000			146.20		20,146.20
1926.....	20,000					20,000.00
1927.....	20,000			230.00		20,230.00
1928.....	20,000					20,000.00
1929.....	20,000			70.00		20,070.00
1930.....	20,000			1,552.73	European trip....	21,552.73
1931.....	20,000			4.45		20,004.45
1932.....	20,000			193.75		20,193.75
1933.....	20,000			437.00		20,437.00
1934 (to 8/15).....	12,500					12,500.00
	304,500	None	None	8,647.63	None.....	313,147.63

## EXHIBIT No. 4

*Electric Boat Co.—H. A. G. Taylor, secy.-treas.*

	Salary	Extra compensation	Commission	Expenses	Dividends	Total
1919.....	\$5,900.00					\$5,900.00
1920.....	4,900.00			\$3,035.46	European trip....	7,935.46
1921.....	4,900.00					4,900.00
1922.....	5,500.00					5,500.00
1923.....	6,500.00					6,500.00
1924.....	7,166.64					7,166.64
1925.....	7,500.00					7,500.00
1926.....	7,500.00					7,500.00
1927.....	7,500.00					7,500.00
1928.....	7,500.00					7,500.00
1929.....	7,500.00					7,500.00
1930.....	7,500.00					7,500.00
1931.....	7,500.00					7,500.00
1932.....	7,041.66					7,041.66
1933.....	7,000.00					7,000.00
1934 (to 8/15).....	4,374.90					4,374.90
	105,783.20	None	None	3,035.46	None.....	108,818.66

## EXHIBIT No. 5

*Electric Boat Co.—G. C. Davison, vice president*

	Salary	Extra compensation	Commission	Expenses	Dividends	Total
1919.....	\$20,000.00			\$285.24		\$20,285.24
1920.....	17,500.00			397.23		17,897.23
1921.....	10,000.00			78.64		10,078.64
1922 (resigned).....	3,333.32					3,333.32
1923.....						
1924.....						
1925.....						
1926.....						
1927.....						
1928.....						
1929.....						
1930.....						
1931.....						
1932.....						
1933.....						
1934.....						
	50,833.32	None	None	761.11	None	51,594.43



## EXHIBIT No. 6

*Electric Boat Co.—Washington office expense*

	Salary, C. S. McNeir	Salary, S. J. Joyner	Salaries, clerical	Rent	Office expense	Travel- ing ex- pense	Ex- penses, motor- boat used for demon- stration	Resi- dential expense	Total
1919.....	\$4,800.00		\$1,200.00	\$804.00	\$563.25				\$7,367.25
1920.....	4,800.00		1,200.00	876.00	441.14				7,317.14
1921.....	4,800.00		1,200.00	930.00	519.02				7,449.02
1922.....	4,800.00		1,200.00	1,092.00	813.23				7,905.23
1923.....	4,800.00		1,200.00	1,092.00	513.12				7,605.12
1924.....	4,800.00		1,200.00	1,092.00	814.48				7,906.48
1925.....	5,113.33		1,305.00	1,092.00	870.95				8,381.23
1926.....	5,833.33		1,560.00	1,092.00	660.76				9,146.00
1927.....	6,000.00	\$750.00	1,600.00	1,092.00	491.50				9,993.50
1928.....		18,000.00	1,600.00	1,092.00	1,962.67	\$4,714.17	\$3,644.43	\$6,000.00	37,073.27
1929.....		18,000.00	1,605.00	1,092.00	2,017.86	6,241.66	2,109.97	6,000.00	37,066.49
1930.....		18,000.00	1,958.34	1,092.00	3,405.20	2,867.49	4,628.59	6,000.00	37,951.62
1931.....		18,000.00	1,281.59	2,092.00	2,572.40	874.80		6,000.00	30,820.79
1932.....		16,250.00	1,808.94	1,092.00	2,159.33	1,271.47		6,000.00	28,581.74
1933.....		15,000.00	1,560.00	1,092.00	2,538.52	4,342.92		6,000.00	30,533.44
1934 to 8/15.....		9,375.00	975.00	728.00	1,732.64	1,208.70		3,500.00	17,519.30
	45,746.66	113,375.00	23,573.87	16,442.00	22,076.07	21,521.21	10,382.99	39,500.00	292,617.80

## EXHIBIT No. 7

*Electric Boat Co.—Statement of contracts for naval vessels, ammunition, etc., Jan. 1, 1919, to Aug. 15, 1934*

## United States Navy Department:

July 1, 1919:

6 submarine boats, S-42 to S-47..... \$11,430,000.00  
 Changes..... 129,250.60

\$11,559,250.60

## Government of Peru:

April 11, 1924:

2 submarine boats, R-1, R-2, with  
 extras..... 2,473,100.00  
 24 mark x by 5 M. by 21".....  
 24 mark x 5 M. x 21" torpedoes..... 264,000.00  
 42" guns with mounts..... 42,000.00  
 500 rounds of 3" ammunition..... 23,400.00  
 Torpedo-testing apparatus..... 16,337.00  
 Submarine base..... 458,450.00  
 Furniture for base..... 8,700.00

3,285,987.00

## Argentine Government:

January 21, 1925:

Y guns, arbors, and cases, and depth charges..... 18,800.00

## Government of Peru:

October 13, 1926:

2 submarine boats, R-3, R-4..... 2,500,000.00

## United States Navy Department:

June 29, 1931:

August 3, 1933:

1 submarine boat, *Cuttlefish*..... 3,297,000.00  
 2 submarine boats, *Shark* and *Tarpon* @ \$2,770,000.... 5,540,000.00

## Government of Peru:

October 9, 1933:

October 25, 1933:

2 river boats with extras..... 462,840.00  
 1,200 rounds, 3", 50 cal. ammunition..... 50,000.00

512,840.00

## Government of Peru:

January 10, 1934:

1,300,000-gallon fuel tank with fittings..... 8,275.84

26,722,153.44

## EXHIBIT No. 8

*Electric Boat Co.—Statement of royalties received during calendar years as shown*

	1916 to 1921, foreign currency	1916 to 1921, dollars	1922 for- eign cur- rency	1922, dol- lars	1923, foreign currency	1923 dollars
Vickers, British.....	£516,800 18 08	2,194,480.67	None	None		
Vickers, Mitsubishi.....			None	None	(1920-1-2-3) £31,350 0 0	142,063.50
Vickers, Dutch.....			None	None		
Vickers, Australian.....			None	None		
Vickers, DeScheide.....			None	None	£235 18 0	940.33
S.E.C. Naval.....			None	None		
DeScheide.....	F1.91,433 77 0 (1917) F1.12,256 48 0 (1920) F1.2,108 57 0 (1921)	37,281.86 4,065.49 673.66				
	1924, foreign currency	1924, dollars	1925, foreign currency	1925, dollars	1926, foreign currency	1926, dollars
Vickers, British.....						
Vickers, Mitsubishi.....	£3,800 0 0	17,361.25	£3,800 0 0	18,401.50	£3,800 0 0	18,430.00
Vickers, Dutch.....			£9,600 0 0	46,488.00	£1,560 0 0	7,572.00
Vickers, Australian.....					£4,219 8 2	20,464.13
Vickers, DeScheide.....						
S.E.C. Naval.....					Pts. 6,257,936	951,206.27
DeScheide.....	F1.472,871.57	184,504.28			F1.231,502.43	92,809.79
(To October 31st)						
			1927, foreign currency	1927, dollars		
Vickers, British.....			£5,727 6 12	27,777.54		
Vickers, Mitsubishi.....						
Vickers, Dutch.....			£840 0 0	4,074.00		
Vickers, Australian.....			£8,475 19 8	31,408.51		
S. E. C. Naval.....			Pts. 421,967.25	69,624.60		
Total, 1916 thru 1927	\$3,869,637.38					\$3,869,637.38

## EXHIBIT No. 9

*Electric Boat Co.—Capt. Paul Koster*

	Salary	Extra compensation	Commis- sions	Traveling expenses, rent, taxes, clerical, office main- tenance, etc.	Dividends	Total
1919.....	\$4,000.00			\$9,955.21		\$13,955.21
1920.....	4,000.00			6,215.61		10,215.61
1921.....	4,000.00			6,038.23		10,038.23
1922.....	4,000.00			7,392.33		11,392.33
1923.....	4,000.00		\$3,522.00	4,873.80		12,395.80
1924.....	4,000.00		9,471.82	6,554.12		20,025.94
1925.....	5,000.00			8,298.18		13,298.18
1926.....	6,000.00		4,639.31	8,906.09		19,545.40
1927.....	10,000.00			4,334.04		14,334.04
1928.....	10,000.00			4,395.56		14,395.56
1929.....	10,000.00			5,049.69		15,049.69
1930.....	10,000.00			5,308.21		15,308.21
1931.....	5,833.32			878.63		6,711.95
1932.....		Paris office discontinued				
1933.....						
1934.....						
	80,833.32	None.....	17,633.13	78,200.60	None	176,667.05

## EXHIBIT No. 10

APRIL 20, 1925.

CAPT. PAUL KOSTER,

48, Av. de La Bourdonnais, Paris, France.

DEAR CAPTAIN: Your favor of the 9th instant at hand, and the United States Government had never entered into an agreement with us to pay a royalty on boats built in its arsenals, although we understand that they did pay the Lake people a royalty on one or more boats of the Lake type built in the navy yard.

We have never assented to the United States Government building our type of boat in its navy yards and have never given them a permit to cover the use of our patents, but in the contract entered into on July 17, 1917, for submarine boats 8-18 to 8-41, inclusive, and contract entered into on the 1st of July 1919 for the construction of submarine boats 8-42 to 8-47, inclusive, by this company in its own plants or the plants of subcontractors, clause 5 of the twenty-second paragraph of said contracts reads as follows:

"In addition to the payments hereinbefore stipulated, the Department will, at the time of the condition at acceptance of the vessel, pay the sum of forty thousand dollars (\$40,000) covering the use in any and all patented devices which are or may be incorporated in each vessel, its machinery, appliances, and appurtenances as specified in the eighth clause of this contract: *Provided*, That the payment of such sum shall not be held to be an acknowledgment by the United States of the validity of any specific patent right or license owned or acquired or to be owned or acquired by the contractor, nor shall it be taken to fix a maximum value of the use of any or all such patented devices in any other vessels theretofore or hereafter built for the Department by the contractor or by others."

In relation to submarines built in England, our arrangement is direct with Vickers, we never having had any negotiations direct with the British Government. The conditions of our agreement with Vickers is that on any type of submarine boat built by that firm for the account of the British Government we shall receive a certain percentage of the net profit accruing to them on such business, and during the entire period of such construction, running over 20 years, our average profit has been £28,467 per boat, and the profit of Vickers accruing on this business has been larger than our proportion.

APRIL 20, 1925.

CAPT. PAUL KOSTER,

Paris, France:

I trust this statement will fully answer the purpose you have in mind, but if it should be necessary to have a notarial affidavit in relation to the facts, kindly let me know, giving full detail as to the form that may be required, and I will give it the best of attention.

With kind regards and trusting that you are enjoying good health, I remain,

Yours very truly,

(Signed) HENRY R. CARSE,  
Pres.

## EXHIBIT No. 11

An agreement made in London on the 21st day of October, one thousand nine hundred and thirteen, between the Electric Boat Company, a company constituted according to the laws of New Jersey, in the United States of America (hereinafter called the American Company), of the one part, and Vickers, Limited, of Vickers House, Broadway, Westminster, in the County of London (hereinafter called the Vickers Company), of the other part, supplemental to an agreement (hereinafter called the main agreement) made between the same parties and dated the twelfth day of December, one thousand nine hundred and two. Whereas the parties have agreed that the main agreement should be modified in manner hereinafter appearing, now it is hereby agreed by and between the parties hereto as follows:

1. The main agreement shall, as regards clause 7, be modified, first, that the factory costs shall, instead of the fifteen percent (15%) therein mentioned, be as follows:

(1) In respect of shipbuilding and the ordinary engineering part of the work, such as is carried on at present at the shipbuilding works of the Vickers Company at Barrow, twenty percent (20%) on material and labour.

(ii) In respect to the ordinary engineering part of the work as is carried on at present at the engineering works of the Vickers Company at Barrow, 12½ percent on material and labour.

(iii) For gas-engine work carried out at the yards of the Vickers Company put into submarine boats, twenty-five percent (25%) on material and labour.

(iv) On finished material purchased not made by the Vickers Company, five percent (5%).

And secondly that in place of the present wording of the last sentence of such clause, beginning "the balance of the said moneys" to the end of the clause, the following words shall be substituted as indicated in the new arrangement come to between the parties, namely, "the balance of the said moneys shall be divided in the proportion of sixty percent (60%) to the Vickers Company and forty percent (40%) to the American Company."

2. The provisions of the clause of the main agreement except as modified by the present agreement shall apply as if restated in this agreement.

3. Should any dispute or difference arise between the parties hereto under or with regard to this agreement such difference or dispute shall be decided by arbitration in accordance with the Arbitration Act 1889, or any then subsisting statutory modification thereof.

In witness whereof the respective companies have caused their respective common seals to be affixed the day and year first above written.

The common seal of Vickers Limited was hereunto affixed in the presence of:

[SEAL]

A. T. DAWSON, *Director.*  
JOHN T. COFFIN, *Secretary.*

#### EXHIBIT No. 11-A

[Copy]

LONDON, 21st October 1913.

Messrs. VICKERS LIMITED,

*Vickers House, Broadway, Westminster, S.W.*

#### AGREEMENT OF 12TH DECEMBER 1902

DEAR SIRS: With reference to our recent negotiations regarding modification of the above agreement, the terms arrived at will, so far as regards British business, be embodied in the supplemental agreement to be signed today.

With respect to continental business, the Electric Boat Company holds that the proposed transfer of this business to Vickers Limited cannot become either practicable or legal until Vickers Limited have been given complete freedom of action in this respect by the British Admiralty. At the present time, therefore, the Electric Boat Company cannot see its way to agree to any modification of the main agreement in this respect. It, however, agrees to bind itself to a modification in the future, having for its main purpose an arrangement under which Vickers Limited can for the whole period of the above agreement deal exclusively with the continental business except in the countries where the Electric Boat Company has already granted exclusive licenses covering such business.

The Electric Boat Company will also agree to the following disposition of any profits which may be gained in the continental business conducted by the Vickers Company, viz:

1st. In the event of any boats being constructed for continental countries in the Vickers yards in Great Britain, 60% to Vickers Limited and 40% to the Electric Boat Company.

2d. In the event of such boats being constructed in any other yard in Great Britain or Ireland approved by the Electric Boat Company, 50% to Vickers Limited and 50% to the Electric Boat Company, after deducting the profits allowed to the building firm.

3rd. In case such boats are built in continental Europe, or patents or licenses thereunder are sold 50% to Vickers Limited and 50% to the Electric Boat Company.

While the Electric Boat Company considers it impracticable at the present time to enter into the new arrangement with regard to continental business, it nevertheless realizes that Vickers Limited can render important assistance to the Electric Boat Company in the conduct of the continental business of the latter. In consideration of such assistance the Electric Boat Company

is willing to waive certain of its rights in respect to priority of payment under the existing arrangement, as agreed to by Vickers Limited in their letter of August 19th, 1911. This waiver, however, will not apply to Holland, Russia, or Sweden, but would specifically apply to Spain, Portugal, Austria-Hungary, Italy, and Turkey.

The Electric Boat Company is also willing to waive this right in any other continental country for business in which no licenses have been granted by the Electric Boat Company, as soon as Vickers Limited can demonstrate, to the satisfaction of the Electric Boat Company, their ability to assist materially in securing orders for the Electric Boat Company.

The Electric Boat Company will further agree to waive this right with respect to Russian business, when, and in the event of an arrangement being made satisfactory to the Electric Boat Company, which, while respecting the rights of the Newsky Company in full, will enable Vickers Limited to participate in the Russian business.

It is, of course, understood that if and when the Electric Boat Company's continental business, or any part thereof, is transferred to Vickers Limited, the details of the working arrangements shall, when circumstances permit, be generally approved by the Electric Boat Company.

Yours faithfully,

On behalf of THE ELECTRIC BOAT COMPANY,  
(Sgd) ELECTRIC BOAT CO.,  
By ISAAO L. RICE, *President*.

We agree to the above,

VICKERS, LIMITED,  
(Sgd) A. T. DAWSON, *Director*.

#### EXHIBIT No. 11-B

[Copy]

NOVEMBER 3, 1913.

Messrs. VICKERS, LTD.,  
*Vickers House, Broadway, Westminster,  
London, S.W.*

GENTLEMEN: Although our agreement of October 21st, modifying previous agreements has of itself, in my opinion, no retroactive effect, nevertheless, I beg to take occasion to call your attention to our memorandum of August 21st, 1913, in which it is expressly stipulated as follows:

"(1) Agreement to be modified as follows for future business, but not to affect in any manner boats now building."

The agreement as drawn, however, contains a reference to factory charges which is outside of the memorandum and as to those it was my understanding with Sir Trevor Dawson that the new arrangement should go into effect as of January 1st, 1913. I would therefore request you to confirm the following:

1. That the modification as to division of profits applies only to future orders;
2. That the modification as to factory charges goes into effect as of January 1st of the present year.

Very truly yours,

(Sgd) ISAAC L. RICE.

#### EXHIBIT No. 11-C

[Copy]

VICKERS HOUSE,  
*Broadway, Westminster, London, S.W. No. 14, 1913.*

ISAAC L. RICE, Esq.,  
*President, The Elec. Boat Co.,  
New York.*

DEAR SIR: We have your letter dated the 3rd inst., with regard to the new agreement of the 21st ulto., and as requested we beg to confirm:

1. That the modification as to division of profits applies only to future orders.

2. That the modification as to factory charges is to take effect as from the 1st January of the present year.

Yours faithfully,

For VICKERS, LIMITED,  
(Sgd) A. T. DAWSON, Director.

EXHIBIT No. 12

[Strictly confidential]

ELECTRIC BOAT CO. WITH VICKERS, LTD., AGREEMENT

Agreement made in the city of New York, on the 4th day of March, one thousand nine hundred and twenty-four, between Electric Boat Company, a corporation organized and existing under the laws of the State of New Jersey, in the United States of America, and now having its principal office at no. 11 Pine St., in the Borough of Manhattan, city of New York, in the State of New York, in the United States of America, hereinafter for convenience designated as "E. B. CO.", of the one part, and Messrs. Vickers, Ltd., a corporation duly organized and existing under the laws of the British Empire and now having its principal office at Vickers House, Broadway, Westminster, in the county of London, in England, hereinafter for convenience called "Vickers", of the other part.

Witnesseth: That for and in consideration of the mutual promises, covenants, and agreements herein contained, and of the sum of one dollar, and other valuable considerations, each to the other in hand paid, the receipt whereof is hereby acknowledged.

This agreement witnesseth:

First. That from all of the covenants and agreements herein contained, as to the territory therein included, there is and shall be excluded and excepted therefrom the following territory: Spain, Japan, France, Italy, Belgium, Holland, Norway, Finland, Brazil, Argentine, and Peru and all territory colonies, and dependencies of each of said countries and of all communities and places that are subject to the government and/or suzerainty of the respective governments of the respective countries above set forth. The business of manufacturing, building, and/or selling submarines to each of the above-mentioned countries shall be and is hereby declared to be governed, managed, or controlled by a series of agreements either heretofore made and entered into or to be hereafter made and/or entered into, and Vickers hereby agrees that it will not attempt to do nor seek business in or for the aforesaid countries just mentioned, except in accordance with such special agreement as have been or may hereafter be made with E. B. Co.

Second. Under this agreement, from which the countries listed in paragraph "First" hereof are and shall be excluded, as between the parties hereto, there shall be the following division of territory, to wit:

(a) Territory reserved exclusively for Vickers; that is, Great Britain and her colonies and dependencies, including self-governing territories such as Canada, Ireland, Australia, and India.

(b) Territory reserved exclusively for E. B. Co., viz, the United States of America, the colonies and dependencies thereof, and the Republic of Cuba, and all communities and countries governed by or under the suzerainty of the United States of America.

(c) Common territory in which both parties shall be free to act; namely, all countries of the world, but eliminating therefrom all countries and territory included in any of the subdivisions set forth in paragraph "First" hereof, and the countries and territories set forth in subdivisions "a" and "b" of this paragraph "Second" of this agreement.

Third. All agreements and understanding between the parties hereto with respect to the territory included in subdivisions "a", "b", and "c" hereof be and the same hereby are terminated and they and each of them are superseded by the agreements herein contained.

Fourth. In territory "a", Vickers shall have and is hereby granted the exclusive right to manufacture submarines under E. B. Co.'s designs, and submarine patents, and also the exclusive right to sell to the Government of Great Britain, her colonies and dependencies. Vickers agrees to pay to E. B. Co. a sum that

shall be equal to three per centum of the gross contract proceeds of all submarines or machinery, appurtenances or parts thereof sold to the Government of Great Britain, her colonies and dependencies, irrespective of whether or not such submarines, or any of them, are constructed either in whole or in part to or from the designs or under the patents of E. B. Co., it being understood, however, that guns and ammunition for the submarines, and also torpedoes and mines sold with or for use on submarines, shall be excluded from such payment.

In territory "b" on all submarines that E. B. Co. shall build to or under its own designs and/or patents, or any of them, Vickers shall have no interest or claim thereon or from such business, and E. B. Co. shall have the exclusive right to manufacture submarines to and under Vickers' designs and/or Vickers' patents, or any of them, and also the exclusive right of sale of such submarines to the respective governments of the territory included in territory "b", and E. B. Co. agrees to pay to Vickers a sum that shall be equal to three per centum of the gross contract proceeds of all submarines built to or under Vickers' designs and/or patents, and also all machinery, appliances, and parts therefor, exclusive, however, of guns and ammunition therefor and torpedoes and mines sold with or for use on such submarines.

In territory "c" Vickers shall be free to make tenders for construction within Great Britain, to its own designs and submarine patents, and likewise, E. B. Co. shall be free to make tenders for the construction to its own designs and/or submarine patents, either in the United States of America, or by any licensee of E. B. Co., not domiciled in territory "c."

In territory "c" the two parties hereto shall be free to enter into competition the one with the other. Vickers agrees that it will reserve for and pay to E. B. Co. the sum that shall be equal to four and three-quarters per centum of the gross proceeds of contracts and/or orders for submarines or machinery, appliances, or parts therefor, exclusive, however, of guns and ammunition therefor and torpedoes and mines sold with or for use on such submarines, in territory "c", manufactured or built or supplied to the governments of any of the countries included in territory "c"; when such work shall be executed in Great Britain, reciprocally E. B. Co. agrees that it will reserve for and pay to Vickers the sum that shall be equal to four and three-quarters per centum of the gross proceeds of contracts and/or orders for submarines, or machinery, appliances or parts therefor, exclusive, however, of guns and ammunition therefor and torpedoes and mines sold with or for use on such submarines, in territory "c", manufactured or built or supplied to the governments of any of the countries included in territory "c", when such work shall be executed in the United States of America. Any work of the kind in this agreement provided for in territory "C" that shall be required to be done either than as in the two preceding subdivisions of this paragraph of this agreement shall be subject to special agreement between the parties to be entered into at that time.

Fifth. So far as conditions will permit, E. B. Co. will reserve for and pay to Vickers up to the same percentage last above mentioned on all such work that shall be executed for any of the countries or governments included in territory "c" by any foreign licensee of E. B. Co. not domiciled in territory "c"; E. B. Co. agrees that the minimum percentage that shall be reserved for Vickers in the circumstances last above stated shall in no case be less than three per centum of the gross proceeds on such work, without having first obtained the written approval of Vickers.

Contracts entered into and orders taken by E. B. Co. in territory "c" may, at the option of E. B. Co., be required to be executed in whole or in part by Vickers in accordance with the terms, covenants, and conditions set forth in the construction agreement entered into by the parties hereto and bearing date the fourth of March 1924.

If at any time Vickers shall desire to have contracts entered into by it or orders received by it in territory "c" executed by any foreign licensee of E. B. Co., not domiciled in territory "c", E. B. Co. will give its written assent thereto and will use its best efforts to secure advantageous terms from such foreign licensee for such construction for Vickers, it being understood and agreed that four and three-quarters per centum of the gross proceeds of such construction shall be, and hereby is, agreed to be paid by Vickers to E. B. Co.

Sixth. The above-mentioned compensation shall be due and payable by each of the parties hereto to the other under the circumstances above recited, ir-

respective of whether the submarines or the machinery, apparatus, or parts therefor are manufactured and/or sold directly by the parties hereto or by corporations or firms or persons controlled by either of the parties hereto.

Seventh. Neither of the parties hereto shall on its own initiative negotiate for the sale of plans or licenses or designs in territory "c", and if such negotiations are inaugurated with either of the parties hereto on the initiative of any government within territory "c", the other party hereto shall be promptly in writing advised thereof. No offer or tender shall be made for such plans or licenses or designs by either party without the written consent and approval of the other, which consent or approval shall extend to, include and cover the price or charge to be made, the distribution of the proceeds and other conditions of the offer.

Vickers shall promptly in writing advise E. B. Co., of any negotiations which may be opened or negotiated for the sale of plans, designs, and/or licenses in territory "a" and Vickers shall not, of its own initiative or free will, make any such sale without the written consent of E. B. Co., and the approval by the latter of the price, terms, and conditions of such sale, it being understood and agreed that unless otherwise at the time specifically agreed to, the net proceeds of such sale shall be divided and distributed between the parties hereto in the proportion of two-thirds thereof to Vickers, and remaining one-third thereof to E. B. Co.

Eighth. Vickers agrees that it will keep E. B. Co., fully informed and advised as to all negotiations, inquiries, orders, and arrangements with regard to manufactures and sales in territory "a", except when such information will be violative of secrecy obligations imposed by the purchasing government.

Each of the parties hereto agrees that it will keep the other fully advised and informed of all negotiations, inquiries, orders, and arrangements for or with regard to sales in territory "c", except when the disclosure of such information shall be violative of secrecy obligations imposed by the Government with whom such negotiations, inquiries, and arrangements have been made or are under way and/or from whom such orders shall be received.

Ninth. Technical information with respect to submarines and parts thereof shall be freely and fully exchanged between the parties hereto, subject always, however, to such secrecy obligations as may be imposed by any government.

Tenth. All proceeds and collections from past and present construction in Continental Europe shall be and is hereby declared to be for the sole account and benefit of E. B. Co., and by the execution of this agreement the heretofore existing agreement between the parties hereto, which latter has been designated as the so-called "European account", be and the same hereby is cancelled and annulled. Collections and receipts from the British Government on account of infringements of E. B. Co.'s patents either now or hereafter pending, unless otherwise specifically agreed to, shall be handled directly by E. B. Co. for the joint account of the parties hereto, and the parties hereto shall share equally in the expenses and proceeds, it being understood and agreed, however, that any collections that shall be made by the New London Ship & Engine Company, or by E. B. Co., on account of the construction of engines in Great Britain, are to be for the sole account of E. B. Co., or the New London Ship & Engine Company, as the case may be.

Eleventh. The term "Submarine patents", as used in this contract, shall be deemed and shall include all patents relating to the hulls of submarines and also to machinery, appliances, and fittings used exclusively in and/or on submarines, but shall not be deemed to include, nor shall it include any patents on types of engines, electric motors, and other machinery, apparatus, and appliances, the use of which is not confined exclusively to submarines.

Each of the parties hereto shall exercise its own discretion and judgment as to whether or not patents for submarines, or patents relating to submarines, shall be taken out and/or maintained by it in territory "a."

In territory "a", E. B. Co. shall take out and/or maintain, at its own expense, such submarine patents as it may deem proper, provided, however, that before abandoning any submarine patent in territory "a" it shall first, in writing, notify Vickers of such intention and afford Vickers reasonable opportunity to elect whether it, Vickers, will maintain, or seek to maintain the patent than in question at its, Vickers', own expense, and provided, further, that whenever E. B. Co., shall apply for new or additional submarine patents in the United States of America it shall either apply for an analogous patent



in territory "a" or alternatively advice Vickers thereof and afford Vickers opportunity to have such patent taken out and maintained at the expense of Vickers.

The above provisions with regard to the submarine patents, present or future of E. B. Co., in territory "a" shall apply reciprocally with equal force and in the same manner and to the same extent in territory "b" with respect to submarine patents present and/or future of Vickers in territory "b", and each of the parties hereto, with respect to the other, shall take such steps and have such rights with respect to Vickers submarine patents in territory "b" as are hereinabove set forth with respect to E. B. Co.'s submarine patents in territory "a."

Each of the parties hereto agrees that it will, insofar as it can, inform and keep informed the other party hereto with respect to any submarine patents or patent rights owned or that shall be owned by third parties, which it has reason to believe can be acquired, and neither party hereto shall acquire any such patents or patent rights for its sole account to the exclusion of the other party thereto, except in cases where the other party hereto in writing refused to join in the acquisition of patents or patent rights for joint account. Whenever any such patents or patent rights shall be acquired for joint account, as hereinabove provided the parties hereto shall share equally in the cost of acquisition thereof, and also in the cost of maintenance thereof, and each of the parties shall have the right to use, manufacture, and sell articles manufactured and used in accordance with such patents or patent rights so acquired for joint account. And neither party hereto shall use any such patents or patent rights acquired from third parties for the sole account of the other party hereto, except upon terms and conditions that shall in each instance be agreed upon: During the life of this agreement and for a period of three years hereafter, neither party hereto shall question, nor call into question, nor cause to be questioned, the validity of any submarine patent or patent right that is or shall be owned and/or controlled by the other party hereto.

Twelfth. Each party hereto will undertake to inform the other of any adverse action (including infringements) which may come to its notice respecting any submarine patent hereunder or referred to herein that shall be taken or threatened by any third party. The party hereto that shall own or control the patent then in question will consult with the other party hereto with respect to measures and steps to be taken to protect the same, and each party hereto will undertake to render to the other all reasonable assistance in the protection of its submarine patents, it being, however, understood and agreed that neither party is to be obligated by this agreement to incur out-of-pocket expenses in connection therewith.

Thirteenth. Nothing in this contract shall be construed as affecting and/or involving patents or patent rights of either of the parties hereto on guns and ammunition therefor, and torpedoes and mines, it being understood and agreed that the use by either of the parties hereto of any such patents or patent rights belonging to the other, whether in connection with submarines or not, shall be the subject of a special agreement at the time upon terms then to be agreed upon.

Fourteenth. This contract and the provisions thereof shall commence on the day of the date hereof and shall continue in full force and effect to and including the 31st day of December 1937, and the terms and provisions thereof shall automatically continue and be renewed and extended from year to year thereafter (each such annual continuation to run for a full calendar year), until either of the parties hereto shall give to the other party hereto not less than one year's notice in writing of its election that this contract shall terminate at the end of such calendar year as shall follow the date of the giving of such notice. Such notice may be given by serving the same either personally upon one of the executive officers of the party intended to be notified, or such notice may be sent by registered mail addressed to the party intended to be notified, at the last known post-office address of its principal office.

Fifteenth. Settlements hereunder and payments by each of the respective parties hereto to the other shall be made quarter annually, and accounts adjusted quarter annually, the first adjustment to be made hereunder to be made on and of the first day of June 1924.

Sixteenth. Each of the parties hereto shall keep complete records, details, and accounts of all transactions had hereunder connected with and/or growing out of any of the provisions hereof, and the records, books, and accounts as

each of the parties hereto with respect to the several and respective transactions herein set forth shall be open to the inspection of the respective parties hereto at the place where such books and records are kept by the respective parties hereto and/or the thereunto duly designated and authorized agents and representatives of the respective parties, and extracts and excerpts may be taken therefrom. The several amounts that shall respectively become due and payable to the respective parties hereto shall, with each quarter-annual settlement include all sums so received by the respective parties hereto upon which compensation shall up to that time have been received by the accounting party, and the compensation herein provided for shall be paid thereon with each such quarter annual settlement.

Seventeenth. Each submarine manufactured by Vickers in territory "a" under this agreement, shall be marked with a correct description and a running number and shall bear a description showing that Vickers are the builders and shall also bear the name of E.B.Co., unless the government authority or other party to such contract shall object thereto.

Eighteenth. Except insofar as is otherwise herein expressly provided by this agreement, the capital and property of each of the parties hereto shall remain entirely separate, independent, and distinct and the respective results and profits of their respective accounts and for their respective benefits, it being agreed and declared that as regards submarines to be manufactured under this agreement there is and will be no partnership between the parties hereto, but simply a working agreement with regard to the manufacture and disposal of submarines and only to the extent expressly provided by this agreement, and neither party shall be responsible for the acts or defaults of the other, or liable for any losses incurred by such other party in relation to or in connection with or done by the other of them under this agreement, except insofar as is otherwise herein specifically provided.

Nineteenth. In the event that any dispute or difference shall arise between the parties hereto, under or with regard to this agreement or any of the provisions thereof, or the interpretation thereof, or any act be done or omitted thereunder, or any payment to be made thereunder, insofar as such dispute or difference shall arise with respect to any matter or thing growing out of any act done or omitted to be done in territory "a", such dispute or difference shall be decided by arbitration in London in accordance with the British Arbitration Act of 1889, or any then subsisting statutory amendment or modification thereof, and if any dispute or difference shall arise between the parties hereto or hereunder with respect to any of the matters or things in this paragraph set forth with respect to any matters or things arising in territories "b" and "c", then such dispute or difference shall be decided by arbitration in accordance with the Arbitration Law of the State of New York, or any then subsisting New York State statutory modification thereof, and the same shall be decided and arbitrated in the City of New York; and further, in such latter event each of the parties to such dispute or difference shall appoint an impartial arbitrator and the two so appointed shall appoint an umpire, and the decision of the two arbitrators and/or a majority of the arbitrators and umpire shall be decisive, final and conclusive between the parties, and if the parties hereto and/or the said arbitrators or umpire shall be unable to agree upon time, method, or procedure, then, such items shall be determined by then existing arbitration law of the State of New York, and if such law shall not set forth such detail, then in accordance with the practice had in arbitrations when conducted under, by or pursuant to the plan or scheme then in force by the Chamber of Commerce of the State of New York.

Twentieth. The provisions and covenants hereof shall be binding upon the respective parties hereto and the successors of each of them, but this agreement is personal to the respective parties hereto and shall not and may not be assigned nor transferred, either in whole or in part, by either of the parties hereto, without the written consent of the other first had and obtained.

In witness whereof the respective parties hereto have caused this instrument to be executed by their respective executive officers and their respective corporate seals to be hereunto affixed the day and year first above written.

In presence of:

{CORPORATE SEAL}

ELECTRIC BOAT COMPANY,  
By \_\_\_\_\_, *President.*

{CORPORATE SEAL}

VICKERS, LTD.,  
By \_\_\_\_\_  
Digitized by Google

## STATE, CITY, AND COUNTY OF NEW YORK, ss:

On this 4th day of March 1924 before me personally came Henry R. Carse to me known who being by me duly sworn, did depose and say that he resides in New Rochelle, Westchester County, State of New York; that he is the president of Electric Boat Company, the corporation described in and which executed the above instrument, and that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of directors of said corporation and that he signed his name thereto by the like order.

## KINGDOM OF GREAT BRITAIN,

*City of London, ss:*

On this — day of March 1924 before me personally came ——— to me known who being by me duly sworn, did depose and say that he resides in ———; that he is the ——— of Vickers, Ltd., the corporation described in and which executed the above instrument, and that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of directors of said corporation and that he signed his name thereto by the like order.

[Strictly confidential]

## ELECTRIC BOAT COMPANY WITH VICKERS, LTD., CONSTRUCTION AGREEMENT

Agreement made in the city of New York, on the 4th day of March, one thousand nine hundred and twenty-four, between Electric Boat Company, a corporation organized and existing under the laws of the State of New Jersey, in the United States of America, and now having its principal office at no. 11 Pine Street, in the borough of Manhattan, city of New York, in the State of New York, in the United States of America, hereinafter for convenience designated as "E.B.Co.", of the one part, and Messrs. Vickers, Ltd., a corporation duly organized and existing under the laws of the British Empire and now having its principal office at Vickers House, Broadway, Westminster, in the county of London, in England, hereinafter for convenience designated as "Vickers", of the other part.

Witnesseth: Whereas Vickers owns and operates a plant fully equipped for the economical construction of submarines, and also the machinery and parts and appliances therefor; and

Whereas E. B. Co. may, under certain conditions, desire to place orders or contracts with Vickers for the construction, either in whole or in part, of submarines or the machinery or the parts or appliances therefor:

Now, therefore, for and in consideration of the mutual promises, covenants, and agreements herein contained, and of the sum of one dollar, and other valuable considerations, each to the other in hand paid, the receipt whereof is hereby acknowledged, it is hereby agreed, and this agreement witnesseth;

First: Vickers agrees to accept and execute in accordance with the terms hereof all orders for the construction, either in whole or in part, of submarines, or the machinery therefor or the parts thereof or the appliances thereof, within the capacity of its plant, which E.B.Co. may elect to place with it hereunder.

Second: In the event that E.B.Co. shall desire to place any order with Vickers hereunder it shall first supply Vickers with such plans, specifications, and other data and information as may be necessary to enable Vickers to estimate the cost of construction. Vickers shall within thirty days thereafter submit tenders to E.B.Co. for such construction at a fixed price, it being optional with E.B.Co. to place the order at a fixed price to be mutually agreed upon, or if E.B.Co. shall so elect the work shall be done on the basis of cost as hereinafter defined plus either a fixed fee or a percentage of the defined cost.

Third: The cost shall include the following, and only the following items, viz:

(a) The net cost of material delivered at Vickers' plant, including the submarine machinery, fittings, parts, and appliances purchased in completed form ready for installation.

(b) Necessary direct expenses, such as insurance and items of like or kindred character incurred solely for the benefit or account of the work, and directly chargeable thereto.

(c) The net cost of productive labor expended directly and exclusively on the work.

(d) A fixed percentage of "c" to cover all indirect, overhead, or establishment charges of every character.

The cost of each order shall be duly credited with the fair value of all scrap or surplus material originally charged to cost, but not incorporated into the completed work.

The percentage on direct labor to be included in cost in lieu of overhead charges is fixed at fifty per centum, Vickers, however, reserving the right to alter this percentage upon due notice to E.B.Co. E.B.Co., before submitting any tender for work to be done by Vickers hereunder, shall secure confirmation of the prevailing rate from Vickers, and after being so confirmed such rate shall hold good for all orders which E.B.Co. may receive under such tender within six months from date of such confirmation.

Fourth: Should E.B.Co. elect for construction on the basis of cost, Vickers shall proceed with the work as soon as it receives the necessary information from E.B.Co., and the parties hereto shall endeavor to agree upon a fair estimate of the cost of the work to be done by Vickers. In the event of their agreement upon such estimate within four months after placing the order, the fee or compensation to be paid to Vickers, in addition to the cost as above defined, shall be twelve and one-half per centum of such agreed estimate, and if the returned and audited cost is less than the said estimate, the saving under the estimate shall be divided equally between the parties hereto, it being understood that in comparing the estimate with the audited cost, for the purpose of determining savings, the former will be adjusted to take due and proper account of the net cost of all changes in the design or quantity of the work made subsequent to the estimate and not included therein.

In the event of the parties being unable to agree within said four months on a fair estimate of the cost, Vickers shall receive as and for its fee or compensation ten percent upon the audited cost as above defined, instead of the fee or compensation above referred to of twelve and one-half percent of the agreed estimated cost.

Fifth: The cost of the work shall be distributed over job orders approved in advance by E.B.Co., and such information as may be required by E.B.Co. to enable its representatives to maintain a current check and audit of the cost account shall be supplied by Vickers, it being understood and agreed that E.B.Co. shall at all times during business hours, have access to all books, accounts, vouchers, records, etc., relating to the cost, together with the right to make copies thereof and extracts therefrom.

Sixth, Vickers shall provide, without cost, suitable office facilities for the representatives of E.B.Co., and separately for the customers' inspectors, such facilities to include space, furniture, light, heat, water, and telephone service.

Seventh, Vickers agrees to execute the work in strict accordance with the plans, specifications, instructions, and directions of E.B.Co. and shall endeavor by the exercise of due diligence to secure economical construction and prompt delivery.

Eighth, Vickers hereby guarantees that all material and work herein referred to and undertaken hereunder shall be of suitable quality and kind and in strict accordance with the plans and specifications as interpreted by the authorized representatives of E.B.Co., and/or the chief inspector for the customer, and Vickers shall replace or repair, as directed by E.B.Co., any departure from the plans and/or specifications or other defective or improper material or work that shall be discovered prior to the final acceptance of the work by the customer.

In all cases where defects are properly ascribable, to lack of due diligence on the part of Vickers, it shall bear the whole cost thereof, it being understood, however, that the ordinary risks of material and workmanship unavoidable by the exercise of due diligence on their part, shall be borne by E.B.Co., and the cost thereof shall be absorbed into the cost of the work, provided, however, that the total of such extra costs so absorbed shall not in any case exceed two percent of the total cost of the work hereunder.

Ninth, No penalty shall be exacted by E.B.Co. from Vickers on account of late delivery, unless the same shall be exacted by the customer from E.B.Co., and then only to the extent to which the delay is properly ascribable to the acts or omissions of Vickers, who hereby reserve the right to decline any order hereunder, unless the delivery term and the conditions of the same are satisfactory to Vickers.

Tenth, Payments to Vickers hereunder shall be made as may be mutually agreed upon in each case. It is, however, understood and agreed, in principle,

that from each payment that shall be received from the customer by E.B.Co., the E.B.Co. shall earmark for financing the work hereunder, a proportion equal to the proportion which the estimated cost of the work hereunder bears to the contract price, and further, that E.B.Co. shall withhold from Vickers the same proportion of any reservations that shall be withheld from E.B.Co. by the customers.

Eleventh. In the event that any dispute or difference shall arise between the parties hereto, under or with regard to this agreement, or any of the provisions thereof, or the interpretation thereof, or any set to be done or omitted thereunder, or any work to be done thereunder, or any payment to be made thereunder, or by reason thereof, such dispute or difference shall be decided by arbitration in London in accordance with the British Arbitration Act of 1889, or any then subsisting statutory amendment or modification thereof.

Twelfth: This contract and the provisions thereof shall commence on the day of the date hereof and shall continue in full force and effect to and including the 31st day of December, 1937, and the terms and provisions thereof shall automatically continue and be renewed and extended from year to year thereafter (each such annual continuation to run for a full calendar year), until either of the parties hereto shall give to the other party hereto not less than one year's notice in writing of its election that this contract shall terminate, and thereupon the contract shall terminate at the end of such calendar year as shall follow the date of the giving of such notice. Such notice may be given by serving the same either personally upon one of the executive officers of the party intended to be notified, or such notice may be sent by registered mail addressed to the party intended to be notified, at the last-known post-office address of its principal office.

Thirteenth: Except insofar as is otherwise herein expressly provided by this agreement, the capital and property of each of the parties hereto shall remain entirely separate, independent and distinct, and the respective results and profits of their respective enterprises shall remain and be and belong entirely to their respective accounts and for their respective benefits, it being agreed and declared that as regards submarines to be manufactured under this agreement there is and will be no partnership between the parties hereto, but simply a working agreement with regard to the manufacture and disposal of submarines and only to the extent expressly provided by this agreement, and neither party shall be responsible for the acts or defaults of the other, or liable for any losses incurred by such other party in relation to or in connection with or done by the other of them under this agreement, except insofar as is otherwise herein specifically provided.

Fourteenth: The provisions and covenants hereof shall be binding upon the respective parties hereto and the successors of each of them, but this agreement is personal to the respective parties hereto and shall not and may not be assigned nor transferred, either in whole or in part, by either of the parties hereto, without the written consent of the other first had and obtained.

In witness whereof the respective parties hereto have caused this instrument to be executed by their respective executive officers and their respective corporate seals to be hereunto affixed the day and year first above written.

In presence of:

ELECTRIC BOAT COMPANY,  
By \_\_\_\_\_  
President.

[CORPORATE SEAL]

VICKERS, LTD.,  
By \_\_\_\_\_

[CORPORATE SEAL]

State, City, and County of New York, ss:

On this \_\_\_\_\_ day of March 1924, before me personally came HENRY R. CARSE, to me known, who being by me duly sworn, did depose and say: That he resides in New Rochelle, Westchester County, State of New York; that he is the president of Electric Boat Company, the corporation described in and which executed the above instrument and that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of directors of said corporation and that he signed his name thereto by the like order.

KINGDOM OF GREAT BRITAIN,

*City of London, ss:*

On this            day of            1924, before me personally came            to me known, who being by me duly sworn did depose and            : That he resides in            , that he is the            of Vickers, Ltd., the corporation described in and which executed the above instrument and that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of directors of said corporation, and that he signed his name thereto by the like order.

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EXHIBIT No. 13

An agreement made in London on the eleventh day of June One thousand nine hundred and twelve between the Electric Boat Company, a company constituted according to the laws of the State of New Jersey in the United States of America, hereinafter called the "American company", of the one part, and Messrs. Whitehead and Company, Limited, of Fiume, Hungary, called the "Whitehead Company", of the other part.

Whereas the American company is the owner of certain letters patent, secrets, and designs relating to the manufacture of submarine boats and has in contemplation the perfecting or carrying out of inventions relating to submarine boats or nearly submerged boats, which latter under normal conditions of navigation are capable of having the upper part of their hulls awash but their turrets or conning towers above the water line, all of which boats are hereinafter included in the expression "Submerged boats",

Now it is hereby agreed by and between the said parties hereto as follows:

1. The American company hereby grants to the Whitehead Company for the term of twenty (20) years from the date hereof the exclusive right during the continuance of this license to manufacture submerged boats in Austria-Hungary in accordance with the said patents, secrets, and designs, or any other letters patent now or hereafter belonging to the American company or which may either directly or indirectly come under its control relating to or connected with submerged boats, all of which are hereinafter referred to as "the American company's patents" and to sell the same exclusively in Austria-Hungary, Greece, Turkey, Roumania, and Bulgaria, for the use of the respective Governments of those countries.

2. If the Whitehead Company shall, during the continuance of this agreement, manufacture any submerged boats not comprised in and covered by the American Company's patents and whether manufactured in accordance with any other letters patent or not, then the manufacture and sale of such boats shall in all respects be subject to the terms and conditions contained in this agreement as if the boats so manufactured had been manufactured under the American Company's patents.

3. The Whitehead Company shall set up any necessary apparatus for the manufacture of submerged boats as and when the same is required.

4. The American Company undertakes to pay the legal and other expenses in connection with any action which may be brought against the Whitehead Company for any infringement of any patents in construction of submerged boats and undertakes to indemnify them against any damages which may be recovered against them in any such action, and in the event of an injunction being obtained which would prevent the continuance of any construction the American Company agrees to pay one-half of the cost incurred and will be entitled to one-half of the net amount realized by the sale of the material which had entered into such construction.

5. The American Company shall at its own expense supply the Whitehead Company with such copies of complete working drawings of submerged boats comprised in or covered by the patents, secrets, and designs held by the American Company as may be necessary for the construction of any boat and shall also give all information and assistance in their power with respect to the manufacture of any boats referred to in this agreement. If any drawings are required by the American Company to be undertaken by the Whitehead Company, the same shall be prepared by the Whitehead Company at actual cost. If any material is required by the submarine department from the torpedo department of the Whitehead Company, the same shall be furnished at reasonable prices.

The following items shall be considered as business charges:

- (a) Legal charges arising under clause 18 hereinafter and in general all charges in connection with the registration of documents and stamp duties.
- (b) Insurance of boats at the most reasonable rates.
- (c) Travelling expenses of the personnel of the Whitehead Company necessitated by the construction of the boats.
- (d) Expenses of trials, including expenses of mother ship and other incidentals.
- (e) Expenses of governmental inspecting officers.
- (f) Dry-docking expenses.
- (g) Transport of boats to destination.
- (h) Salary of yard manager for submarine works.
- (i) Agents' commissions.

All business charges shall be considered as separate from and in addition to manufacturing charges provided under clause 8 hereinafter. Such business charges shall be paid from time to time in equal parts by the American Company and the Whitehead Company as they arise.

7. Any monies received by the Whitehead Company for the sale or use of patents, plans, or like disposal of partial rights shall be divided equally between the parties, it being understood that the prices and conditions in connection with such disposals shall first be mutually agreed upon by the parties.

8. All monies received during the continuation of this agreement by way of payment for the said boats referred to in this agreement shall be applied as follows, namely:

The Whitehead Company shall, in the first place, pay thereout the cost of manufacture, which shall be reckoned and taken to be the actual cost of material and labour for building the hull and the cost of machinery and other apparatus to be installed in the boat and the cost of such installation and the usual factory charges. The factory charges shall not exceed in any one year 75% (seventy-five percent) of the amount actually paid in wages for manual labour in the construction of the boats by the Whitehead Company, and in the event of it being ascertained from the accounts kept by the Whitehead Company that the percentage applicable to the construction of submerged boats for any year less than 75%, then the percentage to be charged upon the wages shall be at the lower rate as ascertained for the year, it being understood that the factory charges shall be at actual cost. The balance of the said monies shall be divided equally between the parties hereto.

9. The selling price of the boats and agents' commissions shall be fixed by agreement between the parties hereto, either in writing or by cable.

10. The Whitehead Company shall immediately advise the American Company of all enquiries and orders received for submerged boats, together with full details as to the type of the boats and prices.

11. The Whitehead Company shall keep full and detailed accounts of all receipts and payments in respect of orders for submerged boats and shall deliver to the representatives of the American Company at the Whitehead Works a weekly statement of the total amount of material supplied and wages paid and shall also give full access to the books of the Whitehead Company so far as they relate to the construction of submerged boats to any authorized agent of the American Company at all reasonable hours. Payment to the American Company shall be made immediately after acceptance of any boat under each order upon receipt by the Whitehead Company of the money due under such order. For the purpose of such payment 75% may be added to the cost of actual manual labour for factory charges, but if at the end of the year the accounts of the Whitehead Company should show that the factory charges are less than 75% on the amount actually paid for the manual labour during the course of the year, then one-half the excess of the said 75% over the actual cost shall be paid to the American Company as soon as ascertained.

12. The Whitehead Company shall manufacture all the submerged boats of the best workmanship and the best and most suitable material and with all due diligence and despatch and careful regard to any special condition imposed in each order and to the periods of delivery and other arrangements agreed upon with the Government or other party for whom the order is being executed.

13. The American Company shall at their own expense for the purpose of superintending the manufacture of submerged boats provide a resident engineer who shall have full charge of construction and the American Company shall also appoint such assistant or assistants for said engineer as in their opinion

may be required for the proper execution of the work. The Whitehead Company shall appoint a yard manager who shall carry out the instruction of the resident engineer and the Whitehead Company shall also furnish reasonable office facilities for the resident engineer and his assistants.

14. Every boat manufactured by the Whitehead Company under this agreement shall be marked with some correct description or trade mark and a running number, and shall bear an inscription showing that the Whitehead Company are the builders, and shall also bear the name of the American Company.

15. Each party hereto shall communicate to the other all patentable inventions and improvements to submerged boats which either of them shall during the continuance of this agreement invent or acquire, and shall, without any further special remuneration allow the other party to incorporate such inventions and improvements in the boats constructed by it.

Provided always that neither company shall be bound to divulge any inventions, improvements, or alterations made either entirely by or with the aid or at the suggestion of any government and communicated to either of the parties on condition that the same shall not be divulged.

16. It is further agreed that all patents relating exclusively to submerged boats, whether on inventions or improvements made or acquired by the American Company or by the Whitehead Company shall be taken out by the American Company, who shall bear the expenses of taking out and keeping up such patents; but nothing in this clause shall be construed to require the American Company to take out or keep up any patents which in their opinion are not of sufficient value to warrant the expense. In the event that any invention made by or acquired by the Whitehead Company be applicable to submerged boats but not exclusively, then in such event a patent or patents may be taken out and kept up by the Whitehead Company at their own expense and a license thereunder shall be granted to the Electric Boat Company for submerged boat purposes from the Whitehead Company. Should the Whitehead Company desire at any time to abandon a patent of this kind then before doing so it shall give an opportunity to the Electric Boat Company to keep up such patents and thereupon such patent shall be assigned to the Electric Boat Company and a license thereunder granted to the Whitehead Company.

17. It being the intention of the parties hereto that the American Company's patents shall be admitted to be valid without question so far as regards construction of submerged boats, the Whitehead Company will not at any time during the continuance of this agreement contest the validity of the patents so far as the same may be applicable to such construction as aforesaid, but this clause shall not be construed to prevent the Whitehead Company from contesting any patent of the American Company which they may use not relating to the construction of submerged boats. The Whitehead Company also agrees during the life of this agreement to refrain from manufacturing submerged boats or selling the same or offering the same for sale either directly or indirectly to or for use in all countries not expressly conceded in this agreement, although such countries, or any of them, may fail to afford patent protection to the said submerged boats either by absence of patent laws or by reason of the failure of the American Company to have obtained patents therein or through lapse of same.

18. Except insofar as is otherwise expressly provided by this agreement, the capital and property of each of the said parties shall remain entirely separate, independent, and distinct, and the respective results and profits of their respective enterprises shall remain and be and belong entirely to their respective accounts and for their respective benefits, it being expressly agreed and declared that as regards the submerged boats to be manufactured under this agreement there is and will be no partnership between the said parties hereto, but simply a working arrangement with regard to the manufacture and disposal of submerged boats, and only to the extent expressly provided by this agreement, and neither party shall be responsible for the acts or defaults of the other party.

19. Each of the parties hereto shall grant or execute or apply for or do or procure to be granted, executed, or applied for and done all documents, instruments, acts, and things requisite for giving full legal validity to this agreement or any of the provisions thereof.

20. The Whitehead Company will not assign this agreement without the previous consent in writing of the American Company.

21. Should any dispute or difference arise between the parties hereto under or with regard to this agreement, such difference or dispute shall be decided in



England according to the English Arbitration Acts, and the decision shall be final, and both parties agree not to contest the decision either in America or elsewhere.

22. If at any time during the course of this contract the Whitehead Company shall desire to discontinue the manufacture of submerged boats, then, upon six months' notice in writing to the American Company, this agreement shall terminate, and the license given hereunder shall become null and void, and the Whitehead Company shall return to the American Company all drawings, specifications, and models applicable to the manufacture of submerged boats then in their possession. The Whitehead Company shall also, as a consideration for such termination, enter into an undertaking with the American Company to cease manufacturing submerged boats of any kind until June 1932.

In witness whereof the respective parties have executed this agreement the day and year above written.

ELECTRIC BOAT CO.,  
By (Sgd.) ISAAC L. RICE, *President*,  
For WHITEHEAD & COMPANY, LIMITED,  
Aktiengesellschaft (Fiume),  
*Director*.  
(Sgd.) SAXTON W. A. NOBLE, *Director*.

#### EXHIBIT No. 14

**ELECTRIC BOAT COMPANY,**  
**AFFAIRES CONTINENTALES,**  
*Paris, 2nd August 1919.*

To the ELECTRIC BOAT COMPANY,  
*Nassau & Pine Streets, New York City.*

GENTLEMEN: Now that we are on the point of getting peace with Austria Hungary, or with what politically may be left of these countries, it undoubtedly will interest you to know that during the war two submarines have been built in Fiume. Before going further into this matter, I herewith call to your attention the agreement which we arrived at with Messrs. Whitehead & Co., on June 28th, 1913. This agreement is as follows:

FIUME, 28th June 1913.

MESSRS. THE ELECTRIC BOAT COMPANY, NEW YORK,  
CONTINENTAL AFFAIRS,  
*6 rue Marcel Renault, Paris.*

DEAR SIRS: With reference to your favour of 24th June 1913, and to that of the Electric Boat Company, New York, dated 6th June 1913, we herewith declare that in consideration of the termination and cancellation of our agreement with the Electric Boat Company, New York, dated London, 11th June 1912, we undertake to cease manufacturing submerged boats of any kind until June 1932.

It is, however, understood and agreed upon, that this undertaking shall not apply to the boats now in construction, or fitting out for Danish and Dutch Governments, nor to the Forschungsboot.

We furthermore agree not to take out any patents on submarine boats on their detailed construction from now until the end of June 1932.

Should the occasion arise, we shall communicate to you any patentable ideas concerning submarine boats during the afore-mentioned time.

Yours faithfully,

WHITEHEAD & Co., LTD.  
(Signed) S. DANKL. P.P. C. HASSENTENFEL.

Now here is what happened: The entire torpedo factory of Whitehead's had gradually been moved from Fiume to St. Polten, but when it was considered desirable to build a few submarines for the Austro-Hungarian Navy, the pieces for two boats were prepared in Linz, and these boats were mounted in Fiume under supervision of a shipyard established in Trieste, who, however, had never built anything but cargo boats, and who balled up the work in a horrible way. There had been constituted a special company to execute this program, which was called the Hungarian Submarine Company, known in daily life as the "Ubog", of which company Mr. Meisner was the director. This gentleman

was a Whitehead employee, who used to be in charge of the Administration of Messrs. Whitehead & Co., who looked after the accounts, personnel, etc., etc. This man is now dead.

Messrs. Whitehead were very active though in assisting this—what I would call—"bogus company", to execute the work, and supplied skilled workmen, and most probably the plans, etc.

The two boats that were built, were of the type of the Danish boats, and its cost over three million kroner for each boat to build. I suppose that you will consider this information as interesting as I do, because it seems to me that in time to come, when normal conditions have arrived, Messrs. Whitehead's role in this matter may be cleared up, and that it may be made to cost them a pretty penny.

The boats were as rotten as possible, and one of them has never returned from a trip they made. They were both equipped with wireless. I am going to find out all possible details about this matter, and will report again.

Please let me know what position you wish to take in the matter, as far as you can judge from the afore-going.

Yours faithfully,

KOSTER.

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EXHIBIT No. 15

JULY 12, 1921.

Capt. PAUL KOSTER,

28, Ave. De La Bourdonnais, Paris, France.

DEAR CAPTAIN: We have your letter of June 23, enclosing copy of letter which you have written to Count Hoyos under date of June 22 in regard to our claim against Whitehead.

I might say in this connection that we were recently served with a demand from the Alien Property Custodian to issue to him a new certificate for 100 shares of Electric Boat Co. in place of the 100 shares of stock now standing on our books in the name of Count Hoyos, but we declined to obey such demand on the ground that it would create an overissue of stock, and the laws of the State of New Jersey as well as the bylaws of the Electric Boat Co. prohibited the officers from issuing a greater number of shares than authorized, and required them to cancel a certificate for a like number of shares before issuing a new one.

A young relative of Count Hoyos was making inquiries here some time ago in relation to the dividends and I do not know how far he may have gone in stirring up the matter which we thought had been passed upon some time ago.

Very truly yours,

CARSE.

The Alien Property Custodian had advised us he will bring action against us to require us to cancel the stock in name of Count Hoyos and issue it to him. [Pen notation.]

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EXHIBIT No. 16

[Copy]

NAVAL CONSTRUCTION WORKS,  
BARROW IN FURNESS,  
29th January 1926.

VICKERS, LIMITED.

Strictly private.

LIEUT. L. Y. SPEAR, U.S.N.,

ELECTRIC BOAT COMPANY,

Groton, Connecticut.

MY DEAR SPEAR:

We have just tendered to Australia for two submarines, and we shall very shortly be asked to tender for a number of sister boats to our own admiralty. I think that there will be six or eight boats in this year's programmes, including the two Australians.

I have put forward a price to Australia which leaves me a bare 6% profit after keeping down the estimated cost of wages and material to the very limit, and I am writing to you to ask you if Mr. Carse would consider halving your royalty for this year's programme, including the two Australians. The contract price will be approximately £300,000 each, on which you would receive say £9,000, as per the new agreement; but I think you will agree with me that it is of such vital necessity for both the Electric Boat Co. and Vickers that we should get, if possible, all the boats of the programme, and I am prepared to recommend to Sir Trevor Dawson that for the admiralty boats we should put forward a still lower price than that quoted to Australia, if you would meet us with regard to the royalty.

For your strictly private information, I believe we shall get the two Australian boats, as our tender is one of the lowest submitted.

I feel that it is up to my company to make a bit of a sacrifice on submarine work for the next year or two, especially because of the terrible state of merchant shipbuilding and the scarcity of warship orders; and, while I feel this, I also feel that you will sympathetically consider the matter and discuss it with Mr. Carse on the lines I have suggested.

If we obtain the order for eight boats in all, you would thus get £36,000, and when I tell you that I have quoted on a 6%-profit basis to Vickers, I think you will consider this a reasonable return to the Electric Boat Co. in such a special case.

I dislike very much having to ask your company to meet us in a matter of this kind so very soon after the new agreement has been made, but times are really terrible here, and I think that if for a year or two we can obtain all the submarine building that there is about, we may be able to freeze out a lot of the wartime builders, who are relatively much more favourably situated now to compete with us than they would be if times were good, as the 3% to the E.B.Co. weighs heavily when one is putting on practically no profit for one's self, whereas in proper times we should not feel it to anything like the same extent.

I should be extremely obliged if you could let me have your reply to this matter by cable, if possible, as it might be necessary to make a slight reduction even for the Australian boats, and if it is possible to cable to me, I should be all the more grateful.

Yours sincerely,

[s] CRAVEN

#### EXHIBIT No. 17

#### *Electric Boat Co.—Payments to B. Zaharoff*

	Salary	Extra compensation	Commissions	Expenses	Dividends	Total
1919.....			\$27,995.94			\$27,995.94
1920.....			None			None
1921.....			60,215.19			60,215.19
1922.....			52,432.30			52,432.30
1923.....			74,852.11			74,852.11
1924.....			106,958.63			106,958.63
1925.....			139,293.99			139,293.99
1926.....			67,309.58			67,309.58
1927.....			33,327.44			33,327.44
1928.....			90,086.79			90,086.79
1929.....			35,744.65			35,744.65
1930.....			77,883.12			77,883.12
1931.....			None			None
1932.....			None			None
1933.....			None			None
1934.....			None			None
	None	None	766,099.74	None	None	766,099.74

## EXHIBIT No. 18

[Copy]

VICKERS LIMITED,  
BARROW-IN-FURNESS,  
7th October, 1927.

Absolutely personal & confidential

L. Y. SPEAR, Esq.,

MESSRS. ELECTRIC BOAT COMPANY,  
Groton, Conn., U.S.A.

MY DEAR SPEAR: By the time this letter reaches you it is possible that we may have come to an arrangement with Armstrong's whereby a new company is formed to take over the shipbuilding & armament sides of Vickers and Armstrong's. This opens up an interesting question regarding our agreement with you, and it would be necessary to have a discussion when next we meet. In the meantime, however, we have just received an enquiry for one, two, or three boats for the Admiralty. Armstrong Whitworth's have also received a similar enquiry. My present feeling is that we should quote for one, two, or three from Armstrong's, who have agreed to put in whatever price I tell them, and that we should also quote for one, two, or three boats from Barrow. I would keep the Armstrong price very slightly above ours, the idea being that whatever boats were ordered from either party would be built at Barrow, so effecting considerable economies. I also think that perhaps it would be worth while putting forward a tender for six boats, the total number to be built. I have had a word with the director of contracts at the Admiralty, who is a friend of mine, and who would like this. He, I know, tried to get us the order for all five submarines last year.

Whatever happens, will you give me authority to make the same reduction in your royalty as we did last year. According to my pocketbook we reserved for you £9,000 for one, £7,200 for each of two, £5,600 for each of three, £4,375 for each of four, and £3,600 for each of five, and I suggest to you that we should put in £3,200 for each of six.

I do not know if I have made the matter as clear to you as I should. At the moment the two firms are not combining in any way and, therefore, if negotiations break down, Armstrong Whitworth's will, of course, be free from us, but the tenders have not to be in until the middle of November, so we should certainly know one way or the other before then. Needless to say, we do not want anything to come out about the proposed fusion until it is all clear, and I am just sending you this letter so that you can think over the situation.

I have not yet procured a definite list of the firms who have been asked to tender this time, but I am told the same lot are in, I am genuinely afraid this time of Cammell Laird's, as their managing director told me some months ago that he really must get into the submarine business. He very nearly did last time, and it was only by a margin of £2,000 that we managed to collar the three boats.

By the way, Sim, the secretary of Vickers, and who was put on the board yesterday, is leaving in the "Mauretania" on Saturday to see Sheridan and Roberts. I do not suppose he will be getting in touch with you, but if you happen to meet him I know you will be kind to him. He is a very good chap and used to be in the Indian civil service but knows practically nothing about our submarine negotiations.

All good wishes to Mrs. Spear and yourself,

Yours sincerely,

C. W. CRAVEN.

## EXHIBIT No. 19

30th NOVEMBER 1927.

Strictly private.

L. Y. SPEAR, Esq.,

MESSRS. THE ELECTRIC BOAT CO.,  
Groton, Conn., U.S.A.

MY DEAR SPEAR: Thank you very much for your letter of the 18th November, confirming the cables that passed between us the same day, regarding royalties. Of course, there were further cables between us which no doubt you will be confirming in the usual way.

I have been able to obtain the enclosed information from an absolutely reliable but very secret source. The only three tenders receiving serious consideration are Vickers', Beardmore's, and Cammell Laird's, and we were the only firm who tendered for more than three boats.

The attached statement shows the state of affairs in the order of cheapness from the Government's point of view. The hitch in the enclosed is that Beardmore's are most unpopular, owing to their bad progress and financial condition, and I do not think for one moment that they will receive three boats. I do know that one of the important Admiralty departments is recommending that Vickers should have four and Cammell Laird's two, and it would therefore appear that we stand a good chance of at any rate three or four boats, because if Beardmore's are to have three, then we should go in for three. If Beardmore's get two, we should go in for three. If Beardmore's are to have one, we again go in for three. If, however, it is decided that Beardmore's are to have none, the cheapest thing for the Admiralty would be to give Vickers four and Cammell Laird's two.

When you are next over here I will show you my estimate, but you can take it from me now that I knew there was going to be keen competition; and I cut my price to under 5% profit, because I felt that with your support it was up to me to get the work and starve out competitors for another year or two. For your private information, I was in a position to look after Armstrong's and keep them out of the picture on this occasion.

You will understand that the figures in the enclosed statement do not include what we call "Separately priced auxiliaries" nor any parts supplied to us by the Admiralty. They just cover for that part which is strictly competitive.

I will wire you when I know how we stand, but it will not be before January at any rate.

If you would not mind deferring the whole question of our relations under the new arrangement for a little while, I should be pleased, because I have such a lot to deal with at the moment, and I really do not know my own position in the new organization. However, the enclosed cutting regarding the meetings will give you the main points in the business, and you will appreciate from this that the new company is very much controlled by Vickers. I am trying to arrange things so that with the admiralty we count as two shipyards and can therefore put forward two tenders, but this, of course, will be rather difficult.

I think perhaps later on it will be very desirable for you to come over here so that we can square up all outstanding points which may arise in connection with the new company.

Yours sincerely,

(S.) C. W. CRAVEN.

P.S. You will notice in the enclosed report of the meeting that Armstrong's had to make a terrible fuss about the Merchant Shipyard, etc., which they are retaining, and which will continue to be operated by the old company quite apart from the new amalgamation. This, it will be obvious to you, is for the benefit of their debenture and shareholders. For your own private information, the only works they are retaining are the ones we refuse to have anything to do with.

C. W. C.

#### EXHIBIT No. 20

[Copy]

NAVAL CONSTRUCTION WORKS,  
BARROW-IN-FURNESS,  
10th September, 1930.

Private.

L. Y. SPEAR, Esq.,

Messrs. Electric Boat Company,

Groton, Conn., U.S.A.

MY DEAR SPEAR: Just a line to let you know that we have received the order for the special vessel, after most difficult negotiations.

I still hope your company will meet me regarding the amount due to you, because there was certain action I had to take which involved expenditure, and which I am sure you would have agreed with. I cannot possibly say

any more in writing, but when the long promised visit takes place we will have a talk.

Many thanks for the good wishes from Mrs. Spear and yourself. We both send you all kind messages.

Yours sincerely,

(S) C. W. CRAVEN.

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EXHIBIT No. 21

VICKERS-ARMSTRONGS, LIMITED,  
NAVAL CONSTRUCTION WORKS,  
*Barrow-in-Furness, 30th July, 1932.*

H. R. CARSE, Esq.,  
The ELECTRIC BOAT COMPANY,  
*40 Wall Street, New York.*

MY DEAR MR. CARSE:

Very many thanks for your telegram which, being decoded, reads as follows: "Referring to your telegram of the 25th and to your letter of the 18th ultimo, the directors will accept £10,000 settlement of 'Thames', 'Porpoise' 'S' engines, also agree to £7,500 'Thames', £3,000 'S' boat your tender(s). Stop. We cannot now decide about possible business next March."

First may I suggest that even in code it is better not to mention any names of ships, as I am rather afraid that such telegrams might get into the hands of our clients, and it would be awkward if they asked me about our agreement with you. I am sure you will appreciate what I mean.

I note that you cannot quite accept the offer I made. However, I am grateful to you for meeting me so far, and I enclose herewith a cheque for £10,000 in final settlement of the "Thames", the "Porpoise", and the "S" class engines. In accordance with your telegram I will cover you for £7,500 for one "G" (repeat "Thames") class of Violescent, and £3,000 for one "S" class.

I note that you do not want to commit yourself for the tenders due in March. I can quite understand your point of view, but the reason I was anxious to arrange for both programmes now is that it might be possible at the very last minute I may think it prudent to make an offer to our clients for the second one of each class which I know they intend ordering in March, but for which they cannot issue enquiries at present. Obviously I could offer them a certain "bait" in price. I do not want you to think that I have made up my mind at this moment to do this, but things are extremely "tricky" just now, and it is just possible that I might think such an idea desirable. If, on thinking further over the matter, you feel justified in repeating the offer for the second programme, would you very kindly send me a telegram? If you do not feel so justified, I shall quite understand, but, as I say, it might help me if you were to agree to my proposal. I can assure you I shall be very disappointed if I am not in a position to send you a further cheque within the next few weeks.

With every good wish to you all,

Yours sincerely,

C. W. CRAVEN.

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EXHIBIT No. 22

[Strictly private]

NAVAL CONSTRUCTION WORKS,  
*Barrow-in-Furness, 30th October, 1932.*

HENRY R. CARSE, Esq.,  
*President, Electric Boat Company,*  
*40 Wall Street, New York.*

DEAR MR. CARSE: Very many thanks for your telegram reading as follows: "Referring to your letter of the 17th Inst., we (I) accept your proposal."

I arrived back from Madrid yesterday and at once called at the admiralty. While I have been away, a good deal of technical information has been made available for my people, so I hope in a week or so to be able to requote. As a matter of fact, I should probably have quoted sooner but the director of con-

tracts is away and I want to hand my figures in to him personally. I think the position will turn out as follows:

(1) We shall receive a firm contract for one submarine about the third week in November.

(2) At the same time we shall receive a letter telling us that the admiralty accept our price for the second submarine on the distinct understanding that if any circumstances arise between now and say March 1933 they can have the right to cancel the second one without any payment.

All that you and I gain by the transaction will be that we shall know that if the ship is built Vickers will get the order. If, on the other hand, Geneva or some other fancy convention decide that large submarines have to be abolished, no definite contract will be placed and the admiralty can retire gracefully without having to pay us anything. I cannot, of course, commence spending any money until say March, but, at any rate, our competitors will not receive the enquiry.

I much appreciate the prompt way you have met my request and all I can do now is to hope that we shall both have good fortune.

I had a very interesting visit to Spain. It was chiefly in connection with a large sum of money owing to my company by the sociedad. The political situation in Spain seems very confused but there seems a considerable prospect of our friends receiving orders for small craft on the pretext that they are purely defensive.

With all good wishes.

Yours very sincerely,

(S.) C. W. CRAVEN.

EXHIBIT No. 23

[Confidential]

NAVAL CONSTRUCTION WORKS,  
*Barrow-in-Furness, 6th January, 1933.*

HENRY R. CARSE, Esq.,

ELECTRIC BOAT COMPANY,  
40 Wall Street, New York.

MY DEAR MR. CARSE: You will be glad to know that I have now received a letter from the admiralty, saying that the contract for the H.M.S. *Severn* (the *Thames* repeat) will be placed with us, and I expect to receive it within a few days time. Immediately I do, I will credit your account here with the sum of £7,500 and send you a cable.

At the same time, the admiralty also promise us the order for H.M.S. *Clyde* (another repeat of the *Thames*), but in this latter case they will not give us a contract until after the end of March. In other words, they will have the right to withdraw their promised order for the second ship if Geneva or any other troublesome organization upsets the large submarine. In view of this, I am not saying anything publicly about the *Clyde*, and I would suggest that it would be wise that Spear should not let the information get into the hands of your Navy Department until after I can tell you that we really have a proper contract. Cammell Lairds will get the two small S boats. On the whole, I am very pleased, because it is impossible in these days of starvation of ship-building to get all the submarine orders.

With every good wish for 1933.

Yours very sincerely,

(S.) CHARLES W. CRAVEN.

EXHIBIT No. 23-A

[Copy]

A meeting was held in London in June 1912 at which an agreement, dated 18th June 1912, was drawn up between the Electric Boat Company of New York and the Sociedad Espanola de Construccion Naval of Madrid. At this meeting there were present Mr. Albert Vickers, chairman of Messrs. Vickers, Limited, and vice president of the Sociedad Espanola de Construccion Naval; Mr. Isaac L. Rice, now deceased, but at the time of the meeting president of

the Electric Boat Company, New York; Mr. Basil Zaharoff, director of the Sociedad Espanola de Construcción Naval.

Clause 9 of the above agreement reads as follows:

"For the purpose of maintaining the American Company's business in Europe it is agreed that 5% of the selling price of each boat shall be paid by the Spanish Company to the American Company and that these payments will be made pro rata as and when the money is received by the Spanish Company under the order for such boat or boats."

As to the applications that had to be given to the amount representing the said 5% of the selling price of each boat and how it was to be dealt with, it was decided and agreed by the three above-named gentlemen that these commissions be paid to and distributed by Mr. Basil Zaharoff.

We, the undersigned, hereby confirm the accuracy of the above statement.

(Sgd.) ALBERT VICKERS.

(Sgd.) BASIL ZAHAROFF.

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("Exhibit No. 24" appears in text on p. 37.)

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#### EXHIBIT No. 25

11th September 1923.

DEAR MR. CARSE:

Your letter of the 30th ultimo gives me great pleasure, because it brings me in direct communication with you, which has been my desire for some considerable time, but I did not care to impose myself upon your notice.

What you say about Mr. Spear being the acknowledged authority on submarine boats is not new to me, for I had indeed the pleasure of knowing him personally, you made his acquaintance, and it has always been a pleasure to me to be associated with him, and, to use an American expression, "he knows his job", besides which he is very pleasant to deal with, and, from a business point of view, he certainly grasps matters intelligently.

I quite agree with you that the era of submarine boats is now opening all over the world, and I trust it will bring much business to your company, and you may count upon my little efforts always working in your direction.

Reiterating my pleasure at making your acquaintance by correspondence, and trusting that we may meet at no distant date, I am, dear Mr. Carse,

Sincerely yours,

BASIL ZAHAROFF.

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("Exhibit No. 26" appears in text on p. 46.)

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#### EXHIBIT No. 27

1ST MARCH 1925.

DEAR MR. CARSE: Mr. Daniell arrived yesterday, and handed me your pleasant letter of 11th ulto. and I have read with much pleasure your report on the state of your markets, which certainly have been excellent now for some time past.

Yours is the only country which can live on, and off itself, without relying upon other states.

I submitted my plan of operation to Mr. Daniell, which is the following, viz: On my arrival in Madrid on 12th April I convoke your representatives and those of the Constructora Naval to state their claims to me, when I will examine, cross-examine, and endeavour to fathom the exact position, and this will enable me, I hope, to give my decision during my stay in Madrid.

May I ask you to kindly present my home-age to Mrs. Carse, and with a "good morning" to your boy.

I am dear Mr. Carse,

Sincerely yours,

BASIL ZAHAROFF.



## EXHIBIT No. 28

HOTEL DE PARIS,  
MONTE CARLO, 27TH MARCH 1925.

MY DEAR MR. CARSE: The, to me, important part of your letter of 14th inst. is the enclosure from your boy, and I really cannot find words to express adequately the pleasure and satisfaction it has given me. You and I have been boys, and we know what it used to cost to write six and a half lines, and this makes me especially appreciate the letter.

As I surmise that his dear mother had something to do with its composition, may I ask you to convey to her my homage, and will you tell your little boy the great pleasure his letter gave me.

Having attended to the principal part, I now come to the rest of your letter, and reassure you that on my arrival in Madrid, two weeks from now, I will immediately deal with the differences between your goodselves and the Constructora Naval, and your Mr. Daniell is already informed of my intentions, and will meet me in Madrid.

It is good to know that Congress has passed a bill in your favour, which I hope will be very satisfactory to you, and I must congratulate Lieutenant Spear on the diplomatic way in which he has handled this matter and has obtained such a result.

You are wise not to raise the question of the infringement of your patents until you have received full satisfaction on the previous paragraph, but then you should certainly claim, and I have no doubt your claim will meet with the same good result.

I feel confident that Mr. Daniell will communicate to you the result of our meetings in Madrid and the decision, and

I am, my dear Mr. Carse,

Cordially yours,

BASIL ZAHAROFF.

## EXHIBIT No. 29

MAY 8th, 1925.

SIR BASIL ZAHAROFF,  
53 Avenue Hoche, Paris, France.

DEAR SIR BASIL: 1. Please accept my thanks for your notes of the 14th, 24th, and 28th ultimo, all relative to the Spanish business, and my congratulations upon the results which you have secured with respect to the new contract. It goes without saying that we are all pleased with the outcome and grateful to you for your successful intervention in the matter. I note that the new arrangement will not become effective until after the next Constructora Naval Board meeting, which I assume will be held before very long. In the meantime, I should like to prepare a draft of the necessary form of agreement between the Constructora Naval on the one hand and Messrs. Vickers and ourselves on the other, as well as of the necessary agreement between Messrs. Vickers and ourselves, and in order to do that I shall require to know whether or not under the new arrangement we shall continue to receive and pass to you a certain percentage of the contract price. Perhaps you will be good enough to let me know about this at your convenience.

2. Referring now to the other questions which are pending between the Constructora Naval and ourselves, Mr. Daniell, in accordance with your suggestions and advise, is refraining from any pressure about these matters and will continue to do so until he is otherwise advised by us. While it is of course unfortunate that any feeling of irritation should have arisen in any quarter, it seems to me, after all, not very surprising in view of the radical psychological difference between the Spanish and American minds, which, so far as I have been able to observe, are very apt to draw diametrically opposite conclusions from a given set of facts. While we are on the subject, I cannot refrain from saying, for your personal information, that our policy has always been to try to make due allowance for this difference in outlook and that in consequence we have been much more conciliatory than we would have been had we been dealing with an American or British firm; consequently, we are the more concerned over the fact that any of the Constructora officials feel that they have any just grievance against us. As you are in a position to keep your finger on the pulse perhaps you will be good enough to let me know when you think the time has come for us to take any further action which, in the absence of your personal intervention, might perhaps best first take the form of a purely personal discussion between Colonel Fuster and myself.

3. Mrs. Spear joins me in kindest regards to the Duchess and yourself, to which I wish to add my renewed thanks for your very effective action about the new contract and your continued interest in the Spanish situation.

Very sincerely yours,

L. Y. SPEAR.

(Exhibit No. 30 is a list of stockholders in the Electric Boat Co. and is on file with the committee.)

#### EXHIBIT No. 31

[Copy]

CARLTON HOTEL,  
Pall Mall, London, 19th May 1925.

MY DEAR SPEAR: I am in London until the end of this month, and am naturally discussing the Spanish question with Messrs. Vickers, and I have just received your valuable lines of 8th instant, which I have read carefully and with interest.

I deserve no thanks for what I have done, because I am bound to attend to the interests of my firm of Vickers, and of my friends, the Electric Boat Company, in both of which I am a shareholder.

Regarding the questions still pending between the Electric Boat Company and the Constructora Naval, I believe there will be no harm whatever in Mr. Daniell opening the question shortly after the general meeting of the Constructora Naval, which will confirm the arrangement between you, and concerning this arrangement, you will of course continue to receive and pass to me a certain percentage of the contract price.

I quite agree with all you say re the difference of what you call "diametrically opposite conclusions from a given set of facts", and this is natural when one considers the difference of mentalities of you across the ocean, and our Spanish friends in the south, but I have always believed that, with a little patience and tact, even mountains of difficulties can be amicably settled, and indeed my experience of our Spanish friends is that, if we talk to them nicely instead of writing to them strongly, we always attain our object.

You are quite right in referring to the necessary agreements between your good selves, Messrs. Vickers, and the Constructora Naval, and you will do well to prepare your ideas re same, and submit them to Messrs. Vickers, and also to the Constructora Naval through your Mr. Daniell, of whom I cannot say too much in his praise.

My long experience has always made me pay great attention to any opposition, however small or insignificant, and there can be no doubt that the Germans and Italians are boiling to get the wedge end in, especially as Spain is spending money on her Navy, and the proposals they make to the Spanish Government are carefully considered by the junior Spanish naval officers, who (I tell you in the strictest confidence) are working to persuade the superior officials that the Electric Boat Company, Vickers, and the Constructora Naval, are all old-fashioned, and that the time has come for a new departure.

Our Spanish associates and I have been watching events carefully for a considerable time, and have succeeded this time in overcoming competition, but we must keep our eyes and ears open, and never relax our activities in order to overcome a competition which is daily becoming stronger.

Will you kindly present my homage to Mrs. Spear, and a little bonjour from me to Mr. and Mrs. Carse, and believe me, my dear Spear,

Always yours cordially.

(S.) BASIL ZAHAROFF.

("Exhibit No. 32" appears in text on p. 61.)

#### EXHIBIT No. 33

HOTEL DE PARIS,  
MONTE CARLO, 2nd February 1926.

DEAR MR. CARSE:

The Duchess and I were pleased to have good news of you from Mr. Albert Roberts, who was here with us for a week and is now returning home to the United States.

Mr. Roberts also spoke well of the Electric Boat Company's position, which he thinks will soon declare itself.

Will you please tell Lieut. Spear that it is not advisable for your Paris office to know *anything whatever* of your Spanish business, and will Mr. Spear give the necessary instructions on this point to your Mr. Daniell who is in Spain.

Please present my homage to Mrs. Carse, and trusting that she, you, and your nice little boy are all in the best of health, in which wish the Duchess joins me,

I am, dear Mr. Carse,

Sincerely yours,

BASIL ZAHAROFF.

EXHIBIT No. 34

14th AUGUST 1926.

DEAR MR. CARSE: I am pleased to know by your letter of 4th instant that Mrs. Carse, the heir, and your good self are in excellent health, and thank you for the complimentary remarks you made about my intervention with the Sociedad.

As a rule, when matters are allowed to slide, it becomes difficult to pick up the threads, and join them together, and I am more than happy that all pending matters between yourselves and the Sociedad have been satisfactorily settled.

I had a very important Spanish official here the week before last, and from our conversations there can be no doubt that good business will continue for you and all of us in Spain, and we need not fear Krupp nor anybody else for a long time to come.

Referring to what you say about the Argentine Government, you know of course that they have been negotiating for some considerable time with the Constructora Naval for naval and war material, in which the King of Spain himself takes a great interest, and is using all his endeavours for Argentine business to go to Spain.

I believe that the Constructora Naval has a fair—though not a big—chance, because foreign officers prefer living in Paris or London to being isolated in Spain, and consequently they generally put spokes in the wheels of the Spanish, much to the detriment of their country's interests.

Lieutenant Spear is embarking for Europe while I am dictating this letter, and you know that I will always be at his disposal, and support any valid ideas he may put forward.

Will you please present my homage to Mrs. Carse, and with a little "good morning" to your heir, I am, dear Mr. Carse,

Always cordially yours,

BASIL ZAHAROFF.

("Exhibit No. 35" appears in text on p. 67.)

EXHIBIT No. 36

12TH JULY 1927.

DEAR MR. CARSE:

I have to acknowledge receipt of your letter of 1st instant, bringing me copy of one you had written to Lieutenant Spear, both of which refer to Mr. Koster.

I am sending on these letters to Spain, with a view to alleviating the bad impression caused there through Mr. Koster's intervention, and as I have all along expressed my views regarding that person, I will not refer to him again.

I repeat that the only reason I attend to the Constructora Naval is that it is a pet child of my own creation, but if spokes are put in my wheels, I must not be expected to intervene between your company and my Spanish one.

Should you utilize Captain Aubry in Europe, I will always be at your and his disposal.

It pleases me to know that Mrs. Carse, you, and Master Carse are well, and I remain,

Always yours cordially,

BASIL ZAHAROFF.

It has just occurred to me that Monsieur Michel Clemenceau, son of the great Clemenceau, and who represents the Vickers Company on the European Continent, and also keeps in touch with all the South American naval and military commissions in Paris, might be useful to your company under my supervision.

## EXHIBIT No. 37

AUGUST 27, 1928.

DEAR SIR BASIL: I have received your esteemed favor of the 14th instant in regard to King Alfonso making the trip on one of the submarine "C" boats, and your judgment that important business is developing in Spain in connection with the building of submarine boats, which advice we very much appreciate and thank you for your kindness in sending us word.

In regard to our other business, about which I have previously written to you, while there has been no definite closing of a contract, our representative states that he has received advices from very important people in Japan that the matter has not been dropped in any way but is progressing as well as existing conditions will permit and that expectation is had of closing the contract with us in a short time. The delay in this matter has been very trying, because we have to a certain extent been holding our facilities in abeyance, but when certain situations are cleared we believe the order will be ultimately received.

As you no doubt are aware, considerable friction developed between our staff and the officials of the Navy Department in Washington some six or seven years ago, and the officials endeavored in every way to make it as difficult for the company as possible. I am glad to say that we have apparently eliminated that animosity, and I have reason to believe that the design of the Department at Washington of submarines has proven unsuccessful. At present our relations are such that we have been invited to present our idea of the proper type and design of submarine to be built by the United States Navy Department, and the plans and specifications we have submitted have been approved and accepted, and the expectation is that we will in the future divide with the Navy Department the building of submarine boats for this Government.

I am very frank to say that the business done with our Government officials has never been of a satisfactory nature, quite different indeed from the result of our work here and abroad for other nations, but is necessary for our prestige that we build boats for this Government, and therefore we must manage to get along with the excessive supervision and interference.

In connection with the work done for this Government during the war period, we received instructions from the Department to increase the wages of the workmen, with the written agreement and promise that we would be reimbursed for such expenditures.

They did reimburse us in part on account, for which we deposited United States bonds as security, pending an accounting, but later the Department endeavored to repudiate the obligation on the ground that the Secretary of the Navy had no authority to make such an agreement and promise with the contractors. We were obliged to take our case to the Court of Claims, and that court and the Supreme Court of the United States held last year that the Secretary of the Navy had such authority and that the Government had received value for the payment of such increase in wages. On this basis we had confidently expected a decision in our case early this year but, because of vacancies in the Court and the retirement of the Chief Justice for age he declined to give consideration to the large cases, so that upon the appointment of two new members of the Court the old members of the Court remanded our case for reargument on October 9th of this year. This delay is inexcusable, placing the burden on us of carrying this load for an additional time, but our counsel confidently expects a judgment for about four million dollars from the Court, because the Supreme Court has already ruled upon the principles involved in the case.

Our claim against Germany for infringement of our patents on submarine boats built by them during the war has reached the final chapter, we having filed our final brief, to which the Germans promised to put in their reply during this month, to which if we desire we can answer any new matter they may bring up, so that it appears as though this matter would also be decided within a short time and we should receive a substantial sum on account.

I have given you this resume for the reason that I believe you have an interest in the stock of the company and I trust that it has not been without interest to you.

Mrs. Carse and the boy have been very well and send their deep respect and trust that you also have enjoyed the very best of health, in which I cordially concur.

I remain,  
Yours very sincerely,

(S.) CARSE.

Sir BASIL ZAHAROFF,  
Chateau de Balincourt,  
par Arronville, S. Et. O.

## EXHIBIT No. 38

[Copy]

CHATEAU DE BALINCOURT,  
PAR ARRONVILLE S. ET O.  
11th SEPTEMBER 1927.

MY DEAR SPEAR: I have your letter of 29th August, with copy of one you have written to Colonel Fuster, and I should tell you that as the matter was getting delicate in Madrid, I rushed down there last week, and am happy to say that steps have been taken which will keep the submarine business to ourselves without any others being allowed to put their nose in it.

I am very happy about this because the matter was taking a very disagreeable turn.

I also have to acknowledge receipt of your letter of 26th August about the Argentine business, in which I much regret I cannot intervene for social reasons, and also for my personal standing in France, which obliges me to be absolutely neutral.

I am sure you will quite understand, and with my friendly homage to Mrs. Spear, I am,

Always your cordially,

/s/ BASIL ZAHAROFF.

## EXHIBIT No. 39

CHATEAU DE BALINCOURT,  
PAR ARRONVILLE, S. ET O.,  
13th September, 1927.

MY DEAR MR. CARSE: I have your letter of 1st instant, announcing the arrival in Paris of Commander Luis Aubry, and I have instructed my Paris secretariat that, should the Commander call there, they are to tell him how pleased I would be to have him come here with his wife to luncheon, and you may rest assured, my dear Carse, that we will look after them properly.

I entirely approve of what you say regarding the difficulties of obtaining business from foreign countries by your representatives in Europe, and I must frankly tell you that I have never approved of your heavy expenditure in Europe for a useless purpose, but on the contrary I believe that this rather cheapens your position, whereas, if people want to communicate with you, you can always send a special representative to meet them, in which case the expenditure would be moderate.

I will continue keeping Monsieur Michel Clemenceau in view, and we might utilize him in case of need, without our going to any expense.

You will have noticed from all my letters how very opposed I am to useless expenditure, and my more than 50 years' experience in war material has convinced me that the only successful way of treating such business is by paying commissions on work done and on payments received.

I trust that you and yours are all well, and am, my dear Mr. Carse,

Cordially yours,

BASIL ZAHAROFF.

## EXHIBIT No. 40

(Copy sent to Spear)

PARIS, November 12, 1927.

MY DEAR MR. CARSE: Thank you for your letter about Senor Luiz Aubry, who has not yet arrived at the Peruvian Legation here, but you may rest assured that if he arrives in Paris during my stay here, I will look after him properly, and show him every hospitality.

You will see by the enclosed cutting from *La Nacion* (Buenos Aires), which you may have already seen, that the prices quoted by the Italians for submarines are exceedingly low, and our friend Colonel Fuster, of the *Constructora Naval Espanola*, says that Galindez, the Peruvian representative, has written to the Spanish Minister of Marine sending him plans and details of the Italian submarine boats with their prices, and recommending them strongly as the very best in existence.

Our position in Spain is undoubtedly very good, because the Spanish Minister of Marine sent the whole package to the Constructora Naval Espanola.

English and other newspapers have been saying lately that you have obtained a very large order from Japan, and if it be true I congratulate you heartily thereon, and suppose that it will considerably improve the financial position of your company.

Please present my homage to Mrs. Carse, and with a little pat on your boy's back, I am, my dear Mr. Carse,

Cordially yours,

BASIL ZAHAROFF.

Enc.

53. Avenue Hoche.

#### EXHIBIT No. 41

#### *Electric Boat Company—Capt. Luis Aubry*

	Salary	Extra compensation	Commission	Expenses	Dividends	Total
1919.....						
1920.....				\$4,000.00		\$4,000.00
1921.....						
1922.....	\$700			3,470.00		4,170.00
1923.....	1,200			5,854.50		7,054.50
1924.....	1,200		\$32,671.45	6,133.50		40,004.95
1925.....	4,100		42,581.24	6,470.00		53,151.24
1926.....	7,200		46,174.43	930.00		54,304.43
1927.....	5,400		38,847.50	1,600.00		45,847.50
1928.....			18,720.00			18,720.00
1929.....	8,000		19,111.16	1,385.00		26,496.16
1930.....	8,000		18,731.86	1,009.02		25,740.88
1931.....	8,000		5,616.00	1,102.43		12,718.43
1932.....			1,800.00	869.40		2,669.40
1933.....			17,700.00	1,703.10		19,403.10
1934 (to 8/15).....			11,720.40	200.90		11,921.30
	37,800	None	253,674.04	34,727.85	None	326,201.89

#### EXHIBIT No. 42

NOVEMBER 23, 1927.

MY DEAR SIR BASIL: I am in receipt this morning of your letter of the 12th instant from Paris, enclosing the clipping from *La Nacion*. I also received your cablegram of the 14th instant that you were entertaining the Aubry family, which pleased me very much and I thank you for letting me know that Mr. Aubry had gotten in touch with you. I also received your note from Madrid, of October 25th, with assurance that matters in Spain were in satisfactory shape.

In relation to the article from *La Nacion*, I see that the prices mentioned are the equivalent of \$1,012,000 and \$1,060,000, while Mr. Spear in August 1926 tendered to the Argentine commission in London prices for the construction of boats, according to the specifications then submitted, of \$1,100,000 for construction in England and \$830,000 for construction at the Cockerill plant in Belgium, and the latter price was lower than the price that Galindez had then obtained from the Italians, and the price at which the matter was subsequently closed was higher. Undoubtedly you are aware, however, that Admiral Galindez' wife is the niece of Orlando of Italy, and the admiral apparently had sufficient power to overcome other influence used by Aubry at Buenos Aires. The data which our company has leads us to the conclusion that the Argentine Government will be greatly disappointed in the boats that will be delivered to them, and our Spanish friends are undoubtedly fully advised as to the deficiencies of the Italian construction.

In regard to our negotiations with Japan, I would have written you fully if there had been any definite contract. We have been working very closely on this subject for practically two years, and our representative, who has shown very clearly that his relations with Hayashi, Saito, and other leading men of Japan, are very close, advises us that he has complete assurances that the business will come to us, but during the last year, as you know, many matters have

happened in Japan to delay the closing of such negotiations. Our advices are that these different troubles are being adjusted and that the closing of the proposition with us may occur very soon. As soon as there is anything definite in relation to this matter it will give me great pleasure to cable you specifically. There have been many rumors, and our Government has endeavored to obtain details from us, and the British Government recently has been endeavoring to get information from us through our friends Vickers, but all discussions on the project under negotiation are fraught with danger and we have endeavored to keep the matter absolutely confidential, although information has undoubtedly leaked from the other end.

I thank you for your kind remembrance to Mrs. Carse and the little boy, and we all look forward to having the pleasure of meeting you again very soon,

Very sincerely yours,

(S.) CARSE.

Sir BASIL ZAHAROFF,  
Chateau de Balincourt,  
Par Arronville, S. et O., France.

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EXHIBIT No. 43

[Copy]

CHATEAU DE BALINCOURT,  
PAR ARRONVILLE, S. ET O.,  
14th August 1928.

MY DEAR MR. CARSE: Although I have no doubt that your Spanish representative has told you of the King of Spain's going down in your boat I send you herewith an extract of a letter just received from Spain, which reads as follows:

"You will be glad to know that King Alfonso had a little trip on board the submarine boat C-1 off Santander and while on her way they went to some 29 meters of depth. This is one of the latest boats we have delivered to the Navy of which type we are building six (two already delivered). The King was very satisfied with his visit to the boat and telegraphed to the Minister of Marine saying that he felt proud of having such fine boats. I am sending you by this same mail a number of the "A.B.C." and you will see a photo of the boat with King Alfonso on board."

I also send you the photograph of said submarine as published in the Madrid newspaper "A.B.C."

I feel confident about your business in Spain, and believe that still bigger things are being cooked, though matters in that country take long to materialize.

I trust that all your little family is well, and with my homage to Mrs. Carse, and a kind little word to your boy, I am,

Cordially yours,

BASIL ZAHAROFF.

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EXHIBIT No. 44

[Copy]

CHATEAU DO BOLINCOURT,  
PAR ARRONVILLE, S & O, FRANCE,  
2nd September 1928.

MY DEAR SPEAR: I have your letter of 20th ultimo, with one from Mr. Daniell, about the Spanish Navy accepting the Echevarrieta offer to import all parts of a submarine boat to be assembled at Cadiz, and should tell you that we have for years past strongly opposed all offers made to the Spanish Government, but we were advised by good naval friends not to interfere in this case, because they did not want the authorities to think that they had got into a monopoly with us re submarines.

We are advised that the clique that have been opposing our boats will now keep quiet, and the proof of this is that we are just negotiating most satisfactorily for a new lot of your submarines, and hope to conclude shortly.

You say that if any of your patents are infringed by the material to be imported into Spain, you will take steps to protect your patents, but I should tell you that

I do not know now how your Spanish or European patents stand for the following reason: When the late Mr. Rice asked me to attend to his European patents, I put the business into the hands of the Office Picard, who for many years have protected successfully all the Vickers patents, and in this way I kept my eye on your patents, and my friends—Clarke, Modet, and Company, or Madrid—very scrupulously attended to your Spanish patents.

Without informing me you took all your European patents out of the hands of the Office Picard, and to please Captain Koster you put them in other hands, over which I have had no supervision or control.

You will, of course, do well to take legal action on Spain against any infringement of your patents, and this would be a test case, as to the well-being of them.

I hope that you are always keeping well, and with my homage to Mrs. Spear, I remain,

Cordially yours,

(Signed) BASIL ZAHAROFF.

(“Exhibit No. 45” appears in text on p. 78.)

EXHIBIT No. 46

NOVEMBER 16, 1929.

MY DEAR SIR BASIL: It is some time since I have had the pleasure of corresponding with you, but I trust that your health is good and that your affairs are satisfactory to yourself.

I regret exceedingly that I have been unable to visit Europe again to see you, but the many details and uncertainties have kept me tied to my desk.

One of our friends in the Navy Department, Rear Admiral Andrew T. Long, has been nominated by President Hoover as Director of the International Hydrographic Bureau, located at Monaco, a position formerly held by the American Admiral A. P. Niblack. Admiral Long has been promised the support of a number of the countries represented in the League of Nations, and in talking over the matter with him the names of Spain and Greece have been mentioned and, without making any statements to him, it has occurred to me that it might possibly be agreeable to you to recommend to your friends in Spain and Greece, if they have no other candidate for the position, to support the nomination of Admiral Long who, you will no doubt remember, has been naval attaché at Brussels, and at Paris, and commanded the European Fleet of the American Navy, and was one of the members at the different Geneva conferences. You have probably met Admiral Long and have formed your own judgment as to his capacity and ability.

In regard to our matters, things have been progressing very slowly indeed. As to the claim against Germany for the infringement of our patents, the entire evidence and arguments were completed last June, and we had expected a decision long before this time, but we fear now, with the death of Judge Parker, the umpire, there may be further delay. It has been my intention as advised you previously, that as soon as this German claim matter is decided we would discontinue our present European office.

In Washington we have been making substantial progress. Our design of new submarine has been accepted by the Department and we are promised an order for two out of a present program of three submarine boats, but I should say in the abstract that such order could hardly be given to us pending the London conference to be held in January. As, however, it is generally conceded that no adverse action will be taken in connection with submarines at that conference, we expect to receive this order as soon as it can be properly given.

The business that we have been working on in the Far East has also been delayed by these numerous limitation conferences, but we are advised that the decision there to proceed is as definite as ever, but that also will undoubtedly have to wait until after the London meeting.

This patient waiting is certainly very trying and difficult, but we hope that ultimately things will come through and the company will be in prosperous condition and prove satisfactory to its shareholders.

It would give me great pleasure and satisfaction if it were possible for you to drop me a line as to the opinion. as you see it in Europe, in relation to the construction of submarine boats.



With kindest regards and remembrances, in which Mrs. Carse joins me, as does also the very young man who had the pleasure of seeing you in 1924, I remain,

Very sincerely yours,

HENRY R. CARSE, *President.*

Sir BASIL ZAHAROFF,  
53 Avenue Hoche, Paris, France.

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EXHIBIT No. 46-A

JANUARY 22, 1930.

MY DEAR SIR BASIL: Your letter of November 29 was duly received, and I communicated to Admiral Long that part concerning him and understand he has written to you, word coming to me that he has been promised 65 votes out of 69 necessary to elect. I appreciate and thank you for your kindly interest. Acknowledgement was deferred waiting to hear from our Mr. Joyner, and I have since received your letters of December 27 and 31; also Mr. Joyner has returned, it being considered necessary that he should be here to advise the Secretary as to what he had learned abroad before the Secretary left for London.

Mr. Joyner endeavored to see you prior to going to Augsburg, but it was not convenient to you on that day and he understood you expected to stay in Paris until the end of the year, but when he came back to Paris there was not sufficient time for him to go to Monte Carlo because of the necessity of promptly returning to the United States. I regret that he was unable to have had the pleasure, honor, and benefit of meeting you.

Mr. Joyner apparently smoothed out the differences which had grown up between M.A.N. and ourselves, caused largely by the varying opinions of the technical people.

While it has not been possible to expect contracts from the United States Navy for submarines from the time the London conference was arranged, we have been definitely promised an order for two boats and have been working on plans and specifications for months, and we are far from believing submarines will be abolished by the nations now represented in London.

Mr. Joyner reports that M.A.N. are very active in endeavoring to introduce their Diesel engines in Spain, and the trouble which has been experienced with the Vickers type of engine has greatly improved M.A.N.'s opportunity. That company has undoubtedly made substantial progress in the development of light-weight engines desirable for use in submarines. As the Vickers company is a licensee of M.A.N. they might be able to meet the situation by furnishing M.A.N. design of engines.

Although such matters are very tedious, it does seem that decision will soon be reached in our claim against the German Government for infringing our submarine patents, and as soon as that is determined we will be in a position to act in regard to our Paris office. Sir Trevor Dawson visiting us for a few days, passing through here from South America to London, and we discussed with him the matter of our European representation and I understood he intended to talk over the subject with you, and we would be very glad indeed to hear from you through him if that is your pleasure.

We separated the Submarine Boat Corporation from the Electric Boat Company in 1925, so that the receivership of the Submarine Boat Corporation does not in any way affect the Electric Boat Company, which company is the builder of submarine boats and Diesel engines. Submarine Boat Corporation had only the fleet of steel cargo vessels, some barges and tugs used on the New York State Canal and the interest in the terminal property at Newark, and the operations of the cargo vessels had been at a loss for some time.

It is very kind of you to remember our boy, who is now about 12, but his studies are still elemental and his mother's chief concern is to keep him in good health as a foundation for his future. Mrs. Carse joins me in sincere wishes for good health, and with kindest regards remain,

Very sincerely,

(S) CARSE.

Sir BASIL ZAHAROFF,  
Monte-Carlo, Hotel de Paris.

## EXHIBIT No. 47

[Copy]

20TH SEPTEMBER 1930.

MY DEAR SPEAR: I am always pleased to hear from you, and now beg to acknowledge receipt of your letter of 8th instant about the Cartagena 1,000-ton boat, and as you say the details of same are en route addressed to you, you will have the whole matter before you for consideration.

I quite agree with you that everything should and must be done to keep out the Germans, French, and Italians, and with your tact and that of Colonel Fuster and Cervera, I believe that the matter will be quietly piloted our way.

The Spanish officers, like many others, endeavor naturally to show that they are inventing, and we should always seem to encourage such ideas while we are sticking to real safety.

My homage please to Mrs. Spear, and I remain,

Always yours cordially,

(S.) BASIL ZAHAROFF.

## EXHIBIT No. 48

11TH AUGUST, 1930.

MY DEAR SPEAR: I have your letter of 28th July, and cannot understand how it is that Madrid or London, or both, did not keep you, the principal interested party, regularly informed of the Spanish Government's ideas, but since you have telegraphed for this information, I have no doubt it is now well enroute to reach you.

You know that the Germans are using every imaginable trick to get a footing in Spain, also the Italians and French, but we are keeping our vigilant eye open, yet they may one day get hold of an interested official, and thus cause us much trouble.

I trust you are keeping well, and that we may see you here with Mrs. Spear shortly, to whom kindly present my homage, and believe me, my dear Spear,

Always cordially yours,

BASIL ZAHAROFF.

## EXHIBIT No. 49

PARIS, October 25. 1930.

MY DEAR SPEAR: Your letter of 15th instant just received clearly indicates that you do not approve or recommend the ideas of certain members of the Spanish Submarine Commission, which you do not consider absolutely safe, and I quite approve of your independent view.

Your object in making money is to make it safely, and to encourage your customers to return to you, and if you accept every proposal, your reputation runs risks.

In my opinion, Spain—and I know Spain very well—is the richest country in Europe, exporting more than \$50,000,000 of oranges and lemons; the largest copper-producing country in Europe; the largest lead and silver producer and certainly the largest good iron-ore producer in the world.

The peseta has suffered through the speculation of the Spaniards themselves, without any Government supervision, and the simple idea of attending properly to their finances has already made the peseta gain five points.

In order to improve the value of the peseta the Spanish Government may think it advisable to issue loans abroad, and in all probability the United States may participate, though it would not be necessary for the money to be spent in your country, and indeed the business you could offer would be very small indeed.

It is very long time since I have seen Mrs. Spear and yourself, and I trust you are both well. I had the pleasure of entertaining here Mr. Sutphen, with some directors of General Motors.

Believe me, my dear Mr. Spear,

Cordially yours,

ZEDZED.

## EXHIBIT No. 50

Nov. 22, 1930.

Sir BASIL ZAHAROFF,  
53, Avenue Hoche, Paris, France

DEAR SIR BASIL: I trust that you received our Radiogram sent from the "Majestic" inquiring about your health, as Mr. and Mrs. Kettering, Mr. Codrington, and myself were distressed to learn of your illness when we left Paris.

Knowing of your interest in the Chase National Bank, upon my return I called upon Mr. Wiggin and told him of the very pleasant visit I had with you in Paris, and he was very sorry to learn of your illness. During the conversation, he mentioned a book that has recently been published entitled "They Told Barron", which he was then reading and in which your name, as well as his, is referred to. I am forwarding you under separate cover a copy of this book, which I trust you will find of interest.

I had a very interesting trip, Messrs. Kettering and Codrington accompanying me, stopping first at the Sulzer plant at Winterthur, where they were very busy but found a falling-off of new orders. As you know, they have a company in France which builds engines for French submarine boats, and they seem to be very proud of the results the French Government has obtained from their engines, recent boats having been equipped with two engines of 4,500 H.P. each, giving a speed of 22 knots. They intimated that they were about to build engines up to 6,000 H.P. for French submarine service.

We visited the M.A.N. works at Augsburg, and all of us were very much impressed with the new development shown us in Diesel engine design and construction. In fact, it is the most advanced in Europe.

Our Navy Department has shown great interest in the latest M.A.N. Diesel engine developments and has requested us to supply these engines in the new submarines which we expect to build for our Government and, as I found so many things of interest at Augsburg, I remained there ten days, while Messrs. Kettering and Codrington continued on to Kiel, Essen, and Berlin.

I was finally shown at the M.A.N. works all their latest improvements, and one of the greatest advances they have made has been in reducing the weight of the engines and increasing their revolutions, so that one of the 10,000-ton cruisers now building by Germany will be equipped with eight 7,000 H.P., total (56,000 H.P.?) M.A.N., double acting, two-cycle, Diesel engines.

In building a cruiser with these light-weight engines the Germans are confident that these cruisers will be superior to all other types in armament and radius of action and, as you know all other Naval Powers are watching the experiment very closely.

All the foregoing is generally known, but it was at the end of my visit when they took me into their confidence and showed me a new engine design for the French Government to be used in cruisers, each Diesel engine developing 34,000 H.P., four engines to a ship, totalling 96,000 H.P. I was informed that the design was well advanced and that before building a complete engine they would build one of three cylinders, developing 6,000 H.P., to test out the design in every particular.

In reference to airplane engines, I saw on test a 660 H.P., double-acting, two-cycle, Diesel engine weighing 2.1 pounds per H.P., and in the drafting room a design of an airplane Diesel engine which will develop 1,200 H.P. on a weight of about two pounds per H.P. Mr. Kettering, who is well informed on airplane development both here and abroad, believes that the future airplane, to be successful, will have to have at least 1,000 H.P.

In reviewing the new developments at M.A.N., it was admitted to me that the German Government had subsidized them very largely in the cost of these developments. M.A.N. shops are quite busy, running about seventy percent capacity, and to my amazement, a number of engines were being built for Russia, payments for which had so far been regularly received.

Mr. Kettering, who returned with me on the "Majestic", reported visiting Essen and seeing in operation a 15,000-ton press, largest in the world, and particularly adaptable for gun manufacture but now being used for building chemical equipment. In comparing notes with each other, we all received the same impression, that the firms we visited were busily engaged in planning new war equipment so as to be ready to supply it when called upon.

Trusting that this letter finds you in very much improved health, and thanking you again for the kindness you extended to my friends and myself when in Paris, and with kind regards, in which Mr. Carse joins me, I am,

Yours very sincerely,

HENRY R. SUTPHEN, Vice President.

"Exhibit No. 51" appears in text on p. 85.)

EXHIBIT No. 52

ELECTRIC BOAT COMPANY,  
March 24, 1920.

YOUR EXCELLENCY: Referring to the negotiations inaugurated by you with respect to the sale to your Government of the four torpedo boat destroyers which we have on hand for prompt delivery, we take pleasure in advising you as follows: While we have a number of inquiries for these vessels, we shall be glad, as an accommodation to you, to hold them at your disposal until June 1, 1920.

The price for the four vessels will be \$400,000, or \$100,000 each, in New York funds for delivery here. This price includes the overhaul and repairs now considered to be necessary to place the vessels in good running condition as per memorandum I attached hereto, and also includes the supply of equipment as per memorandum II attached hereto. The repairs contemplated and included in the price are in general based upon the survey of the United States Government. It is, however, understood that if upon the opening up of the machinery or other detailed examination, work in addition to that covered by our present proposal is found to be necessary or desirable, such additional work shall not be included in the above-quoted price, but shall be performed under a separate order on terms to be agreed upon.

The above price does not include the armament, for which we have under preparation a separate quotation.

In view of the good condition and excellent quality of these boats, we trust that the extraordinarily low price quoted will lead to an immediate and favorable consideration of this matter by your Government.

With every assurance of our desire to serve you in every possible way, we have the honor to remain,

Yours very respectfully,

ELECTRIC BOAT COMPANY,  
Vice President.

His Excellency, Signor DON FEDERICO ALFONSO PEZET,  
2131 Massachusetts Ave., Wash., D.C.

lys/am-encls.

EXHIBIT No. 53

ELECTRIC BOAT CO.,  
April 1, 1920.

FREDERICK E. CHAPIN, Esquire,  
Hibbs Building, Washington, D.C.

DEAR SIR: In accordance with the arrangements made by and through you, we have made the following quotations to the Peruvian Government:

Four torpedo boat destroyers, \$100,000 each, including overhaul and equipment as per list previously supplied you.

Armament for these destroyers, consisting of five 3" guns, three twin deck torpedo tubes, two small caliber machine guns, and one Y gun, \$130,000 per boat.

We have also supplied approximate and preliminary prices for submarines on the basis of an order for six boats, including gyroscopic compasses, but exclusive of guns, ammunition, torpedoes, submarine signals, and wireless telegraphy equipment as follows:

Design 602-S.....	\$900,000 each
" 806-E.....	1,315,000 "
" 707-D.....	1,410,000 "
" 307-H.....	2,100,000 "

Our understanding of our agreement with you is as follows: Viz, that you are to defray all selling expenses out of your commission and that your commission in the event of sales at the tendered price and under the stipulated conditions is to be as follows, viz:

On the destroyers, \$14,000 per boat.

On the armament for destroyers, \$10,000 per boat.

On the submarines, Design 602-S, 40,000 " "

" 806-E, 55,000 " "

" 707-D, 60,000 " "

" 307-H, 100,000 " "

The above commissions will be paid pro-rata as and when payments on account are received from the Peruvian Government.

We should be glad to have at your early convenience a confirmation of this arrangement.

Very truly yours,

ELECTRIC BOAT COMPANY,  
(no signature), *Vice President.*

LYS/AM

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EXHIBIT No. 54

ELECTRIC BOAT Co.,  
Groton, Conn., June 1, 1920.

Mr. H. R. CARSE,  
*President Electric Boat Co.,  
New York City.*

DEAR MR. CARSE: Mr. Chapin informs me that the Ambassador has received several communications from Commander Aubry. It appears that our submarine proposals are receiving favorable consideration but that the destroyer proposition has not made the progress expected, partly because Commander Aubry's government has been counting upon purchasing some modern oil-burning boats direct from the United States Government and partly because they are making a special point of having our boats converted to oil burners. The Ambassador is cabling the Government that the United States has definitely decided as a matter of policy not to supply anything either to them or to Chile on the score that this might be encouraging an outbreak of war between them. It is reported on good authority that the British Government is going to help the Chileans out; and if this is so or believed to be so by the other Government, it ought to influence them in favor of our proposals.

Very truly yours,

LYS/AM

(Signed) L. Y. SPEAR.

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EXHIBIT No. 55

FREDERICK E. CHAPIN,  
HIBBS BUILDING,  
725 Fifteenth Street, Washington, D.C. June 3, 1920.

DEAR LARRY: As I wrote you the other day, the Ambassador will attend the convention in Chicago, return here for a short stay, and will then leave via New Orleans to attend the convention in San Francisco. Of course, we are placing our great reliance upon the activities of Commander Aubry, supported as they will be by the Ambassador. In another letter I have mentioned the fact that Peru cannot hope to obtain the assistance of the United States in getting immediate transfer to Peru of six oil-burning destroyers. Of course, I remember most distinctly that Commander Aubry stated the change could easily be made by Peruvian workmen, or at least could be made at less expense than if made in this country. I am in some doubt as to whether the remodeling would be done inexpensively, and perhaps it would be best to rest our case as presented by Commander Aubry. I know the Ambassador is quite earnest about the whole program, and when I last saw him he said the prospect of getting submarines in this country was extremely good. As set forth in my letter of this morning Chile's acquisition of a fleet of submarine destroyers and warships has disturbed the whole autonomy of South America.

I will take up with the Japanese naval attaché the question of submarines and let you know more about it later.

I am enclosing copy of a letter which I sent yesterday to Commander Azevedo after I had talked with Mr. Carse about the activities of the Bethlehem. My conversation over the telephone with Mr. Carse was inspired by the activities of Mr. Smith, a vice president of the Bethlehem, who tried to see Commander Azevedo in New York last Thursday, and, I think, succeeded. Mr. Smith was most persistent, and called the Commander up two or three times by telephone, saying they could build submarines and that they had an agent in Rio and had they been building submarines for many years. Of course, I told Commander Azevedo that they were our subcontractors and only built the hulls and some minor parts, but everything was under the direction and supervision of the

Electric Boat Co. It would seem to me that Bethlehem is not proceeding in what I would call an ethical manner by trying to butt into our province as builders of submarine boats, and it looks to me as if there might be rather stiff competition if they pursue this course.

What progress are you making with the Navy Board on Changes? I have not heard from you relative to that matter. There is no prospect during the present session of the Britten bill going through. Therefore, we must make the most we can out of the findings of the Board.

Yours truly,

(Signed) F. E. CHAPIN.

L. Y. SPEAR, Esquire,  
Vice President Electric Boat Co.,  
Groton, Conn.

(Copy to Mr. Carse.)

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EXHIBIT No. 56

FREDERICK E. CHAPIN,  
HIBBS BUILDING,  
723 Fifteenth St., Washington, D.C., June 3, 1920.

DEAR LARRY: I have just left Admiral Niblack; talked with him about sending a fleet of submarines to South America to visit Rio, the Argentine, through the Straits and up the west coast. He has given directions to Captain Galbraith to agitate this subject and see if it cannot be consummated. He believes in it. I brought the topic up by asking if the Department had under consideration the sending of a fleet; if it did, why it could not send a submarine.

He said the Department was opposed to sending a fleet, for the reason the ships were not in good condition and it would take them away from service in the Atlantic or Pacific, but they had thought of sending a division of four ships. Nevertheless, he has taken up the question of sending submarines independently.

He tells me that the whole balance of power has been destroyed by Chile getting six submarines and two warships from England, and that it has caused a good deal of uneasiness on the part of the Argentine, while Peru is absolutely helpless. He said in this connection the Department had recommended that six destroyers be released by the Department, but the Cabinet had sat down most emphatically on the proposition, so there is no chance of that being done at the present time. He said that in his talk with Pezet he told the Ambassador that it had occurred to him it was now a matter of Peru going into the market and buying outright not only with respect to destroyers, but also as to submarines. The Admiral said that possibly the Department could be of assistance by releasing one of the submarines now building and substituting therefor another to be built by the contractor later on. This would insure quick delivery, but I do not favor the plan very materially because I think the price named by the Navy would be much lower than the one we have quoted to the Peruvian Government. And perhaps even this proposed act on the part of the Department in releasing one of the submarines now under construction would be objected to quite as vigorously by the Cabinet as the proposition to release destroyers.

Yours truly,

F. E. CHAPIN.

L. Y. SPEAR, Esquire,  
Vice President, Electric Boat Co.,  
Groton, Connecticut.

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EXHIBIT No. 57

FREDERICK E. CHAPIN,  
HIBBS BUILDING,  
723 Fifteenth Street, Washington, D.C., July 16, 1920.

DEAR LARRY: Captain Aubry arrived in this country on Monday. His mission has been very successful, particularly with respect to the submarines. The President of Peru, the Minister of Marine, and other members of the cabinet have agreed to order four submarines of the 912-ton type, that is, the largest size.

In addition to this number they will order another boat. Captain Aubry is most anxious that you proceed at once with the preparation of plans and specifications, so that they may be ready for signature in connection with the contract as early as possible, say about September first when the Minister of Marine will arrive in this country to sign the papers. In the meantime, however, the captain is most desirous of obtaining specific figures as to the cost of the submarines, including full equipment, i.e., armament, torpedoes, submarine signal apparatus, etc. He also wants a figure upon the mother ship which will be built according to specifications which you would suggest and which I suppose will be in line with the ship you have already furnished the Navy of that character.

Captain Aubry is also authorized to negotiate a loan in this country of fifteen million dollars, but this program is not dependent entirely upon the floating of the loan in this country, although the captain informs me the prospect for its flotation here is extremely good. But should the loan be rejected in this country, there is no doubt about its being floated in Peru, although as a matter of finance and economy it should be floated here rather than in Peru on account of the rate of exchange, etc.

As to the destroyers, the captain tells me that is a matter which is in abeyance. The Navy Department has offered six destroyers of the newest type with armament, etc., fully equipped, at \$100,000 per boat. These destroyers are oil burners. The offer came through Admiral Niblack, Chief of Intelligence, but I think it is condition upon the action of Congress in authorizing a sale to be made to Peru. I may say this offer was made prior to the time the captain sailed for Peru. In the meantime, Admiral Niblack has informed me that the cabinet has acted upon this matter and has determined that the Navy should not make a sale of any war vessels to any one of the South American countries inasmuch as it might disrupt pleasant relations. I do not know that the captain has been informed by Admiral Niblack as to the action of the cabinet. I have mentioned the matter to him, and he states that he will make further inquiry of Admiral Niblack and if it is ascertained that the Navy cannot part with these ships, he then will report that matter to his government by cable and state that the only destroyers available are the four which your company owns. Under the circumstances, perhaps it would be well to await this action. The further delay of ten days would not materially interfere with your plans.

Captain Aubry is quite desirous of seeing you either in New York or New London, and will go to either place any time you may name during the next week. Kindly wire me when you can see him.

When you meet Captain Aubry, he may tell you something about the lecture he made in one of the largest theaters in Lima about the merits of the Electric boat as compared with other submarine boats. The captain tells me that he had an audience of about three thousand people. His lecture was illustrated by pictures and films which you had furnished him. The President, the Minister of Marine, and other members of the cabinet were present, as well as the members of the Pro-Marina which is a society composed of citizens who are deeply interested in the welfare of the country but more particularly with relation to naval affairs. It appears that Captain Aubry arrived in Lima at a most opportune time. The Minister from Italy had been active with the Society of the Pro-Marina, and a contract had been prepared and was ready for signature, calling for the purchase of three of the Laurenti boats. If the contract had been signed it would undoubtedly have committed the country to that particular type of boat, but owing to the representations made by Captain Aubry the contract was not signed and I judge a good deal of hornet's nest was started which resulted ultimately in the action of the President and his Cabinet determining to order four submarine boats from the Electric Boat Company. It is rather interesting to listen to Captain Aubry about his campaign, and I know you will thoroughly enjoy the difficulties and obstacles he encountered and the manner in which he overcame them.

The captain further informs me that this lecture which he prepared and which contained fifty-two pictures is now being printed in Lima. Copies will be sent here later. It occurs to me that it would be a very gracious thing to do to order a couple of thousand of these booklets for distribution among the Spanish people of the world. However, this is a way of advertising which you alone can determine. Before arriving at any conclusion in the matter, of course it would be well for you to see the booklet. I think the cost of printing will amount to about two dollars a copy, but I will leave this matter to you for discussion with Captain

Aubry when you see him. I can readily see the benefit which might be derived from the circulation of a paper of this character in the naval circles of the countries in South America.

I tried several times to reach you over the telephone today, but without success. I shall try to talk with you over the telephone Monday morning.

Sincerely yours,

F. E. CHAPIN.

L. Y. SPEAR, Esquire,  
Vice President, Electric Boat Company,  
Groton, Connecticut.

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EXHIBIT No. 58

FREDERICK E. CHAPIN,  
HIBBS BUILDING, 723 15TH STREET,  
Washington, D.C., September 21, 1920.

L. Y. SPEAR, Esquire,  
Vice President, Electric Boat Company,  
Groton, Connecticut.

DEAR LARRY: I saw Commander Aubry this morning. He is very much pleased that Mr. Carse, as well as yourself, approves the proposed purchase of his article at two dollars per copy. He tells me that by October 20th, and perhaps earlier, he will deliver to you one thousand copies, and by November 10th eight hundred and forty copies additional. Perhaps these deliveries can be made earlier, but in the meantime he would like to have you send him a check for two thousand dollars, so that he can remit to the printers in Lima. The remaining two thousand dollars may be forthcoming when the final copies are delivered.

The commander tells me that he left instructions in Lima for the distribution to the members of Congress and Government officials of possibly one thousand copies. In addition to that number he sent several hundred copies to his friends in Buenos Aires. Of course, he is not making any charge for those copies.

Yours truly,

(Signed) F. E. CHAPIN.

Copy to Mr. Carse.

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EXHIBIT No. 59

ELECTRIC BOAT COMPANY,  
Groton, Conn., July 22, 1920.

Mr. H. R. CARSE,  
Redwood, N.Y.

DEAR MR. CARSE: Commander Aubry spent yesterday with me here, accompanied by Commanders Freyer and Causey, of the United States Navy. The latter two gentlemen are going to Peru, probably next week, to practically take charge of the Peruvian Navy.

Commander Aubry seems to have made a great success of his visit. The Government has decided to order from us four 900-ton submarines and one submarine tender of about 3,200 tons displacement. Their Minister of Marine plans to be here in September to sign the contracts. I understand they have some financing to do, but they seem perfectly confident of being able to take care of that, so that we will not be called upon to extend any credit.

They want as soon as possible final and fixed prices for this construction, including guns, ammunition, torpedoes, and everything else that goes with the ships.

Owing to the presence of the United States officers during our conference here, I was unable to get details as to the situation with regard to the destroyers, but I expect to secure these tomorrow when I shall meet Commander Aubry again in New York. My understanding is that the United States Navy Department gummed this game by making a written offer to supply four modern oil-burning destroyers with complete armament at \$100,000 each. Subsequent to this foolish proceeding, I understand that the Cabinet took the matter



under consideration and revoked this action. Our friends, however, were not officially informed of this Cabinet action, and so of course the offer served to prevent a deal with us on our boats. As I understand it, Aubry now proposes to get official confirmation as to Cabinet action and hopes then to be able to push this deal through by cable.

I am arranging to meet the Newark Bay people in New York tomorrow to go into the question of the cost of the tender. Present indications are that the price for this will be somewhere between two and a half and three million, so that the total order should run between eleven and twelve million.

Very truly yours,

(Signed) L. Y. SPEAR.

LYS/AM.

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EXHIBIT No. 60

JULY 29, 1920.

L. Y. SPEAR, Esq.,

*Vice President, Electric Boat Company,  
Groton, Connecticut.*

DEAR SPEAR: Fred Chapin, Commander Aubry, and the Peruvian Ambassador called at the office this morning and we had a long talk and took lunch together.

I conferred with Mr. Cochran after luncheon regarding the loan situation and he turned me over to a Mr. Monroe who is secretary of the South American banking group here in New York, of which the Morgan firm acts as chairman, and which includes the City Bank, the First National Bank, and Kuhn & Company, etc., etc.

Mr. Monroe did not give me any encouragement whatever. He said some time ago Peru had made a similar request of the City Bank, he thinks within a month or two. At that time they intended to buy some of the American war vessels such as destroyers, submarines, etc., and the City Bank turned it down, as they were not interested in the matter due to Peru's poor financial position. Its national debt is approximately \$34,000,000, and as Mr. Monroe explained, to add 50% to the national debt to purchase war vessels would be considered very inconsistent, considering the financial position of Peru and how she has hocked almost everything she owns.

I got the impression from the Ambassador at the beginning of our conversation that we would not receive much encouragement from the New York group of bankers, and his deductions were certainly correct.

As you are going to see Chapin tomorrow I think you ought to tell him that in the opinion of the American bankers it is not a very opportune moment to present the matter and that unless something unexpected turns up I think it would be better not to go further with this banking group. Upon Mr. Carse's return, we can all talk it over and see if we have any new plan to suggest. In the meantime I do not think we should present the matter further to the bankers. Mr. Monroe will report to Mr. Cochran, and, I, in turn will have a talk with Mr. Cochran the first of the week.

It appears there has been quite an agitation in Bolivia, as you know, and a revolution occurred there recently and in the opinion of the bankers it has been instigated largely by Peru to have Bolivia join with her in opposition to Chile.

So far I can only report that the banking situation does not look at all promising to float a loan for Peru of \$18,000,000 in the United States for the purchase of submarines.

Mr. Cochran personally would like to see anything accomplished that would help us along, but from what Mr. Monroe said it appears to me that Peru's financial position is not an attractive one to the banking houses in New York.

Fred might report to the Ambassador when he sees him in Washington that we are working on the case and will know something more definite when Mr. Carse returns.

I will be very glad to do anything further than you can suggest.

Yours very truly,

(No signature),

*Vice President.*

(Signed) H. L. SUTPHEN.

## EXHIBIT No. 60-A

LAW OFFICES FREDERICK E. CHAPIN,  
HIBBS BUILDING, 723 FIFTEENTH STREET,  
Washington, D.C., August 7, 1920.

HENRY R. CARSE, Esquire,  
*President Electric Boat Company,*  
*New York City.*

DEAR MR. CARSE: I have read with a great deal of interest your letter of August 6th which clears up in my mind the Peruvian situation. You have looked at this matter in a calm, impartial way, and I now can see the difficulties which will confront the ambassador in trying to float a loan in this country.

I remember most distinctly the negotiations concerning the previous loan and the objections raised by the New York bankers on account of the Dreyfus claim. An award had been made in this claim after the Peruvian Government had submitted the matter to arbitration, but notwithstanding the sanctity of the award, Peru denied its obligations, hence the position taken by the French Government in refusing to permit Peruvian bonds to be listed on the Paris Bourse. I do not recollect whether the Peruvian Corporation was responsible for this action or not, but assume it was. At the present time I do not know what influence is exerted by that corporation, but shall make a point of ascertaining its status from the Ambassador.

Nevertheless, it is quite apparent from what you have said and the facts which are familiar to me that the Peruvian Government does not stand very high with financial interests throughout the world, and the Ambassador will encounter opposition from almost every side, and I am sure will not be successful unless he can give substantial guarantees acceptable to bankers who might purchase Peruvian bonds. Of course, the Ambassador has stated (and I think he is sincere) that the armament which his Government purposes to obtain will be used merely for defensive purposes and not as belligerent menace to adjacent countries. As he lucidly stated to Mr. Sutphen and myself, it was most embarrassing to be supplicating for mercy in every instance and not being able to repel unjust and unfair demands.

I think, however, the Peruvian Government is insistent upon obtaining submarine boats, and if the loan cannot be floated in this country, the people of Peru will take the loan. This seems to be the firm conviction of Commander Aubry, who has come back from there after carrying on the campaign to get the order for the boats.

I believe we should do everything we possibly can to encourage and aid the Ambassador and should keep him advised from time to time of the progress made and the nature of the objections raised, so that he may see that we are dealing fairly and openly with him.

I shall take occasion to see the Ambassador at the earliest possible moment. I think he ought to be told your viewpoint as to the attitude of the bankers and the reasons which probably control them, also the influence which W. R. Grace & Co. may exert. I can readily understand from what you have written that W. R. Grace & Co. would fail to exert their present influence were they controlled by biased or partisan motives. At the interview which I hope to have with the Ambassador very soon I shall sound him out with regard to the possibility of American companies obtaining oil concessions and as to whether the revenues arising from such concessions could not be devoted to the purposes of our impending contract.

Sincerely yours,

(Signed) F. E. CHAPIN.

EXHIBIT No. 61

AUG. 6, 1920.

F. E. CHAPIN, Esq.,  
*Hibbs Building, Washington, D.C.*

DEAR MR. CHAPIN: On my return this morning I have read carefully the several letters you have written in relation to the Peruvian matter.

Whenever a borrower is not able to secure the funds he wishes he is apt to ascribe his non-success to adverse interests, but while undoubtedly any group of bankers approached in relation to a loan on the west coast of South America would consult the members of W. R. Grace & Co., and would undoubtedly be

influenced by their opinion, if W. R. Grace & Co. did not give an unbiased business opinion that could be substantiated by facts they would very quickly lose their status in the business and banking world. Undoubtedly that organization is better acquainted with affairs on the west of South America than any other organization in this country, and while they have their own interests to protect there is no question that their minds are open to take on any new business that indicates a safe return.

The difficulty here, as pointed out by Mr. Monroe to Mr. Sutphen, is the lending of a large sum of money to a comparatively weak country to prepare for conflict with a much stronger country, and the armament which this money could purchase would not insure victory, as the other nation has much stronger armament and would tend more to bring conflict to a point than if they did not purchase the armament.

Naturally, if Peru were badly defeated, the persons who advanced them money for the armament could not expect any great liberality from the victor.

Our business, of course, is to sell armament, but we have to look on the other side of the question as well.

In regard to closing a contract and starting work, we might find that a very losing proposition, for you will remember the previous experience of the Electric Boat Company in the contract it had with Peru for the building of submarine boats, we received an advance payment of \$250,000 in a non-negotiable note, at first payable six months after date, which non-negotiable note (practically of no value because all sorts of defenses could be brought against this payment) was exchanged for regular Treasury bills, the same in effect as the certificates of indebtedness that have been issued during the last year or so by the United States Treasury, payable at a fixed date; but they did not even make any motion toward paying at that time, but sent an emissary to this country, and Mr. Rice surrendered them at ten cents on the dollar.

At that time I did everything I could to help Mr. Rice arrange a loan for Peru and we made a very close study of their financial position. We thought at one time the loan had been arranged through Seligman and Schroeder but it was turned down in Paris because of the Dreyfus claims.

The analysis at that time showed that the finances of Peru were handled by the Peruvian Company, which practically controlled everything, collecting all the customs, etc., paying interest on obligations and turning the balance over to the Government, but the obligations of the Government outstanding were constantly being scaled down and some new readjustment being made, scaling down the principal or reducing the rate of interest, so that Peru has gained the reputation all over the world of not meeting its obligations; and as a bank is a trustee for the funds of its depositors it, of course, is adverse to taking any undue risks.

There is one thing that occurs to my mind, and that is the oil in Peru, and whether some arrangement could be worked out with some of the large oil companies in this country for concessions in Peru, for which they would be willing to advance money. If you could find out from your friends the status of the oil lands I would be glad to broach this point to some people here who might be interested.

Yours very truly,

(Signed) CARSE, H. R.

EXHIBIT No. 62

Cable Address:  
Fredchapin

LAW OFFICES

FREDERICK E. CHAPIN

Hibbs Building, 723 Fifteenth Street

WASHINGTON, D.C.

OCTOBER 25, 1920.

HENRY R. CARSE, Esquire,

*President Electric Boat Company, New York.*

DEAR MR. CARSE: Confirming my telephone conversation of this morning, the Ambassador on Saturday, October 23rd, 1920, signed a contract with the Shipping Board and received eleven hundred thousand dollars in cash and a further

check for nine hundred thousand dollars to be held in escrow by a local bank until title to the ship sold shall have been determined. This may take several months.

In the meantime, however, there is available eleven hundred thousand dollars which is now on deposit in a Washington bank drawing three percent interest. The Ambassador has cabled his Government that he has made the deposit in a Washington bank. The sum will probably not be touched until the Minister of Marine arrives in this country to sign the contract for the boats we are to build.

I think the Ambassador has in mind that this deposit could be placed with some New York bank which might become instrumental in floating the loan needed for the carrying out of the naval program. The Ambassador is to be in New York on Friday and may find time to call upon you and talk over the whole matter. It would seem to me things are proceeding very satisfactorily.

Sincerely yours,

(Signed) F. E. CHAPIN.

Copy to Mr. Spear.

#### EXHIBIT No. 63

[Copy]

ESCUOLA NAVAL DEL PERU.  
LA PUNTA, PERU.  
16 November, 1921.

In reply address:  
Comandante Director.  
ELECTRIC BOAT COMPANY,  
11 Pine Street, New York City, N.Y.

GENTLEMEN: I am taking the liberty of sending to you, under separate cover, one copy of *Revista de Marina*, a professional naval publication, similar in its aims and the purposes it serves, to the United States Naval Institute Proceedings. The *Revista* is published under the direction by the officers of the Peruvian Navy, at the Naval Academy of Peru, which I command.

The *Revista* has never solicited any foreign advertising, for the reason that it is maintained by subscription and Government appropriation. As a matter of fact, foreign advertising has much more value in this publication than has domestic advertising (I am writing as a resident of Peru), because the *Revista* is read with keen interest by the naval officers of all the Spanish- and Portuguese-speaking countries and by members of technical and scientific societies of these races. I should add that advertisements are closely scanned, since the ships and headquarters of foreign navies attach significance to the appearance of foreign advertising matter in professional naval magazines. At the present time many governments and their officers are watching Peru and her navy closely. This interest is occasioned by the fact that our Government has recently sent a naval mission, of which I am a member, to Peru to assist the latter in modernizing and developing an adequate navy. Negotiations for a large loan from private sources in the United States are being successfully concluded by Peru; I have every reason to believe that a considerable sum will be allocated to the navy.

We have no better friends in the world than Peruvians, and they regard us in the same light. I can attest to this after more than one year's close association with Peruvian officers in my work. They are enthusiastic about all things in America and, of course, I am keen to see their enthusiasm not only maintained, but augmented. For our own ends (I speak as a member of the naval mission), I wish to hear the Peruvians speaking of American goods only, and see them buying American goods and equipment in preference to all other foreign-made products. Our late allies (and foes as well) are driving hard here, and in other parts of South America. I am soliciting no advertising whatsoever from them.

The *Revista* is issued approximately each two months. I am giving you below a special scale of rates, in U.S. dollars, which represents to us the bare costs of running the advertising, calculated on the basis of a slight amount in our favor due to the current rate of exchange. I want American advertising. In view of our being maintained by appropriation and subscription the

quoted rates will appear absurdly low to you, and I trust you will not gauge the real value of the advertising by the small scale of rates we are able to offer.

To pay for this advertising a U.S. cheque on your banker is all we ask; we can save you, in this way, the trouble of negotiating foreign exchange. Cheques should be made payable to "Revista de Marina." The scale follows:

One page-----	one issue, \$12.00; six issues, \$48.00
Half page-----	one issue, \$8.00; six issues, \$32.00
Quarter page-----	one issue, \$5.00; six issues, \$20.00

We can print your advertising in either Spanish or English, as you desire. Leave the translation to us if you desire it in Spanish. However, our readers all read English. We can run any cuts you may wish to send us.

I have talked this matter over with our commercial attaché in Peru and with my other American friends and they assure me that we are going to hear from you. American prestige demands.

Yours very truly,

(S.) CHARLES GORDON DAVY,  
Commander, U.S. Naval Mission to Peru.

## EXHIBIT No. 64

MAY 22, 1924.

MINISTRO DE MARINA,  
Ministerio de Marina,  
Lima, Peru.

SIR: We have the honor to advise you that we have duly received from our representative, Commander Louis Aubry, executed copies of the contract between us for two submarines, 24 torpedoes, and a submarine base, which contract is dated April 11th, 1924.

We also have the honor to acknowledge the receipt through Commander Aubry of the draft for Lire 10,349,000. We realized from the sale of this draft the sum of \$461,254.15 (four hundred sixty-one thousand two hundred fifty-three dollars and fifteen cents), in accordance with the accounting forwarded by us under date of May 20th to La Caja de Depositos y Consignaciones.

As Commander Aubry advises us that this draft was handed him on April 19th, we accordingly have taken that date as the effective date of the contract from which the deliveries of the material and future payments are to be reckoned. In accordance therewith the next payment will be due in New York on October 19th, 1924, from which payment the sum of \$1,253.15 (one thousand two hundred fifty-three dollars and fifteen cents), now to your credit as excess of the first payment, may be deducted.

We have the honor to remain,

Yours very respectfully,

ELECTRIC BOAT COMPANY.  
(Signed) By L. Y. SPEAR,  
Vice President.

## EXHIBIT No. 65

[Copy]

Lima (Peru), October 27, 1924.

Mr. Lawrence Y. Spear,

V-President The Electric Boat Company, Groton, Conn.

MY DEAR MR. SPEAR: 1. Messrs. Wellington and Thayer went away by the *Santa Teresa* on Wednesday the 22d after discussing with Admiral Woodward the completion and detailed specifications that Mr. Wellington had prepared for the naval base; such specifications were approved throughout by Admiral Woodward two days after his arrival from Iquitos.

2. I have been able to settle, in principle, the extra cost of the naval base up to the full amount of \$50,000 that Mr. Wellington wanted to obtain. I succeeded in this after a conversation with the President and a little discussion

with Admiral Woodward, in which the latter helped Mr. Wellington and myself. Tomorrow, Tuesday, I expect to have the decree signed, and then I will have a little additional contract for this extra payment.

3. In this adjustment it has been essential to depart from clause 10, which says: "Any change in compensation due the contractor by reason of any such alteration, addition, or commission shall be adjusted in the payment installment next succeeding the date of the order by the Government for such change." The way we have arranged the payment to suit conditions and obviate difficulties is the following: \$19,000, to be paid from the Navy budget for the present year before the 31st December, 1924; \$25,000, to be paid in 10 quarterly installments of \$2,500 each, the first installment to start on the 15th of January; and the remaining \$6,000, that the Government deduct for the work of grading in the island, which they undertake and execute in conformity with our drawings. (This work, if done by us, was estimated by Mr. Wellington at \$8,000.)

4. Once this is signed and delivered I will consider it a pretty good work, because Admiral Woodward, although having excellent dispositions towards us, is a little but anxious about seeing the work of the base moving faster and will prefer to have the construction of two or three buildings cut away for the \$50,000, giving it to a local contractor here who could have started immediately, and, therefore, show something at the island soon.

5. I hope to send you by next mail original copy of this extension of the contract, and also a copy of the decree authorizing it.

6. Now, I must inform you that Ackerson wired to Admiral Woodward on the 21st, saying that Mr. Harriman was willing to reopen negotiations for a loan based on national defense taxes and for naval construction. In his wire Ackerson requests Admiral Woodward to communicate to the President in order to have his personal opinion, and in case he should approve he will come by first steamer.

7. President Leguia's answer, communicated by Admiral Woodward to Ackerson, was to the effect that President Leguia was willing to reopen the negotiations with a view of obtaining a loan up to \$12,000,000 to carry on half of the proposed naval scheme.

8. We are expecting Ackerson to come any moment, and I think this time something will be done in regard to the loan. The sad point is that if the scheme is carried through and Harriman provides the money, they will be the ones to get the largest share of the \$10,000,000 which will be allotted to the Navy, getting, therefore, his three destroyers, leaving only a margin for us, if we fight well, for one more submarine; because the remaining money will have to be taken for more submarines; because the remaining money will have to be taken for the completion of the payment of the two submarines, base, and also mines and aeroplanes that Woodward wanted. I am looking forward for a pretty good scrap, and at least if the worst come, I must get one submarine and 50 torpedoes.

9. I received your wire regarding future payments and have made arrangements which I consider as effective, and trust that neither the Government nor we will have to suffer by any delays in payment.

10. Sometime ago I wired you in regard to the permission for publishing the news of our order whenever you deemed it advisable. I omitted to confirm that cable by letter, and as I have seen no publication from the States whatever, I am wondering if you ever received my wire; which I hereby confirm.

11. It is very important that you should let me know the date at which you are going to launch the subs, for many reasons, the main one being that Admiral Woodward is very much interested for obvious reasons; either myself or my wife will have to take the sponsors to the States; and then I am planning to be appointed by the Government, if you permit, delegate for Peru in the Disarmament Conference that is going to take place in Geneva in June 1925. I feel that I can do something good for Peru there, as well as for the cause for the submarines in South America. My flag will be "No quotas in submarines" construction in South America, and classify it as a "defensive weapon."

12. In this respect, not only do I require your opinion but also your authorization I request in this respect as soon as possible, because I will have to make some initial work here outlining a plan for the Government in case I decide to go; which, otherwise, I will not have to make.

13. The best arrangement for me, of course, will be that the launching should take place at the end of May, or were it possible at the end of July. In either case, I could arrange to attend to the sponsals as Woodward wants me to.

With best regards from Madame Aubry to Mrs. Spear, believe me, dear Mr. Spear,

Very sincerely yours,

(S.) LUIS AUBRY.

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EXHIBIT No. 66

NOVEMBER 19, 1914.

L. Y. SPEAR, Esq.,

*Vice President, Groton, Conn.*

DEAR MR. SPEAR: Your favor of the 17th instant to hand in regard to Peruvian business, and I can see no objection on our part to Aubry serving as delegate to the disarmament conference, only I hardly think we should pay his traveling expenses plus \$15 per diem.

In regard to the bond matter in relation to Harriman, I had a talk this afternoon with members of the firm of White Weld & Company, who brought out the last Peruvian loan, and their man, who has been in Peru for some time, is expected in New York next week, and they would like to have us go over the matter in detail with him, and I told them that if they would let me know a few days in advance you no doubt could probably arrange to be present to go into the details. They have gone into this Peruvian loan matter very thoroughly and think all the revenues of Peru, except the customs, are pledged to other loans; that obligations of Peru in the form of loans or otherwise which are secured by specific income, have been working along in very good shape, but if the obligation is not secured by any particular revenue the Peruvians let it go by default, and in two instances they have been obliged to force them to clean up their defaults before making them fresh loans.

Yours very truly,

(Signed) HENRY R. CARSE, Pres.

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EXHIBIT No. 67

[Copy]

LIMA, PERU, 22 March, 1924.

MR. LAWRENCE Y. SPEAR,

*Vice President, The Electric Boat Company,  
Groton, Conn.*

MY DEAR MR. SPEAR: Since my addressing you last, on the 26th February, I have only written you a letter of introduction which will be handed you by Mrs. Ackerson; and if I have not written to you afterwards it is for the single reason that the events that have developed have been communicated to you by cable, and also to the fact that Mrs. Ackerson first, and Mr. Ackerson afterwards, went both away; and, therefore, such letter is quite effective. Both of them, and Mr. Ackerson especially, knew so well the situation that I deemed it best to abstain myself from writing until everything was about settled, being confident, in the mean time, that you would be well acquainted with the state of affairs through my cablegrams and also the conversation which Ackerson promised me to have with your good self upon his arrival, which is due on the 24th inst., Monday; when you will know the exact state of affairs.

As you already know, the combination that consisted of Harriman financing the business failed throughout, and perhaps it is better so because, as you very wisely say in one of your cables they were too cautious in regard to the financing and, besides, they were absolutely powerless to do anything outside of the Guaranty Trust, and such an institution with White and Weld are hopeless of doing anything with the Government. We were, for a few days, indirectly associated with them for all intents and purposes and, therefore, in a very bad position which was considerably aggravated by the offer made

by the Sweden firm named Kockus of six submarines complete: 2 of 800 tons and 4 of 530 tons, built for the Germans during the war and which are, at present, in the Swedish yards of Maol. They have been offered by the Chargé d'Affaires of the Swedish Government here on the name of his Government for the sum of £1,000,000, payments to be made in any way the Government would choose. Of course, I felt a good deal excited then about this, and that is the reason of my cablegram of the 8th inst., as the President had told me, on my explaining to him that that was very unfair and bad for Peru due to the fact that we did sign the Treaty of Versailles, that he would buy those units because Peru needs to have some submarines and he could not obtain them advantageously in the States nor in England. Of course, such a purchase could not have eventually been consummated because I would have planned the same methods that we did plan in Argentine and Woodward, who had been very nice throughout all these proceedings, would have stopped it; but any how, it did come in a very unfortunate moment as the President was quite upset due to the interference of the Guarantee Trust in all his schemes.

Fortunately, I gave him as an option to buy the two submarines that we are willing to construct for him with facilities of payment, that is in 3 years as proposed in my cable of the 6th inst. to you and approved by your cable of the 10th to me. On my proposing this to the President with Woodward and the Minister of Marine, on the 5th March, I met with his approval and he told me that he will take that in appreciation as a good service rendered by the Electric Boat Co., stating further it is the best he can do now, but you may be sure that if your company take this they will certainly get more orders in future. So, let us start.

Now that I have your long cable of the 19th accepting the proposal as per my detailed cable message of the 14th, I feel quite at ease. Nevertheless, there has been for Woodward a very sore point and that is the one regarding the partial construction in England to which the President agrees entirely; but that Woodward did not look up with sympathy because—as I explained in my previous letters—he wanted to have all done in the States. You can suppose that I did not consult with Woodward as to this point, but in his presence I told the President that for the financing aspect of the matter we have to make the hulls at our associates' yards in Barrow, of course, very much to the surprise of Woodward. So when Woodward wrote with his own hand the cable that I sent you on the 14th inst., he put "Partial construction in England permitted but not preferred." Of course, that is all we needed. I have to do my best to give him the chance of getting even because he has been of great help altogether.

Now in your cable of the 19th inst., you quote as a price for the 2 submarines and the 24 torpedoes, \$-2,700,000. As the subs were considered at a maximum price of \$-1,200,000 each, and as you told me that there will be a difference of price in view of having the hulls built in England, say approximately \$-75,000 each, sum which I never mentioned but only the fact that they will be cheaper, and considering that the torpedoes could not cost more than \$-10,000 each in accordance with the figures that Woodward has from the American Navy list prices, the maximum that Woodward reckons for the whole thing ought to be \$2,640,000. Therefore, here is a sore point for me which I will try my best to shuffle through. Yesterday, that Woodward wanted me to wire you in regard to it, I told him that I thought that that difference of price was for the interest of the money considered during the last year of payments to which we naturally were entitled to. He asked me anyhow to wire you requesting that we should be provided, included in this price of \$-2,700,000, with 60 contact mines that he has down for \$150 per mine. He said to me: "I shall not object any longer if those mines are included." In my wire of today I am suggesting this procedure to you.

I received yesterday morning your wire of the 20th in which you asked me for certain alterations in the contract forms that have been sent to me by the steamer of yesterday, that is sailing from New York yesterday; to which I shall certainly be pleased to attend in the way as pointed out by you. The only thing that I cannot attend, or better arrange at all as you desire is that relating to the local commissions, I have not dared to propose it to the interested parties because I am sure that this would be even dangerous at this special stage of the negotiations. I have to give commission to three persons and two of them, whom I have consulted with, have accepted as a great concession to receive the commissions distributed in three equal parts: The first



from the first payment, the second from payment no. 6, and the third from the last payment. As I think this perfectly fair, I am going to wire to you accordingly. The commissions that I have distributed according to your authorization are \$-15,000 per boat; that is to say, after you receive your first payment of \$-400,000 you will please send me \$10,000 to attend to this.

The President has agreed to put aside £300,000 a year, which is equivalent to \$-1,200,000 per annum for the new constructions from the law of "Defensa Nacional." Of course, they are going to enter into contracts also for the purchase of hydroplanes, and also for the repairing of a couple of cruisers in Panama, and as we have to add this \$-1,200,000, \$-800,000 from "Pro-Marina" which is already at the disposal of the Government, I will be paid properly and in time in New York funds.

Regarding the basis, you can rely upon me that we will obtain a good profit because we shall not be required to have but the indispensable. The only thing that is essential is a marine railway to be able to put the subs on shore, and perhaps of larger displacement than the one we order. It will have to be done by in the cost-plus basis, due also to erection of a few light buildings that we will have to construct here. Of course, the machinery will be all fixed prices.

I will not compromise myself to anything definite here but shall wait until I have a proper talk with you over there. I will certainly carry with me a chart with a site of San Lorenzo Island showing the place where we will erect it, so that I will be able to come back here with a definite and specific plan. I presume that I shall have to come back here within one or two months from the yards and eventually will have to keep my eye on this job in future. All this will be discussed with you over there. By the way, I have promised a local commission of \$-5,000 on this job, which I will explain there how we will arrange for.

Regarding my friend Rodriguez Larrain, his help has been effective and will be very much so in future. He is a lawyer of high standing here; also an intimate friend of the President and a friend of all my trust and confidence. His powers will have to act in my capacity when I am not in Peru to attend to our regular payments as well as to payments for the station that we will have to attend here. I will have to enter for that matter with subcontractors here for works and, therefore, as a local adviser he will be very necessary. He will be responsible to me and myself responsible to the company. I will take care of his commission and fees as per my contract with yours. In order to give him a higher standing in connection with our representation I suggest that you should send him a letter advising him that he has been appointed our auditor, with the understanding that he will have to refer everything to me here, excepting during my absence; and in case of strict urgency, direct to the company; also that his fees should be attended by me direct.

As matters stand, I feel absolutely confident that by the middle of April I will have this contract executed. I am expecting the forms of contract by the steamer due to arrive here on the 2nd April, and so, my power-of-attorney. Therefore, on the 9th or 10th April, I hope will be the maximum delay for having all through.

I want to add that our company stands in a high esteem on the part of the President, as he does not forget that his interests were attentively taken into consideration in 1912; and it is a pleasure for him, as he told me the last time I had a conference with him, to start business again, and he said, smiling: "We will fix everything in such a way that there will be no chances of cancelling contracts."

I had a wire, 3 days ago, which I enclose, from my friend Boettcher from Brazil, telling me that my presence in Brazil will probably be necessary. He promised me to telegraph me definitely this week. Naturally, I am not going to leave for Brazil but for the States when I have settled matters here, and I will in the meantime entertain Boettcher. All depends on the arrangements in regard to my moves that I will have to make when in the States. Boettcher has written to me explaining that the situation there is very acute and that they are going to order next May or June. I hope so, but I cannot decide anything about my movements before we discuss the matter properly in the States, as we have also to complete the Argentine problem.

I in due course received your letter of the 18th February, which is very welcome, and I thank you very much for the kind terms contained in paragraph 12, which are encouraging.

Hoping to be in the States by the end of April, and that my next letter will be definite, I remain, my dear Mr. Spear,

Very truly yours,

(S) LUIS AUBRY.

P.S.—Woodward was greatly surprised regarding the quotation of the Davis anti-air and 3" guns, because he has prices from the United States Navy, according to which the Davis, complete with mount, only costs \$2,000. Kindly write about this.

My friend, Rodriguez Larrain's address is as follows:

Dr. EMILIO RODRIGUEZ LARRAIN,  
Bajada Balto, Miraflores, Lima, Peru.

Mr. Chester, the gentleman who signed the contract in behalf of the company in 1912, is here. He arrived by the steamer of yesterday. I will find what he is after.

L. A.

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("Exhibit No. 68" appears in text on p. 118.)

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#### EXHIBIT No. 69

[Copy]

LIMA (Peru), March 31, 1924.

MR. LAWRENCE Y. SPEAR,

*Vice President, the Electric Boat Co.,  
Groton, Conn.*

MY DEAR MR. SPEAR: My last letter was dated the 22nd March.

Peru.—I am anxiously awaiting the documents which I expect will come to my hand on or about the 3rd of the incoming April. There are many things that I have in my head in regard to this subject, and I much hope that they will not cause any delay:

(a) I suppose that you are taking the advantage of building the hulls in England; therefore, the ships will be completed there as per your letter of the 14th December. This procedure, although permitted by the President and Woodward, has given rise to one point of great importance for Woodward, and some concern to me. i.e., where will the subs be delivered, in England or in the States? Woodward put me this question the other day, to which I replied that in case the hulls were built in England the subs will have to be delivered in England. He then answered me that he will not agree to this for many reasons; the expenditure for Peru, the risk at not having trained people for a long voyage like that. He categorically stated that he will not accept any other alternative than that the subs must be delivered to Peru in the United States, where he will have crews to be trained in advance, as contemplated in the contract. I have not wired to you about this because I do not want to act regarding this point as long as I am not with the particulars at my hand—that is, until when I receive the new forms of contract which you sent by the steamer sailing thence on the 20th inst. He further stated that whatever expenditure that may be incurred by bringing them to the United States will be taken care of by the Electric Boat Company, adding that this is absolutely the just way, as, being you the ones that take the advantage of it, Peru has no reason to suffer for. I hope that this has been contemplated by you under the same light, for, should it be otherwise, the matter would be very embarrassing for me as I have not any fair arguments to change Woodward's attitude. Of course, I do not doubt that that will entail some expense upon the company, especially in insuring the boats across the Atlantic.

(b) The reduction of the submarines' speed to a minimum of 8½ miles also is a sore point because Woodward told me that he could not understand improving the qualities of the boats by reducing the main features.

(c) The question of a considerable increase in the price having been permitted to construct the hulls in England, I have explained to Woodward, in accordance with your wires, that the form of payment entails a new expenditure. He said even though putting the interest for those three last payments and allowing \$50,000 per boat for the low price of construction in England, you are increasing the prices over the ones they have been given.

I think I will be able to get over the difficulties enumerated at para. (b) and para. (c) and I will maintain the full quoted price of yours—i.e., the \$2,700,000—but I am very much afraid that what I cannot do is to get the President and Woodward to agree to having the ships delivered to Peru in England; so, once I have the documents I shall presumably have to exchange wires with you. I anticipate this letter so as to enable you to exactly know the situation. I feel like as if Woodward will insist so much on this as to eventually going so far as to even stop the transaction.

Another point with him that he has not mentioned in regard to this but that I can easily perceive is that he hates the idea that Great Britain will get the credit for an American type which the mission is very proud of; that he wants the ships to start on voyage from the United States yards where he also wants to send the crews three or four months before. He even contemplates to have an arrangement, by that time, according to which the boats will come up to Panama, partially with Peruvian crew and partially with Electric Boat's crew. This last, of course, is a secondary matter.

In regard to the specification, I do not doubt you have made the indispensable allowance in regard to the radius of action to 6,000 miles as mentioned by my cables and letter.

I will hurry on all I can to have this finished in time so as to enable me to take the steamer "Orcoma" that sails from Callao on the 11th April to Europe, calling at Havana, where I will take another steamer via Key West to New York, because there is not any other steamer available but on the 9th April; and that of the 23rd April which is due to sail direct to New York. The former one is too early and the latter too late. However, my going to the States direct from here is imperative for many reasons:

1st. To bring the contracts, report to you all the details of the business, and settle the question of the base at San Lorenzo Island;

2nd. To discuss the proposed business of A. and B.; and

3rd. The fact that if I bring with me the contracts for Peru, as I expect I will, it would be a great blunder going to Argentine, for instance, via Chile (in this business we will have to be tactful and a little diplomatist); and so in regard to Brazil as well as to the Argentine now that the affairs are going to take place at the same time. I will have to be very careful concerning my activities with any one of these countries respecting the others; and as my points of view and experience acquired in the lapse of the last two years is of much value will probably require to explain, this ought to be a matter of conversation between your good self and me.

Regarding the gun, Woodward has not quite made up his mind about it, and as I have no literature with me of the Davis submarine gun, he prefers to wait until I can sent him all the particulars; and he also prefers deciding in a year or so. Therefore, I think I shall be able to manage so as to have the gun not included in the price.

Unless something really unforeseen happens, we will have this contract executed in the month of April, and if everything goes on smoothly, before the 11th April; and you can be sure that I will in every means and way do my utmost to see that the interests of the Electric Boat Company are safeguarded to their fullest extent.

*Argentine.*—I was very much surprised by your cable no. 2 of the 27th. regarding the tenders and prices being requested from Vickers, and not from us, as Admiral Flies, as well as Capt. Galindez, and my friend and agent Ribero, brother-in-law of the present Minister of Marine Admiral Domecq Garcia, promised me very seriously, when I was, last October, in B.A., that we would be duly considered in regard to the proposed construction of submarines. Besides, Flies told me frankly that he was a great advocate of our design and type.

I wired the same day to Carlos R. Ribero, and he answered me, on the 28th, as per enclosed original cable, that request had been simultaneously sent to the Electric Boat and Vickers for tenders, and he suggested to me that I should wire the company advising to interview Admiral Irizar in New York in regard to the matter.

The next day I was informed, by your cable no. 4, dated the 29th, that you had not yet been asked for tender and that you were entertaining some fear that Irizar might not be friendly to the matter.

I wrote a detailed and extensive letter to Ribero on the same day 29th, and replied to you, by cable, quoting Ribero's cable-message, as I feared there might have been an incomplete perception of my previous message. My

opinion is that Admiral Irizar is probably too damned important as the majority of my Argentine friends and is waiting for some courtesies or attentions from the Electric Boat Company; but he certainly will carry on his orders; which is just what we want. If he has, by the time you receive the present, not acted, the letter that I have written to Ribero in which I ask him to get the Minister of Marine the cablegraphic acknowledgment of his having executed those instructions will be effective.

I do not quite understand the arrangement with Vickers in regard to Argentine, but I was under the impression that we were working indirectly together. Of course, I leave that part to talk to you over in the States.

*Brazil.*—In my last letter dated the 22nd March I informed you about the cable received from Boettcher, of which I sent you the original. On the 26th March I received another message from Boettcher, of which I also send you the original herewith; and you will see therein that he urged me to go there; thence the reason—that is my being so much engaged at the present time—why I advised you by cable to send Mr. Battle. After I got your reply, I wired Boettcher requesting to refer essentials to you, informing him that you are preparing the dispatch of an engineer there, where I was unable to go at the time. By your cable no. 5 I have been informed of the activities of Boettcher are somewhat premature and I have also observed with great surprise that he pretends that authority should be given him to tender. He no doubt intends taking advantage of the situation, and especially of the fact that I was not going.

Boettcher knows his position very well. His standing in Rio, commercially and socially, is nil after his bankruptcy. He has himself expressed to me, on several opportunities, that he was unable to appear for any business directly inasmuch as he is very intelligent and, of course, knows the ways and means in Rio marvelously, knows everybody, how to approach people as well as the opportune time. I consider him, therefore, as an excellent aid, and in that capacity I have used him effectively. My arrangements with him are to that effect, as otherwise I could not recommend him. Any business presented by him directly will suffer. Besides, it would not be safe to put a delicate manner like this one of ours in his hands. In my cable I mentioned to send Mr. Battles for that very reason because Battles could work there effectively with a man like Boettcher to help him. But Boettcher, by himself, not under any circumstances.

I infer from your cable no. 5, that not being so very urgent you prefer me to go to Brazil, and that is the reason of your enquiring about the date of my departure from Peru. I am of the same opinion. If I can get away from here in time, the right course for me to follow will be New York, Rio, B. A. and Lima; and I say "Lima", because it is essential that I should be back here for fixing the details of the base. If this problem of construction of submarines develops seriously in Argentine and Brazil, as I forecast it will, I shall have to decide which place where my presence is more essential and more convenient for the company, as this depends on many factors. I will have to discuss the matter with you in the States.

Hoping that before this letter reaches you I shall have to wire you that the business in Peru is executed, believe me, my dear Mr. Spear,

Yours very sincerely,

(s) LUIS AUBREY.

#### EXHIBIT No. 70

ELECTRIC BOAT COMPANY,  
Groton, Conn., July 29th, 1924.

II. R. CARSE, Esq.,

*President Electric Boat Company,  
11 Pine Street, New York City.*

DEAR MR. CARSE: 1. I am planning to spend Friday in New York to talk over with you a number of things which require attention before you sail. Will come down Thursday night and stop at the Belmont.

2. As the question of the construction of hulls for the two Peruvian boats will have to be settled next week, I am giving you below the essential facts so that you can turn them over in your mind in advance of our meeting.

3. Bethlehem has quoted us \$310,000 per hull. Vickers' quotation on the same work for delivery at Barrow, taking the pound at \$4.40, is \$257,000, to

which we have to add \$22,000 for delivery, making the price here \$279,000. Our estimates, which have been carefully checked with the returned costs on R-boats previously built, indicate \$35,000 for material, \$105,000 for labor at 70¢ an hour. Sixty percent would be a liberal normal overhead for this class of work, which, added to the above, would give \$203,000 as cost. In a normal market I should expect to be able to contract for these hulls at \$220,000 each, and in the present distress market they ought to come cheaper. Both Bethlehem and Vickers have been advised that their bids are prohibitive and have been allowed until next week to submit revised quotations. I think they will come down a little, but I do not think that either of them will come down to what I would consider a proper figure.

4. In view of the above situation, I have been investigating the question of doing the whole job here. I have had a lay-out made of the additional plant required, which can be put in very economically; first, because we already have the required runways and cranes located at Fore River; and, second, because we can buy excellent tools at almost scrap prices. \$80,000 would cover the total cost of the plant required and the *additional* overhead involved would certainly not exceed \$25,000 per boat and would probably be less. On the basis of these figures, including the total cost of the plant, the hulls would cost us \$205,000 each. In addition, there is a margin of safety of from \$10,000 to \$15,000 each derived from the economies which can be made in the installation work if the hulls are done here, thus permitting this work to be done on the ways instead of in the water.

5. Of course, in the face of the above figures, there is only one answer so far as this particular job is concerned. Insofar as future competition from Bethlehem is concerned, I have been treating them in this matter with the greatest consideration, and there would be no possible excuse for hard feelings if they do not get the job, and certainly they would be less disturbed by our doing it than if we gave it to some other American yard. Moreover, with this equipment in hand, I would not fear their competition in the future, and if necessary I think we could keep them in line by arranging to give them any excess of Atlantic coast work over our own capacity as well as all Pacific coast work. Our experience so far with our friend from Kearny, N.J., does not indicate to me that we are likely to be able to establish ourselves in that family on a proper footing.

Very sincerely yours,

L. Y. SPEAR.

#### EXHIBIT No. 71

[Copy]

LIMA, PERU, Oct. 19, 1925.

Avenida del Progreso, No. 603.

MR. LAWRENCE Y. SPEAR,

*V.-President, The Electric Boat Co.,*

*Groton, Conn.*

MY DEAR MR. SPEAR: I acknowledge receipt of your letters of September 22nd, 23, and 24th with enclosures; also of yours of Sept. 15th, with enclosures; and cables 14, 15, 16, 17, 18, 19, and 20.

1. *Peru.*—On Monday, October the 12th, I had luncheon with President Leguia, and after luncheon I conversed with him at length, and he told me definitely that he had made up his mind not to do anything at present in regard to armaments, and leave everything in abeyance until April or May of next year, when the international situation created by the question of Tacna and Arica will be solved. He promised me that by then he will reopen and settle the whole matter for contracting the complete naval programme, and with my sole cooperation. He mentioned many things in regard to financing that he has in mind, and he also asked me to be prepared for then with some ideas in regard to obtaining appropriations for the whole matter, and to be in Lima by that time.

2. I communicated this determination by wire to you and, under the circumstances, requested permission to arrange to proceed to Argentine by the end of the present month. Authorization which has been granted.

Admiral Woodward has decided, due to the fact that there is not any appropriation for acquiring any material, to waive the question of extras, and it has

been a very difficult task to me to obtain from him the order for the guns and ammunition, which I expected to sign today. By the way, in this respect I have been unable to obtain the terms of payment that you ordered me, and I have to change them for the following:

\$21,800. on the 20th November next;

21,800. on the 20th February, 1926; and

21,800. on the 20th May, 1926.

the total price, as you will notice, is \$65,400.00; that is to say, the same price with the \$900 error that you mention in your correction cable no. 20. When I received your cablegram no. 19, I presented the right figures to Admiral Woodward and rushed to him and changed it, because the weekly meeting of the Navy took place that same day, when the thing was discussed with the President. Therefore, it would not look proper for me to acknowledge error and have to change again my proposal. So I left the figures of \$65,400, for which I am glad, because it will compensate to the company for the change of terms which I had to accept.

3. In this respect, I may state to you that the Bethlehem proposal by wire to the Minister of Marine for the same guns and ammunition was \$67,000. I have the cable in my hands, so the figures that they have given to you, as per your letter of Sept. 17th, para. 2, differ very much from the ones they quoted direct to the Government. The \$3,000 local commission authorized by you were necessary in order to do away with some sore feeling of some political friends of the Department that are trying to introduce Bethlehem into our small Peruvian market.

4. Regarding now para. 5 of your letter of the 24th September, please be informed that Admiral Woodward gave to Commander Monge a set of instructions to govern the inspection of the submarines as per your letter of November 12th, 1924, which copy Admiral Woodward has given me and I herewith enclose to you. The Admiral tells me that he does not see any reason why Commander Monge has not shown you these instructions, and that you can show to him the attached ones and consider same as the official and formal ones.

5. I was informed, before I received yours of the 24th Sept., of the internal situation arisen between Commander Monge and Commander Saldias. I think it was very foolish, indeed, for Commander Saldias to behave himself as he has done. The result is that having finished his commission of inspecting the torpedos as those are finished, Commander Saldias was recalled home.

6. Now, regarding your letter of the 22nd Sept., to Admiral Woodward, the Admiral sent a wire immediately to the Navy Department asking if he could obtain an expert for the mission. He has not yet received any reply, but the admiral authorized me today, to wire you asking for the names you mention at para. 3, in order that, as soon as he has a reply from the Department, he will request by cable the expert whom you will recommend. For your guidance, the admiral is intent to have that expert as the real inspector; that is to say, his technical authority will be above the one of Commander Monge.

7. My personal opinion in regard to Peru is the following. The international situation will be adjusted absolutely in a fair way to Peru, and under any circumstances, by April or May, if the Government can finance it, we will obtain a substantial order. All depends upon, in my opinion, the question of finance.

8. *Argentina*.—I have been in communication with Ribero, who is very confident of our possibilities. I sent him a wire transmitting the importance of your suggestions that the Mission in the States should be the one to receive the submarine tenders, and he answered me that no steps will be taken yet until the bill is through in the House of Deputies, or returned to the Senate for sanction, mentioning that he was perfectly aware of the importance of such a procedure; the extraordinary sessions of Congress in Argentina will take place from the 30th October on; probably they will take all November, and Congress will close on the 23rd December. Let us hope that by that time the Deputies will have passed the bill. I am leaving from here on the 28th of the present month, and going by via Bolivia, I will be in Buenos Aires by the 12th of November. I consider it advantageous for us that Vickers refuses to divide the order with us. I very much doubt it today that they have anything arranged in regard to financing the order. I understand the financing of Argentina, in general, is all done in the States. In this particular case, they are going to appropriate \$7,500,000 per annum in their Navy budget, for a period of 10 years, and they are going to arrange with a syndicate of bankers for a revolving credit to meet those conditions. The credit of Argentina, today

is so good that the different banks in the States are at present all ready moving to obtain for themselves this operation; I know that the Chase National Bank with the Guaranty Trust are moving in this direction; and, on the other hand, also Morgan with the National City Bank are trying to be the ones that offer this money. So, I do not think we ought to put much emphasis to the question of financing, and I shall be greatly surprised if the English are able to produce, today, for any other nation, this amount of money, unless they arrange that themselves in the States.

9. I expect to receive in Buenos Aires your definite instructions; also your information as to how we stand with Vickers.

Mrs. Aubry joins me in kindest regards to Mrs. Spear and to your good self. Believe me, my dear Mr. Spear,

Very sincerely yours,

[s.] LUIS AUBRY.

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EXHIBIT No. 72

NEW YORK, N.Y., October 14th, 1925.

Minutes of a regular meeting of the board of directors of Electric Boat Company, held at the office of the company, 11 Pine Street, city of New York, on Wednesday, October 14th, 1925.

Present: Messrs. Carse, Lanier, Marx, Peabody, Roberts, Sutphen, and Taylor.

The meeting was called to order by the president and the minutes of the meeting of the board of directors held on October 6th, 1925, were read and on motion duly made and seconded approved as read.

The usual financial statements were submitted.

The power of attorney issued to Commander Luis Aubry by authority of the board at a meeting held March 18, 1924, authorizing him to negotiate contracts with the Republic of Peru on behalf of this company, having expired, it was on motion duly made and seconded.

*Resolved*, That a power of attorney be issued to Commander Luis Aubry authorizing him to negotiate contracts and agreements with the Republic of Peru, as follows:

*Know all men by these presents:*

That Electric Boat Company, a corporation organized and existing under the laws of the State of New Jersey, in the United States of America, and now having an office at 5 Nassau Street, in the Borough of Manhattan, city of New York, State of New York, in the United States of America, hereby nominates, constitutes, and appoints Commander Luis Aubry, now temporarily in Lima, Republic of Peru, attorney in fact for and in the name of and on behalf of Electric Boat Company, to make and enter into, execute, acknowledge, and deliver contracts and agreements with the Republic of Peru for submarine boats, torpedoes, armament, and submarine base and any and all other articles, items, and things that are dealt in or dealt with by Electric Boat Company, provided that the substance but not necessarily the verblage of such contracts and agreements has first been approved by Electric Boat Company either by cable, letter, or otherwise.

Electric Boat Company hereby ratifies and confirms all that its said attorney in fact shall or may do or cause to be done by virtue hereof but reserving to itself full power of revocation of this power of attorney at any time after January 1st, 1927.

In witness whereof, Electric Boat Company has caused these presents to be executed by its president and its corporate seal to be hereunto affixed this 14th day of October 1925.

ELECTRIC BOAT COMPANY,  
\_\_\_\_\_, President.

Attest:

\_\_\_\_\_, Secretary.

In the course of the meeting the affairs of the company, financial and otherwise, were presented to the board and discussed and the acts and doings of the officers in that regard were ratified and approved.

No further business being presented on motion the meeting was adjourned.

(s) H. G. TAYLOR, Sec.

## EXHIBIT No. 73

## MEMORANDUM

## CONTRACT WITH COMMANDER AUBRY

JANUARY 24TH, 1929.

1. *Duration*.—January 1, 1929, to December 31st, 1931.

2. *Compensation*.—Salary, \$6,000 per year, plus an allowance of \$1,000 per year for office expenses (both payable monthly in arrears) plus commissions as agreed upon, plus traveling expense from New York to Lima.

3. Representation, for the time being, to be confined to Peru with the understanding that Commander Aubry will, as soon as possible, investigate and report on the situation in Venezuela, it being the intention that if, in the company's opinion, the conditions are suitable, the arrangement shall be extended so that Commander Aubry will also be interested in our Venezuelan representation under terms and conditions to be agreed upon.

The company to be privileged to call upon Commander Aubry for advice and information about all South and Central American countries. Commander Aubry also to hold himself in readiness to perform, for the company, a reasonable and limited amount of travel in South America. When such travel is undertaken at the company's request and for the sole account of the company, Commander Aubry is to be reimbursed for all the actual and necessary expense thereof. No other additional compensation on account of such travel is to be involved except such commissions as may be agreed upon in each particular case.

4. Commander Aubry's personal commission on Peruvian business in submarines, torpedoes, and ammunition shall be three percent (3%). Commissions on the other business in Peru as may be agreed upon—in advance in each case. On Peruvian Submarines *R-5* and *R-6*, the company has accepted and now confirms the following additional commissions (payable through Commander Aubry) based on a price of one million two hundred fifty thousand dollars (\$1,250,000) per boat, viz:

\$20,000 per boat to J. L. \$5,000 per boat to Senor Larranaga. \$5,000 per boat to a certain third person agreed to with Mr. Spear. If found necessary in order to secure the business an additional \$5,000 per boat will be made available. This makes the minimum commitment per boat, in addition to the 3%, \$30,000, and the maximum, \$35,000, it being understood that if any material reduction in the price of \$1,250,000 should be necessary, the special commissions may be correspondingly reduced and also that the commissions shall be payable prorata as and when payments are received by the company.

5. The company agrees that Commander Aubry may simultaneously represent Vickers-Armstrongs in Peru insofar as such representation does not conflict with the company's interests in Peru.

## EXHIBIT No. 74

(Copy)

BATTLE CREEK, July 10, 1926.

MR. LAWRENCE Y. SPEAR,  
Vice President, Electric Boat Company,  
Groton, Conn.

MY DEAR MR. SPEAR: 1. I am just in receipt of your letter of the 7th inst. and am glad to say that Luisa and I are getting on very well, and I think that by the 22nd or so of this month we will be able to leave the sanitarium.

2. I am glad you cabled Captain Koster asking him to get in touch with Admiral Galindez. I have received more detailed information from Argentine and everything points to the fact that the Galindez Mission will be the one that will ask for tenders and make the recommendations to B. A. I will give you a letter of introduction to my friend, Commander Paston, and who is very pro American. His wife is an American from one of the New England States.



I will also give you a letter of introduction to Admiral Galindez. I know him but not so well as Pastor. You could probably meet them in London. I think your idea of tendering for building in Cockerill, Belgium, is a very good idea. I hope you will be able to arrange those things while you are in Europe, because I don't see any prospect of building here for Argentine, neither do I see any prospect for Vickers.

3. Now, regarding the most interesting part, in my opinion, of your letter, I am very glad, that you are pushing this question of financing the new Peruvian orders with the assistance of the Chase Bank. Your understanding that the President is willing to enter into a form of contract with the company under which all receipts under the National Defense Act will be turned over to the company until the Government's obligations to the company are discharged, is correct. The only thing that we must consider is that the present status of those funds are under obligation toward the caja for an amount more or less of £166,000 (Peruvian) and therefore some arrangement must be made with the caja for them to collect the interest and amortization in that partial loan. I know that the caja does not want to have the money refunded, because they are getting the interest by law of 8 percent. What will be a very suitable arrangement and easy to effect with the caja will be to make them the trustees for the company, that is the collectors as they are at present. Naturally we will get the notes that you mention covered by this security. Three of these notes will be noninterest bearing to cover the last three payments on the present contract, but I understand they will be post dated. I don't think it will be any inconvenience whatsoever, and I will have no difficulty in obtaining the notes for the new contract with interest, and if necessary with a discount, but always limiting the Government obligation to only the receipts of the national defense loan and with the right of the company to collect them. I don't think either that I shall have any difficulty in obtaining the notes at the time of signing the contract. Naturally all will be post dated except the one for the first payment. That we can make as you suggest, 20 percent of the contract price. If all this is put in a good clear scheme in black and white for me, I think I can put it over easily in Lima. The only thing we have to contemplate seriously is the question of arrangement with the caja. I do not know at present whether the caja arrangement with the Government is for quick amortization of the present loan or a long term, but anyhow I think it could be arranged something like 8-percent interest and 8-percent amortization, or less amortization. I do not think that I ought to wire to Lima in regard to this at all. It will not help matters, but on the contrary. Have things arranged for me with a little margin or option, I should say, so I can get the thing settled one way or the other. I think that a sort of contract will have to be right with the Government to provide for the handling of the funds, beside the contract for the building of boats contemplating the payment with notes of certain dates, and another contract that will refer to the previous one authorizing the company to collect the funds and release the Government from the obligation of paying the notes in full when they are due, but that obligation limited to the extent of the amortization of the notes to the full capacity of the receipts of the national defense loan. I think that will have to be the general outline to be presented to the President in Lima, and I feel sure I can get it through to be best advantage of the company.

I am beginning to make plans, and think I shall be able to take the steamer that sails on the 31st of July. If not that one, I will take the one that sails on the 12th of August, because the Santa Anna that sails on the 5th of August, Luisa who is a poor sailor does not care for. She has traveled on it before. Any of those steamers will suit me, and I think by being with you and Mr. Carse and Sutphen for a week or eight days will be ample to cover these questions of the Peruvian business. I am sending you the telegram you request but this is a little more explicit I think.

With best regards from Mrs. Aubry and myself to Mrs. Spear, believe me,  
Yours very sincerely,

LUIS AUBRY.

P. S. I am enclosing a wire for Rivero for you to send.

## EXHIBIT No. 75

LIMA, Oct. 11, 1926.

ELECBOATCO, NYK.:

RUFYUUMYO GAWUKDIVCO UUYATKISBO TYDYCALAVK HYAL-  
BRUDUX MYJAGDIBEF DIVCOPUJOH TUGNYHYALB CUZOVEKDAC  
VYNCEFINEM TUGNYIGVOR UKLYGCYCLO OZHEKBISOK BIYMEM-  
ITUS EPUSDMYSTO MISURUGBIG RAOLKALAVK BDZACPASSA  
RAPELALAVK MIAGZGIFOB FOWGYIGHAZ DIZIFAUBRY.

LIMA, October 11, 1926.

ELECBOATCO, NYK.:

RUFYO Signed  
UMYMO today  
GAWUK financial  
DIVCO contract for  
UUYAT two  
KISBO more  
TYDYC submarine  
ALAVK and  
HYALB I will  
RUDUX sign  
MYJAG 13th October  
DIBEF construction  
DIVCO contract for  
PUJOH same.  
TUGNY Stop  
HYALB I will  
CUZOV communicate  
EKDAC details (of)  
VYNCE on Wednesday  
FINEM evening.  
TUGNY Stop  
IGVOR Indispensable

UKLYG that the  
CYCLO company  
OZHEK remit us (me)  
BISOK by  
BIYME cable  
MITUS 12,000  
EPUSD dollars  
MYSTO of which  
MISUR 10,000  
UGBIG referred to in our  
(my) teleg  
RAOLK 14th September  
ALAVK and  
BDZAC your  
PASSA reply(ies)  
RAPEL 18th September  
ALAVK and  
MIAGZ 2,000  
GIFOB for  
FOWGY expense(s)  
IGHAZ incurred in (on)  
DIZIF contracts.  
AUBRY Aubry.

(Pencil notation: \$12,000 remitted Aubry Oct. 14 through National City.)

## EXHIBIT No. 76

[Longhand Note—Confidential]

APRIL 21st, 1927.

Mr. PEDRO LABRANAGA

*Caja de Depositos y Consignaciones, Lima, Peru.*

MY DEAR SIR: I have received from you today cablegram reading as follows in reply to my cablegram of the 16th instant:

"Referring to your telegram April 16th Calderon has not been asked opinion yet. Will telegraph when he does."

and the intention of my telegram was that you on our behalf should ask Calderon or some other lawyer, conversant with such matters, to give the opinion on the points indicated that we might deliver it to the bankers.

When Commander Aubry left here to go to Peru to negotiate this contract I understood from him in discussing the subject that he should consult with Señor Calderon in relation to all the legal aspects of this matter and secure his written opinion that all the steps taken were in regular legal order, because it was our desire and intention at that time to interest banking houses in handling the notes which we were to receive from the Peruvian Government, and in this way develop a market for short-time obligations of the Government and you will appreciate that this would be most desirable not only from our point of view but from the point of view of your Government.

We have finally arranged with a very reliable firm here, Messrs. A. G. Becker & Company, of Chicago, for a loan to this company for one year of \$1,000,000 secured as collateral by \$1,300,000 of the Peruvian notes in our possession, and their lawyers drew up very elaborate papers, trust deeds, etc. in connection therewith, and they wished a lawyer's opinion as to the legality of all the steps taken in relation to the loan and the aspect of the notes. We had our counsel give his opinion, which the bankers accepted with the under

standing, however, that we had cabled you and that we would receive this lawyer's opinion and file it with them, so that they would be able, in selling our notes to small bankers throughout the country, to state that they had this legal opinion, which seems necessary in connection with all bond and note issues. The commission we paid to the bankers was fairly substantial, somewhat more than the interest which the notes carry within themselves. But we considered it well to develop the market for these so that in the future such obligations might be more readily disposed of.

I thank you very much for your kind attention in the premises and trust that we may hear from you further within a short time.

I understand that Commander Aubry may be returning to Peru before very long.

With kind regards, I remain

Very truly yours,

(Signed) HENRY R. CARSE.

EXHIBIT No. 77

[Copy]

LIMA, PERU. May 12, 1927,  
Avenida del Progreso, No. 603.

Mr. LAWRENCE Y. SPEAR,

V. President, the ELECTRIC BOAT COMPANY, GROTON, CONN.

MY DEAR MR. SPEAR, I arrived here, from B.A. via Chile, on the 5th of May, and also received, upon my arrival, your cable #1 simultaneously with a cablemessage from Ribero informing me about the situation in B.A.

1. *Argentine business.*—I acknowledge receipt of your letters of the following dates: April the 21st and April the 26th. It is now evident that we are going to have a definite action. The Minister of Marine had to realize that it was of no use to continue this fight with Ribero and he had to adopt the only attitude possible under the circumstances. We will have the order for the three submarines to be built in France and I entirely agree with the suggestions contained in your letter of the 26th April to Sr. Ribero, especially as regards paragraph No. 2, where you refer about how exceedingly difficult it is to deal with the French firms, especially when they think that the Government has designated any particular yard for the construction. The selection of the building yard, I hope, is going to be left entirely in our hands and I have sent, today, a very impressive wire to Ribero to that effect in order that our friend Capt. Koster will not suffer the same ordeal as in the past in Buenos Aires. I am in touch by wire with Ribero all the while and I have also received already letters from him. In his last letter of the 27th April he sent a copy of the wire he had forwarded to you on that date, in which he pointed the specific commission of £5,000 per boat for the friends and, besides the special commission agreed with me sometime ago; and he said to me that everything is in order in regard to this matter excepting that he had noticed that in his document covering his personal commission the expiration date is the 9th of June, 1927, and although he felt sure that morally he is absolutely well covered because any contract that will be signed weeks or even months after the 9th of June will be the result of our work and efforts and recognized so by the company, he would very much prefer to have everything legally in order. So, he requested me that the company send him a wire stating that he will receive his commission irrespective of the date in which the pending contract will be signed by the Argentine Government and The Electric Boat. I think that this request is perfectly in order, and, incidentally, I request you also to send me a letter extending my Contract rights and obligations until the 9th of September, because my contract expires on the 9th June, and this extension of three months I request and I consider necessary to satisfactorily conclude the business in Argentine as well as here; and although I am perfectly sure that the company will always recognize my rights on what will be the result of my work, I think it is more businesslike to have everything as it is in writing. So, I will highly appreciate if you will kindly send me a letter signed by you or Mr. Carse extending my contract for 3 months.

I hope that by September, or before that date, I shall be able to go to the States after concluding the business in Argentine and adjusting here something new and hence to talk over with you there about my future services, if they are wanted, with the company.

No. 2. *Peruvian business.*—I acknowledge the receipt of yours of the 12th, 14th, 18th, 19th, 21st, and 26th April.

Regarding yours of April the 12th, about Juan Leguia's visit to you and the construction of the larger boats for Peru, I spoke last night, at length, with the President and he told me that he has not instructed, commissioned, or requested his son Juan Leguia to act in any capacity whatever in regard to this and whatever he might do will be entirely in harmony with what he promised me in October last: that is, to increase the national defense funds and buy armaments for the Army, which are required very badly, and order two more "R" boats. He promised me that at the end of June next he will be entirely prepared to discuss the matter thoroughly with me, as he expects to have by that time the financial scheme accomplished, which will very likely permit the withdrawal of the bonds issued by the National Defense Act (that is our bonds) and then contract two more boats on a cash basis.

He told me that he has not discussed the matter over with Admiral Howe because he was perfectly aware that the Admiral did not want any more subs but destroyers, and he added, smiling: "But you and I, we do not want any destroyers but subs, and, therefore, why should we discuss the matter with Howe when we have the opinion of his predecessor which is in line with ours."

My opinion, my dear Mr. Spear, is that I shall be able to do something here, probably in July, that is I shall be able to obtain, I think, an order for 2 more R boats; now what I request is that you should send me a price on cash basis, that is, an independent contract entirely from the last one, including 50 torpedoes and ammunitions, guns, etc. You can quote a price only a little lower than the last ones, and I will also try, as we are speaking about available cash, that the first payment should be very large, say, 40% of the total contract price. You have also to consider the usual commissions plus the one for J. L.

I am sorry that this prospect will not fit entirely your desire expressed in your letter of April the 14th, but in case it should come at the meantime with the other larger expected orders, we always can apply to some other yards for the building of the hulls. Of one thing I can be sure, and that is that I will do my best to get the most advantageous price, terms, and conditions for the company, and also that it will not be any change in the design because not only the President is absolutely satisfied with the "R" boats, but also everybody in Peru.

No. 3. Regarding your inquiry about the Callao Port improvements, before having a talk with the President upon my arrival I went through the different departments of the Government and obtained all the data concerning the past and present projects of improvements, but I stopped this activity as soon as I spoke with the President last night. He told me that this matter is already committed with a gentleman named Mr. Clark, in which our old friend Chester has a hand to accomplish such an undertaking; and, therefore, he could not promise anything at all in this respect. In other words, my dear, Mr. Spear, there is nothing to do in regard to this matter. Somebody else will have the job, whatever Mr. Juan Leguia may have told you.

Referring to the letters of the 26th as regards the bills sent to Admiral Howe, I spoke with him this morning and he told me that the bills will be ordered paid as soon as O.K. by Captain Jordan; but he told me that there were some items which we have sent that have already been paid. Of course, I suppose both sides will have documents in regard to such a thing; so I do not anticipate any difficulty, but on the contrary.

No. 4. Mr. Carse has written to my uncle Pedro Larranaga, in regard to obtaining from Dr. Alvarez Calderon a statement about the legal aspect of the last contract that I made in October 1926. My uncle has passed the request over to me and I am attending to it and expect to be able to send the requested document to the company by next mail.

I want to mention in regard to this that I did not consult Dr. Alvarez Calderon at the time of the contract for the obvious reason that Alvarez Calderon at such time was not here but in the United States, and I am not sorry for that neither, because at such time, that is other contracts, his opinion and

intervention would have cost the company a 25%, that is nearly \$9,000 cash. Now his bill, of course, will be quite different.

With very best regards to you and Mrs. Spear from Mrs. Aubry and myself, believe me, my dear Mr. Spear,

Yours very sincerely,

(S.) LUIS AUBRY.

EXHIBIT No. 78

FEB. 6, 1928.

COMMANDER LUIS AUBRY.

48, Av. de La Bourdonnais,  
Paris, France.

DEAR COMMANDER AUBRY: I have your letters of January 20th and 24th to Mr. Spear in regard to the Peruvian notes which we hold on account of the construction of submarine boats.

We never suggested in any way the prepayment of these notes by the Peruvian Government as we were very pleased to have them, but Juan Leguia, in discussing with us the negotiation which he was conducting in New York City with Seligmans and the City Bank about the new bond issue, stated that he had made it one of the conditions that the notes which we held were to be taken up from the proceeds of the loan so as to release the lien on the designated taxes. This he explained was for the reason that the new loan was to be based upon the faith and integrity of the Peruvian Government and not to be secured by a pledge of any taxes, but that outstanding securities which were secured by tax pledges were to be retired. We stated that if it was the desire of the Peruvian Government to retire these notes we judged it would be with the idea of canceling the note plan and reverting to the original basic cash plan, for you remember that the contract was specifically made on the idea of payments of cash at certain dates and then the dates of those cash payments were used in calculating the amounts and dates of the note payments.

When the announcements appeared of the proposed flotation of the bonds by Seligmans and the City Bank, we communicated with them to ascertain what their views were in relation to the retirement of the notes, so that there would be no misunderstanding, and after some consultation they stated they would communicate with Lima. They advised their instructions were as follows:

"Minister wishes at present only provide funds to take up boat notes maturing through and including not due November 11th this year which is delivery date new submarines. If submarines delivered on time Minister has in mind an additional credit preceding issue second series which credit would include funds pay balance then due under contract. Minister is negotiating question payment now of notes maturing through November 11th with boat representative here."

As this proposal was not very clear to us because of the limited amount involved we cabled Carlos Larranaga on January 10th as follows:

"Referring to your letter of the 28th ultimo we understand Peruvian Government wishes to cancel notes, plans payment reverting to cash terms provided for in agreement. In accordance with their cash terms there would be payable to 11th January 2,462,500 interest 153,468.70 Peruvian Government will have paid 11th Jan. 780,000 allowing interest according to their calculations 34,125 indicates \$1,801,843.70 balance payable for which payment we will return all of the notes received including no. 205, after January 11th. In accordance with our cash terms there would be payable to us \$85,000 cash February 11, March 11, April 11, May 11, June 11, July 11, August 11, September 11, October 11. If the Minister Finance agrees with this understanding request him to telegraph instructions their bankers New York.

"PRESIDENT CARSE."

To which we received reply on January 22nd as follows:

"Government is only willing to redeem now notes due up to dates delivery boats, namely November next, \$520,000 less respective interest offering to cancel balance up to 1932 on that occasion when he will count on fresh resources as parts of present loan. If you accept Government will instruct bankers accordingly.

"CEMENT."

And at the same time we also received a cablegram from Juan Leguia, reading:

"Have had talk with Lopez Larranaga and he agrees with me that it's best to receive payment on notes up to delivery of boats, balance after delivery to be whole amount outstanding regards.

"JUAN LEGUIA."

In the meantime Mr. Spear had received your cablegram of January 20:

"In view of information just received do not act about Peru until my letter 20th January received. In the meantime leave everything as it is now as you may obtain very favorable terms.

"AUBRY."

And have now received your letters of the 20th and 24th January.

We have gone very carefully over your letters and are still undecided what action it is best for us to take. While the original contract does not give the Peruvian Government any right to redeem the notes before maturity, it does provide that if the notes should be disposed of by us at a better interest rate than  $7\frac{1}{2}\%$  the difference shall be paid by us to the Government which, in effect would be that the Government would have the right to pay off the notes less the  $7\frac{1}{2}\%$  which has been incorporated in the principal amount due, and we would not raise any objection to handling the matter in any way that would best please the Government. It would seem to us, however, that probably the New York bankers and the Treasury Department at Lima had in mind the retirement of the outstanding bonds and it was only by the intervention of Juan Leguia that the matter of redeeming our notes came up, and if that were the case perhaps they would be better pleased if we did not accept their proposition of redeeming the notes up to the November maturity. We understand Juan will be in New York this month, and so perhaps we had better allow the matter to remain open until we can discuss it freely with him.

With kind regards and trusting we shall have the pleasure of seeing you in April, and that Mrs. Aubry and family are enjoying very good health, I remain,

Very truly yours,

(Signed) HENRY R. CARSE.

#### EXHIBIT No. 79

[Copy]

LIMA, November 28, 1928.

ELECTRIC BOAT CO.,

11 Pine Street, New York.

DEAR SIR: With the arrival of submarines *R-3* and *R-4*, I have started to get to work on the question of the order for two additional boats, acting in accordance with the previous statement of the Minister of Marine, as transmitted in one of my telegrams. I had an interview with Commander Juan Leguia lately, and he told me to inform you that his father had assured him repeatedly that not only would an order be placed for two more submarines, but for several additional units by and by, since the Government's scheme is eventually to complete a flotilla of ten submarines.

In connection with this, I have discussed with Commander Leguia the very important question of funds to take care of the construction of these first two additional units, and I have agreed to furnish him with complete data as to the present total annual revenue accruing from the *Defensa Nacional*, as this point will constitute an all-important factor in enabling us to arrive at a satisfactory financial solution.

The official figures I have been able to secure in connection with this are the following:

In the course of the year 1926, the proceeds of the *Defensa Nacional* amounted to Lp. 194,338.720 (\$777,354.88). For 1927, the total proceeds were Lp. 207,569.3.59 (\$830,277.43), and for the first ten months of the current year, the total returns were Lp. 238,669.163 (\$954,676.65), at the rate of exchange of \$4.000 per Lp.

As the amount of this revenue set aside in accordance with the terms of the contract entered into between you and the Government, was \$624,000.00

yearly, under the assumption that the total proceeds from 1927 on would figure out at this latter amount, you will admit that judging from the proceeds during the first ten months of the current year, an annual revenue of \$1,000,000 can be safely anticipated. This estimate is very conservative indeed. I am giving you these figures which I trust will prove to be of some value to you in preparing some tentative agreement for financing the new contract, and with regard to this point, I would be greatly obliged if you would submit your points of view.

Yours very truly,

CARLOS LOPEZ LARRANAGA.

EXHIBIT No. 80

DEC. 11, 1928.

DEAR MR. LARRANAGA: Your favor of November 28th was received at this office on the 10th of this month at the same time that other of your letters, dated November 24th, were received showing a gain by the use of the air mail.

I have read with great interest your letter with the details therein given and, as I advised you in my last letter, we have recently been given a judgment by the Court of Claims at Washington for \$3,780,000 for money expended in 1917, 1918, and 1919 by the direction of the United States Government, with their agreement to reimburse us, but for some reason certain technical objections were raised as to the authority of the officials to make such agreement, which obliged us to take the case to the court and the court has now rendered an opinion, giving us a judgment for the entire amount in question. This will replace in the company's treasury working capital which has been tied up for over ten years and we will be able more freely to handle business that may be offered to us.

I am advised that Commander Aubry expects to leave Paris the latter part of this month, returning home to Peru via New York, and when he is here we will go over with him the entire question of finances.

We believe that we have done a great deal to extend the credit of Peru in banking circles in the United States, because the notes, which we issued and secured by the deposit of a portion of the Peruvian notes in one of the trust companies in New York City, were in different denominations, so that they were sold not only to large institutions in cities like Chicago, St. Louis, New York, and Boston but also to some of the small banks throughout the country. To do this, however, has cost us more than the interest which was included in the notes.

Without wishing to make any definite commitment, I should say now that we would be willing to undertake to build additional submarine boats to be paid for with notes secured in the same manner as the present ones, that is from the income from taxes accruing to the Defensa Nacional, but that it would be preferable to have notes made payable to certain periods in the future, but having coupons attached instead of having the accrued interest incorporated in the face of the notes, for the reason that bankers in this country are not accustomed to obligations of this nature; and they do not like to take, even as collateral, obligations which mature four or five years in the future without the possibility of collection of interest in the interim.

This matter, however, we will discuss in detail and very fully with Commander Aubry, but it may be very well for you to give an indication of the desirability of the issuance of the obligations in such form. But this is a detail which we believe there will be no difficulty of working out to the satisfaction of both parties.

I note what you say about Commander Juan Legula, and I trust that he is enjoying very good health and especially request that you convey to him my kindest regards, also those of Mr. Spear and Mr. Sutphen.

I remain,

Very truly yours,

(Signed) HENRY R. CARSE.

SEÑOR CARLOS LOPEZ LARRANAGA,  
Casilla #834, Lima, Peru.

## EXHIBIT No. 81

MARCH 14, 1930.

DEAR MR. AUBRY: Your letter of February 26th was received by me on the 12th instant, and we had already received payment for the March 11th notes, of which I wired you on that date. We have also received from the Contabilidad a copy of the budget of the Peruvian Government for 1930 in which the amount to be paid to us on the notes is included, and we appreciate your attention to this matter.

We have heard rumors of a new loan to be made by your Government but have not been able to trace it down as to whom the principals here might be. It, however, is and will be entirely agreeable to us to hold the notes we have and accept payment on their respective due dates rather than to have them cashed at a discount, because we have full faith in the stability, the good faith and integrity of the Peruvian Government.

With kind regards, and trusting that Mrs. Aubry and your family are enjoying good health and are free from worries of any kind, I remain,

Yours very truly,

(Signed) HENRY R. CARSE, *Pres.*

Captain LUIS AUBRY,

*Edificio Italia, Oficina No. 308, Lima, Peru.*

## EXHIBIT No. 82

## ELECTRIC BOAT COMPANY

## HIBBS BUILDING

WASHINGTON, D.C., July 10, 1931.

Re Peru.

Mr. HENRY R. CARSE,

*President Electric Boat Co., 40 Wall Street, New York, N.Y.*

DEAR MR. CARSE: In the absence of Mr. Thurston, who is on his annual vacation, I conferred with Mr. Wilson and Mr. Gruen today at State Department. They will take such action as is believed best at once. They are most grateful for the full details forwarded to them by you.

We will be informed of any developments promptly. They are not hopeful of anything favorable for some time but believe an honest attempt will be made by Peru to pay its obligations in time.

Peru is running behind about \$2,000,000 (two million dollars) a month at this time according to information they have recently received.

With kind regards, yours sincerely,

(Signed) STERLING J. JOYNER.

SJJ-HAF.

## EXHIBIT No. 83

MINUTES ELECTRIC BOAT COMPANY No. 4,  
*New York, N.Y., January 17, 1933.*

Minutes of a regular meeting of the board of directors of Electric Boat Company, held at the office of the company, 40 Wall Street, city of New York, on Tuesday, January 17, 1933, at 2.15 o'clock p.m.

Present: Messrs. Varse, Marx, Roberts, Sisto, Sutphen, and Taylor.

The meeting was called to order by the president, and the minutes of the meeting of the board of directors held on January 10th, 1933, were read and, on motion duly made and seconded, approved as read.

The usual financial statements were submitted.

The president advised the board that in relation to payments to be made to Captain Luis Aubry as commission on amounts collected from time to time from the Peruvian Government on account of contracts secured through him for submarine boats, as set forth in our letters to Captain Aubry dated December 2d, 1931, and the amendment thereto of March 11th, 1932: That as negotiations are now pending for the issuance by the Peruvian Government, or a



corporation representing said Government, of 8-year 7% bonds to the extent of but not to exceed \$3,000,000 secured by the proceeds of certain taxes to be designated by the Congress of Peru for the national defense fund, the payment of which bonds with interest is to be guaranteed by the deposit of an equal amount of gold in escrow in a banking institution in New York City (and also reciting understanding with the Remington Arms Company, Inc., the Colt's Patent Fire Arms Mfg. Co., and the Elco Works of Electric Boat Company, for certain materials to be furnished, the payment for which is to be made with part of the above-mentioned 7% bonds); that a letter had been addressed to Captain Luis Aubry and accepted by him under date of January 6th, 1933, in which it was agreed to pay him for his services in connection with such business, if concluded, 4% of the bonds as and when received on such contracts, and in addition thereto to pay Captain Aubry 4% of such bonds as and when received by the Electric Boat Company in payment for the notes of the Peruvian Government now held by this company, which had been received in payment for submarine boats built by this company for that Government; this 4% of bonds to be delivered to Captain Aubry to cover his commission and any and all expenses that may be incurred in connection with this business, including any sums that may be considered due from the Electric Boat Company to Dr. Jose Varela Orbegozo as indicated by letter of the Electric Boat Company to him dated February 9th, 1932, and also the amount of commission due to Captain Aubry according to our agreements and any amendments thereof at any time made in relation to the construction of the four submarine boats built by the Electric Boat Company for the Peruvian Government above referred to.

Upon motion, duly made and seconded, it was

*Resolved*, That the action of the president as set forth in his letter to Captain Luis Aubry dated January 6th, 1933, be and the same is hereby ratified, confirmed, and approved in all respects.

In the course of the meeting the affairs of the company, financial and otherwise, were presented to the board and discussed, and the acts and doings of the officers in that regard were ratified and approved.

No further business being presented, on motion the meeting was adjourned.

(Signed) H. A. G. TAYLOR, *Secretary*.

## EXHIBIT No. 84

JANUARY 15, 1934.

Mr. L. Y. SPEAR,

*Vice President Electric Boat Company,  
Groton, Conn.*

DEAR MR. SPEAR: In the January issue of "Marine Progress" Gerish Smith in an article on page 20 makes reference to "2 river boats for Peruvian owners", and on page 21 refers to "2-145' river boats, Electric Boat Company, for Peruvian Owners."

I understand it was our intention to camouflage this transaction so as to avoid any complaints being raised in Washington by the Colombian authorities, which might prevent delivery of the vessels.

I did not understand that any plans and specifications had to be filed with any authority similar to the procedure necessary in office building, etc.

How did Mr. Smith obtain this information?

Yours very truly,

(Sgd.) HENRY R. CARSE.

## EXHIBIT No. 85

MAXIMO ABRIL 596,  
LIMA, PERU, March 5, 1934.

Mr. HENRY CARSE,

*President, Electric Boat Company,  
33 Pine Street, New York City., N.Y.*

DEAR MR. CARSE: I am keeping in touch with the "Caja" regarding the payment of 500,000 soles on our old debt.

I hope we will not be disappointed at the end of this month because we will then have come to the conclusion that the only way to secure payment

will be by not delivering the patrol boats to the Government. I hope that is not going to be the case.

Commander Ontaneda has written to the Minister and to me in regard to appointing a sponsor and having a ceremony for the launching of the boats. Kindly tell him that nothing of such a nature is wanted. Those boats do not require a ceremony to alarm the quakers in the States. They are so small they can easily leave the United States without any press news and the wise thing should be to arrange that the guns will be stored in the holds. This is the way the authorities feel about it here.

I have been informed that they have forwarded to the company the amount of the contract for the tank. I am glad because I do not believe in any credit after our experience.

With kindest regards, I am, as ever,

Yours sincerely,

(Sgd.) LUIS AUBRY.

EXHIBIT No. 86

FEB. 28, 1928.

L. Y. SPEARS, Esq.,

*Vice President, Groton, Conn.*

DEAR MR. SPEAR: I have your letter of the 27th instant, and in relation to the inquiry of Admiral Howe it would seem as though President Leguia was trying him out to find how well he kept posted, because the natural place for the President to make his inquiry would be either the Minister of Finance or the Caja.

The contract with the Peruvian Government was for two boats on a cash basis, payable \$460,000 on signing the contract and \$85,000 each month for 24 months, but it provided that if the Government elected to pay in promissory notes it should divide them up as indicated, maturing monthly, \$52,000 a month, not only for that contract but for the balance due on the old contract of \$727,500, interest to be computed at the rate of 7½% from the date that each cash installment would have been due, up to the maturity date of the notes. The matter that Admiral Howe refers to is covered by paragraphs 5, 6, 7, 8, and 9.

We have today paid for the cabin accommodation for Mrs. Howe and son on the "Leviathan", and note that the other outlay will not be called for until next month. Is the money we have just paid a part of the agreed outlay or is that something extra?

Yours very truly,

(Signed) HENRY CARSE, Pres.

EXHIBIT No. 87

MAY 17, 1927.

L. Y. SPEAR, Esq.,

*Vice President, Groton, Conn.*

DEAR MR. SPEAR: Referring to yours of May 16th, enclosing copy of letter from Koster regarding torpedoes for Peru, as the torpedoes we furnished in connection with R-1 and R-2 were made by Bliss, I had understood that that type would be standard in Peru, but if the French company can make a torpedo that would be satisfactory to the Peruvian Government we have no special interest, as I understand it, in Bliss, especially considering the way in which they acted regarding the last shipment.

Aubry undoubtedly has a full understanding of matters in Peru and if he is willing to undertake the handling and sale of the French torpedo on the basis mentioned by you, that is, this company to receive one-half of the commission, I see no objection to taking the matter up with him and letting him decide what is the best thing to do.

Yours very truly,

(Signed) HENRY CARSE, Pres.

("Exhibit No. 88" appears in text on p. 161.)

[Copy]

EXHIBIT No 89

1278 (LYS)

Peruvian business.

JANUARY 16, 1924.

Sir TREVOR DAWSON,

*Vickers Limited, Vickers House,  
Broadway, Westminster, London.*

DEAR SIR TREVOR: 1. I beg to acknowledge with thanks the receipt of yours of December 12th, enclosing extract of a letter to you from Captain Deane, and as I am now also in receipt of a full report from Commander Aubry dated December 10th, we are now, I think, in a position to arrange a policy for the conduct of the Peruvian submarine negotiations.

2. Our present position in Peru, which is a very special and strong one, is the result of many years of effort. In fact, it dates back to the first Presidency of the present President, Señor Leguia who then entered into a contract with us for submarines which was dishonored by his successor. Commander Aubry, who is a Peruvian naval officer, was intimately connected with the restoration of President Leguia to power in Peru and prior to his retirement from active service was entrusted by President Leguia with many important missions, among which was the arrangement with the United States Government under which the American Naval Mission was sent to Peru. Under these circumstances, he is naturally on the best of terms not only with the administration but with the American Naval Mission. It seems clear to me from Captain Deane's letter that he did not fully understand the actual situation since he speaks of the propinquity of the American Naval Mission as a difficulty confronting us. My impression is strengthened by the conception which he appears to have formed with regard to the "ProMarina" fund. The balance of this fund, which is £166,000 and not £300,000, is now by decision of the Supreme Court of Peru at the direct disposal of the Government without obligation to the Italians. The commitments of the private management of the ProMarina to an Italian firm did, in the past, constitute a very serious obstacle which our friends finally succeeded in removing as indicated above.

3. In December, the President called an extraordinary session of Congress for the purpose of considering the adoption of a naval program including six submarines of our design. The cost of the whole program would be in the neighborhood of \$25,000,000, and the only thing standing in the way of its immediate adoption and orders is the question of finances which is a very important one. They have been discussing the question of levying special taxes in connection with the naval program and floating a loan with such taxes as security. We fear that their financial ability would prove inadequate to the handling of this whole program at once and consequently we are trying to arrange so that the program will be distributed over a number of years and will begin with two submarines. It is of course quite on the cards that the builders of the submarines will be called upon for active assistance in financing the construction.

4. Our quotations on submarines have been outstanding in Peru for a long time past, and in fact our submarine proposals to them were pending there last summer at the time of my discussions with you relative to modifications in the E.B.C.-Vickers contract. So far as I can remember I did not, at that time, discuss with you the special conditions existing in Peru, an oversight on my part for which I now ask your indulgence.

5. Under the special circumstances of this case, we feel that we cannot at the present time include Peru in the list of countries where our policy will be friendly competition with compensation to the loser, and I must, therefore, ask you not to make any submarine proposals to the Peruvian Government, direct or indirect, except as may be agreed to in advance by us. We do not feel that the position which we are obliged to take in this matter will necessarily result in excluding you from participation in this business and, in fact, we are endeavoring to arrange the matter so that the hulls can be constructed at Barrow to our design. I cabled this suggestion to Commander Aubry on December 3rd and in his report of December 10th, he advised me that the American mission did not take kindly to this suggestion. I do not, however, think that we need to take this preliminary objection too seriously since, in

the end, financial considerations will govern. Accordingly, after the receipt of his report of December 10th, I again cabled him that it was very desirable in our interest to retain the right to construct the hulls in England and I have but little doubt but what he will be able to remove any obstacles which now stand in the way of that procedure. Under all the circumstances, I am sure that you will agree with me that it will be to the interest of us both to adhere to the policy just outlined under which, in return for your cooperation in solving the problem of finances, we will be able to place orders for hulls with you.

Very sincerely yours,

LYS:B

P.S.—I should add that the program was approved by Congress last week.

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EXHIBIT No. 90

ELECTRIC BOAT COMPANY

Groton, Conn., September 13, 1920.

Mr. H. R. CARSE,  
President, Electric Boat Company,  
New York City.

DEAR MR. CARSE: On my last visit to Washington, I had a talk with Captain Azevedo, the Brazilian Naval Attache, and found him considerably disturbed about the activities of Bethlehem, both here and in Rio. He seems to think that they have formed some kind of a combination with Vickers and Armstrong to go after everything in sight in Brazil, and in any case they have approached him here and he understands that the Rio agent has been endeavoring to discuss submarines with the Minister of Marine.

I explained the situation to him and promised that we would write him an official letter which he would send down to the Minister. I enclose a proposed letter, prepared for your signature. Captain Azevedo wants the original and a duplicate, and the third copy is for your files.

I cannot see any legal or other objection to this letter, but thought it best that it should go through you so that if any such exists, the letter could be modified as necessary.

Very truly yours,

(Signed) L. Y. SPEAR.

LYS-AM. Encl.

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EXHIBIT No. 91

DECEMBER 22, 1921.

Sir TREVOR DAWSON,  
Messrs. Vickers, Ltd., London.

DEAR SIR TREVOR: Referring to the cables which have passed between us in relation to bidding for submarines for the Brazilian Government, we today cabled you as follows:

"Considered matter thoroughly, but still believe Brazilian quotations too low. Unwilling to approve except upon allowance 40% of profit with guarantee of not less than 20 pounds per surface ton compensation for us."

As advised you in one of my previous letters, we have been working very closely in Brazil for several years, and on receipt of your first cablegram that tenders had been requested we cabled to our representative at Rio, who replied that there is nothing definite in the matter at the present time but there probably would be after the turn of the year. We have also made inquiries from Brazilian authorities here, and while there is not at the present time a naval attaché at Washington, the deceased incumbent not having been replaced as yet, we were advised that they did not understand that Congress had as yet provided for the building of submarine boats, and that the next session of Congress would not occur until May 1922. It was for these reasons we expressed to you our view that the matter could not be very urgent.

In regard to our cablegram of today, from our analysis it seems that the price indicated is very low, much lower than the price quoted to Argentine

which we approved and lower than the difference in construction and preparation of plans would seem to indicate.

As we have been working on this matter ourselves and believe that any builder of submarine boats in the future should figure on obtaining a reasonable profit we do not believe it would be for the best of the business to quote very low figures, and the figures indicated by you are lower than we could see our way to quote for boats built in the United States, and have thought that perhaps your people might have been anxious to secure work to maintain the operation of your plant and have not been very greatly concerned about any profit that might inure, and it was for that reason that we indicated that while we wish to help you in every possible way, if you wished to put in the price quoted we should be guaranteed something approaching what would ordinarily come to us on the usual division, that is to say, 40% of the profit which you might make, with the guarantee that such profit would not be less than £20 per surface ton for any or all vessels built by you for the Brazilian Government.

It has not seemed to us that any of the foreign governments would be willing to place orders with other British concerns at a price approaching the one they would be willing to pay to you because of your greater knowledge and experience in the building of submarine boats, and the consequent assurance that any boats built by you would be superior to those furnished by any other British yard.

With kind regards, yours very truly,

(Signed) HENRY R. CARSE, *Pres.*

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EXHIBIT No. 92

DECEMBER 28, 1921.

Captain PAUL KOSTER,

48, Avenue de LaBourdonnais, Paris.

DEAR CAPTAIN: We are in receipt this morning of your telegram about Brazilian inquiry for submarines and the granting of a license to a French concern to build from our designs and submit a tender, but as we propose to submit a tender ourselves in conjunction with the Bethlehem Steel Corporation, and have authorized Vickers to submit a tender for the work to be done in England at prices which they submitted to us and which we approved.

We do not see how we could go further and grant licenses to a French yard to put in another competitive price.

We believe this business will probably come to the United States because the financing of South American countries is now being handled in New York, but if for any reason they would prefer to go to Europe we think that Vickers would have preference because of their great experience and record in the building of submarines.

I think you will appreciate that too many bids for the same thing might prove very inconvenient.

As I have before written you, we have given this matter very careful study, and we feel that the only license we could grant to a French yard would be for France and the French colonies, or if they were to come in touch with some other particular business in Europe or the East we would be very glad if they were working under agreement with us, to give careful consideration to any matter they might wish to propose.

We are also in receipt of your letter of December 20th in regard to the progress of the negotiation with Penhoet and we would be very glad indeed to continue this negotiation to the utmost, although our experience in the past has not let us to believe that we can expect to do very much business with the French companies.

France is a self-contained country and the French believe they are capable of doing everything themselves as well or better than people from other countries and they undoubtedly desire to keep all the work and money in France that they possibly can; of course no one can complain of this spirit on their part but it prevents the joint cooperation which is so usual with other countries.

We also have your cablegram of the 26th in regard to Admiral Debon at Washington and Mr. Spear is going to Washington this afternoon has a copy of your cablegram and will see what he can accomplish while there.

Yours truly,

(Signed) HENRY R. CARSE.

## EXHIBIT No. 93

SEPTEMBER 13, 1920.

Captain MARQUIS AZEVEDO,

*Naval Attaché, Brazilian Embassy, Washington, D.C.*

SIR: It has come to our notice that the Bethlehem Shipbuilding Corporation has endeavored to open negotiations with your Government for the construction of submarine boats. This makes it our duty to advise you as to the status of that firm with respect to the construction of submarines.

In the past, under an arrangement which has now terminated, the Bethlehem Shipbuilding Corporation has constructed for us and as our subcontractors the hulls of a considerable number of submarines. They have never designed a submarine, nor done any submarine work except as subcontractors to us, working to our plans and under our patents and directions. Their experience is consequently limited to the practical work of constructing the hull and they have no submarine staff or submarine designs of their own, nor any license to use our plans or patents.

In addition to the above, our contract arrangements with them, which are still in force, specifically prohibit them from constructing submarines for any one except ourselves, and possibly the United States Government.

In view of the above circumstances, you will readily see that the Bethlehem Shipbuilding Corporation is not in a legal position to accept submarine contracts from your Government for its own account. You will also understand that if they should attempt to undertake any such construction, the Electric Boat Company would, in the protection of its interest, be obliged to prevent that construction by injunction or other suitable legal remedy. In other words, the Bethlehem Shipbuilding Corporation could not without our consent fulfill any submarine orders which it might obtain on its own account.

We have to request that you forward this communication to the Minister of Marine, in order that your Government may be advised in the premises.

Very respectfully,

ELECTRIC BOAT COMPANY,  
\_\_\_\_\_  
President.

## EXHIBIT No. 94

JANUARY 26, 1922.

E. G. GRACE, Esq.,

President Bethlehem Steel Corporation,  
111 Broadway, New York.

DEAR MR. GRACE: I enclose a letter from our representative at Washington, which explains itself.

The Bethlehem and Electric Boat Companies are in many respects practically partners and are so looked upon by the Navy Department in relation to submarine boat construction, and I think you will agree with me that it is not advisable that either partner act in a manner to indicate any want of confidence in the other partner.

Yours truly,

(Signed) HENRY R. CARSE, Pres.

## EXHIBIT No. 95

Sir TREVOR DAWSON,

C/O Messrs. Vickers, Limited,  
Broadway, Westminster, London, Eng.

DEAR SIR TREVOR: Mr. Roberts communicated to me your cable of the 16th instant, reading:

"Please inform Carse that we are again reliably informed that Italian competition Brazilian submarines very serious and feel necessary to press for his early consent to our reducing our price by 3 percent if we find it necessary to do so at any moment."

and I replied on the same date as follows:

"Have sent special representative Brazil report exact conditions consider inadvisable quote any price until Government prepared purchase and definitely

determine type. Italian competition special nature not related to price or type but believe not successful as Government will insist upon best product obtainable."

This subject has received very thorough study and consideration here, and Commander Aubry, formerly attaché at Washington of the Peruvian Government, who has been engaged by us to represent our interests in South America, sailed for Buenos Aires on the 10th instant, with the arrangement to stop over at Rio Janeiro for two weeks to study the situation and report to us and then continue his voyage to Buenos Aires where he has arranged to purchase a home and move his family, becoming a permanent resident of that place, and not only looking after our submarine matters but also the sale of motor boats, Diesel engines, and electric apparatus.

Our local representative in Rio Janeiro was here in the office some days prior to the departure of Commander Aubry and all aspects of the situation were freely canvassed. He was of the opinion that it would not be desirable to quote any price at the present time, for such price would be used with other people considering the business. His opinion, in which Commander Aubry concurred, was that the work at present to be done was to bring about a decision as to the type of submarine to be purchased by the Brazilian Government.

In relation to the Italian competition, to which your several cablegrams have referred, the experience that we have had there has been of a character to lead us to form the opinion that the Italians base their efforts more upon the securing of personal influence to award the contract rather than to any superiority of workmanship or design, and after they once accomplish the purpose they have in view of securing influence they will agree to any form of contract providing for any trial qualities desired and for delivery in any space of time, no matter how short, with the idea that the peculiar influence which they have secured will enable them to change and modify the contract from time to time to suit them. This we understand was done in the case of the submarine boats which are now owned by the Brazilian Government, but owing to a change of administration, etc., these boats are not looked upon with a great deal of favor, and we do not believe that personal influence will operate in the same manner again. If it is going to operate, we are all helpless against it, but we believe that the Government will insist upon the best product obtainable, and in considering the figures mentioned by you we do not believe it advisable or proper for you to quote any lower figures, because at the present time they are considerably less than any figures which we would quote, and as explained to you in our former letters we consider South America our special field for this work and believe it should be retained by us, except if it should be determined by the authorities to place orders in England rather than in the United States that we should assist you to secure the business against your British competitors.

With kind regards,

Yours very truly,

(Signed) HENRY R. CARSE,  
Pres.

#### EXHIBIT No. 96

LAW OFFICES, FREDERICK E. CHAPIN,  
Hibbs Building, 723 Fifteenth St.,  
Washington D.C., November 28, 1922.

His Excellency, EDWIN A. MORGAN,  
Ambassador to Brazil,  
Rio de Janeiro, Brazil.

DEAR MR. AMBASSADOR: I have been informed the Brazilian Government is contemplating entering into a contract for the purchase of submarine boats and that an Italian firm, whose interests are favored by the Italian Embassy at Rio, has been assured of obtaining the award, notwithstanding the efforts made on the part of American representatives to have the award made to an American concern. The condition as I understand it is similar to that which existed some ten or eleven years ago.

At that time the Brazilian foreign office had been in communication with Ambassador Dudley and an understanding had been reached that Brazil would award to the Electric Boat Company of New York a contract for the building of submarines. It was understood the relations between the two Gov-

ernments were of the most amicable and pleasant character and that only a question of detail about the building of submarine boats for Brazil in this country. Notwithstanding this perfect understanding, this same Italian firm was awarded the contract, as I learned subsequently, four days before I sailed from New York for Brazil for the purpose of carrying out the understanding which had been previously made. After remaining over two months in Rio, I abandoned my mission and returned to this country with a most disappointed impression of the steadfastness and integrity of the Brazilian officials.

As you may know, an American Naval Mission will be sent to Brazil at the request of the latter Government. Its purpose is to advise the Brazilian naval authorities as to the desirability of various projects it may have in mind for the development of its Navy. My understanding is that this mission will not interest itself in the placing of contracts, but will simply pass upon the desirability from a naval point of view of the general scheme for the development of the Navy. I have no doubt if the members of the mission were asked to give an opinion as to the merits of the submarine boat built by the Electric Boat Company as compared with the submarine boat built by the Italian firm, it would unhesitatingly speak in favor of the American manufacturer. Possibly they may be called upon for such an opinion, in which case the awarding of the contract to our company would follow as a matter of course.

It is my hope that if the contract for submarine boats has not yet been awarded, you will be able to use your good offices to have it deferred until the naval mission arrives, so that the opinion of that mission may be obtained. It is my belief that the naval authorities in Rio will not be precipitate in entering into a contract for a naval project which has not been passed upon by the mission which it has invited to advise them in this respect.

I believe that a great deal of good can be accomplished through your good offices if you should find it within the scope of your duties to recommend an award of contract to the Electric Boat Company for the building of submarine boats. My understanding is that under the pact of the Disarmament Conference, South American Republics are at liberty to make purchase of submarine boats. At least in this respect I feel sure that the Italian firm has no doubt whatever, and if there were any doubt, the Italian Ambassador would not be offering his services to promote the consummation of a transaction of this character inasmuch as Italy, as well as the United States, are both signatories to the pact entered into at the Disarmament Conference. I have had a talk with officials in the State Department as to the policy of our Government along the lines above indicated, and I have been informed that there would be no objection in pursuing the course I have indicated above.

The boats built by the Electric Boat Company rank as the highest type built. During the War, the Italian Navy purchased directly from the Electric Boat Company a number of these boats and the criticism pronounced by the high officials of the Italian Navy was that they were the best boats then built. We firmly believe that the type now being built for the United States Navy is superior in excellence to any boat in operation during the late war, notwithstanding it was reputed the German submarine boat possessed the latest ideas in points of excellence and workmanship. The officers of the U.S. Navy disclaim the superiority of the German boat over the American type except in the building of the diesel engine, in which Germany has made marked advances. But any excellence which Germany made in this direction has since been overcome by American builders and it is now claimed that there is no type of submarine boat built which excels the type now being built under the plans and specifications of the Electric Boat Company.

Of course, I am merely talking as a layman and cannot talk with any degree of assurance about various details which an expert might dwell upon. I feel sure, however, that Commander Aubry, the representative of our company in Brazil, is fully familiar with all the engineering details. I have been informed that he has had the pleasure of meeting you. I can only state that he is a young man of the highest capabilities and intelligence and a most pleasant companion. I commend him to your very best consideration.

The purpose of writing this note is merely to ask you to do what you can see your way clear to do in aiding and abetting Commander Aubry to obtain this contract. Of course, I am not familiar with the financial condition of the Brazilian Government, nor can I at this time make any suggestions with respect to the financing of the contract itself, but I feel sure the Electric Boat



Company will do all within its power to promote any feasible plan which may be proposed by the Brazilian Government.

I have most pleasant recollections of my visit to Rio and Petropolis, which are much more alluring now than they were at the time I departed from the city in great disgust. It would please me very much if affairs should so shape themselves that I might be called to Rio.

With best wishes, I remain as ever,

Sincerely yours,

F. E. CHAPIN.

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EXHIBIT No. 97

[Copy]

EMBASSY OF THE UNITED STATES OF AMERICA,  
*Rio de Janeiro, December 22, 1922.*

Mr. FREDERICK E. CHAPIN,  
*Hibbs Building, 723 Fifteenth St.,  
Washington, D.C.*

DEAR MR. CHAPIN: I received today your letter of November 28th, relating to future orders for submarine boats for the Brazilian Navy. For the last three months or more, I have been in conference with Commander Aubry and took steps with the late President to check the signature of a contract for boats of Italian manufacture. Before Commander Aubry returned to Montevideo at the beginning of November, it was evident that no order would be placed at once.

The present conditions of the Brazilian Federal finances make it unlikely that any units will be added to the Navy during the next year. Before a decision regarding such an increase is reached, the American naval mission, which arrived yesterday, will be considered.

Your letter will be kept on file for the interesting information which it contains, for which please accept my thanks.

Thanking you for writing me so fully as you have done, I am,

Yours very sincerely,

(Signed) EDWIN T. MORGAN.

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EXHIBIT No. 98

[Copy]

RIO DE JANEIRO, *March 11, 1923.*

Mr. LAUREL Y. SPEAR,  
*Vice President, Electric Boat Co.,  
Groton, Conn.*

MY DEAR MR. SPEAR: I acknowledge receipt of your cable of date March 9th, as per copy enclosed, whose contents I have duly noted.

You surprise me by stating that you have at that date received my letter of February 4th, which should have gone forward by the steamer of February 9th. Also, I note that you are going to send me definite instructions about our relations to the British. The most important thing that you tell me in your cable is in relation to the financial aspect of the business, because this is the most important thing at this state of affairs; in fact, I was going to cable you in regard to this very question.

Last Thursday I had a long interview with the Minister of Marine, Almirante Alejandrino. I went to see him because Boettcher, together with the crowd that is around him most intimately, gave me warning to go there in the morning at his residence. The Minister started out by telling me that if we could arrange a loan in the States to cover the price for the submarines he will give us the order at once without delay, providing Admiral Vogelgesang will give his O.K. as to the technical aspect of the thing. Of course, I answered the Minister that I would have to cable you (I had already before me by that time your letter of Feb. 8th) with the precise data and therefore it was essential that I should know the amount of money required—that is to say, the number of units decided upon and the models; also what guarantees will be given by the Government for the loan. I suggested to him that the

most suitable guarantee for a loan will be the Brazilian consular fees in the U.S. (I understand that they amount to \$2,500,000 per annum and they are collectible in the States.)

The people around Almirante Alejandrino came to see me that very same afternoon and told me that they will expect from me five letters obligating myself if the business was done to pay 2,500 contos for the nine submarines, that comes to about \$30,000 per submarine, a sum that will have to be added to the price. Of course, I told them that I was not authorized to do this but that I would write to my people about it. They then asked me to cable, and I told them I would as soon as I received the memoranda relating to the data and they agreed to that. Ever since then I know that they are withholding the memoranda up to today because they have tried again and again that I should give them some sort of a promise that I would do it. I do not want to ask you to do this yet until I find that it is strictly indispensable, but I am afraid that it does not matter how much would be to our credit in regard to the essentials of our tenders and the different factors that we have on our side, there will always be someone that will profit on the transaction by increasing the agreed price. I am expecting the memoranda tomorrow, or the day after, and then I will be in position to wire you the exact data.

Regarding our friend Monroe, as I told you in my letter of March 4th (which I sent with Commander Causey, who went by the "Pan America") that I had expected to have gone over the matter in detail regarding the two tenders No. 1004-B and No. 1005-B, but Commander Monroe has been very busy this past week, and he told me today that next week he will surely attend to the matter. I have left with him the only copies I have of the tenders and drawings.

*Agency.*—Regarding this question, I have already told you that Dr. Machado Coelho, our agent here, is well related and has a good position, but his influence with the present administration is nil, and the Minister of Marine, I have discovered, does not like him at all. Dr. Machado has many other interests to attend to besides ours; he is a director in several companies, and he therefore cannot devote his attention to our interests in proportion to the benefit he is going to reap therefrom. On the other hand, there are many people who are helping us in this business, and Dr. Machado always tried to evade the engagement of the obligations that I want to take with the right ones for the proper distribution of the 3½% commission that is allocated to the agency. In other words, he takes the attitude that this business is sure, that it will be done in two, four, six months or a year, and it is foolish for him to give away money that he already considers as in his own pockets. My attitude is utterly different. I believe that the money shall be obtained by the people that earn it and help in the matter, and I also strongly believe that we will obtain the order quicker by having allies that can really help us. For instance, Boettcher, who is the main factor at present in all of these dealings, has only a commission of ½%, and he naturally, as things are progressing, wants to obtain a little more. Although Machado, as a rule, assents to what I ask for, I have to spend time and energy in fighting for same, as he does not give up anything willingly, and the best way to arrange this matter, which I now propose to you, is the following:

Please write a letter to Dr. Machado, confirming your original letter in which you gave him the agency at my request, in these terms: He is to have the agency up to June 1924, with 3½% commission on orders for submarines obtained in Brazil, with the understanding that same is to apply not only for his own benefit but for the benefit of the other people engaged with us in working to obtain the order, with the provision that this distribution will have to be with the approval of the general representative for South America, Commander Luis Aubry, and also that this accepted distribution will have to be all decided upon before the order is finally received.

This arrangement will just fit, because it will mean the just distribution of the commission and limit the time of the agency which is an important thing also, because if the submarines are built here we will require as our agent an active man who can devote his entire time to the business. I am certain that Dr. Machado will have nothing to object to in this, and in the remote case that he does, you can feel assured that I will have enough arguments to convince him of the fairness and soundness of the case.

Of course, this does not mean that I am dissatisfied with Dr. Machado; he has the best will and does his best. Please take this in the right way, that is to say, that I am looking out for the best interests of the company first.

Commander Causey will tell you probably (because he plans to visit you) many details about these dealings, because he has been my good confidant and good friend not only to me but also of the company. My letter of March 4th is in his hands for you.

I am going to see Admiral Vogelgesang in the course of a few days, as I feel that we need to push them a little; it is only natural, as they have so many things that they are studying and solving in regard to the administration of the Navy. The Admiral has been always the same, very kind and very straightforward.

Very probably when you receive this you will have had some new events communicated to you by cable. I am hoping so, at any rate. I again reassure you about my optimism in the matter, especially the more now that I see that you can help the financing of the negotiation.

With best regards, believe me, as ever,

Very sincerely yours,

(S.) LUIS AUBRY.

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EXHIBIT No. 99

MAY 13TH, 1923.

Commander LUIS AUBRY,

Room 209, Casa Maua Avenida Rio Branco No. 9,  
Rio de Janeiro, Brazil.

DEAR COMMANDER: I have seen your letters of April 16th and 30th to Mr. Spear and note carefully what you say as to the effect of the statement emanating in the New York papers as to the order to be given by the Brazilian Government for submarine boats.

In one of your letters to Mr. Spear several months ago you stated, in effect, that in conversation with the Minister of Marine he had stated that if you could make a proposition of a loan to Brazil to cover the cost of the submarine boats, he would give you the order at once.

Naturally we considered this very important and that it was our duty at once to make such investigation as was necessary as to the possibility of handling a Brazilian loan. Our first effort in this direction was in cabling to Vickers. We offered them a certain interest if they would withdraw their bid and cooperate with us in securing the business and a much larger sum if they could arrange to float a loan or finance the order in London. They replied it was impossible to finance in London a piece of business to be done in the United States.

We then consulted with the bankers in New York City who had handled several previous Brazilian loans and they expressed considerable doubt as to the possibility of floating an additional Brazilian loan because of the decline in the market value of the loans they have outstanding, but they stated they would make a study of the matter and let me know. Undoubtedly they consulted other bankers to obtain their judgment as to how the market would receive such an issue of bonds, as this is always customary for bankers and it may be that in that way the subject of the business reached some newspaper man.

No announcement or any information was given out from this office as we appreciate and thoroughly understand the necessity of secrecy in all negotiations with governmental bodies. The fact that we successfully carried through the construction of submarines for Japan during the Russo-Japanese War; the construction of submarine boats and submarine chasers for Great Britain, France, and Italy during the last war without interference from Washington officials and despite the constant surveillance of German spies indicates that this office appreciates the necessity of secrecy in relation to all governmental transactions.

A reporter of the New York Mail called me on the telephone one afternoon and asked me about the order for Brazil which I denied, but he published the statement about the same and the other papers copied him. The fact that they spoke to me on the telephone, even though I denied it, gave them a chance of using my name in their statement. The reporter from the United Press having cable correspondents all through South America, copied this message from the papers and forwarded it without consultation with me, but the following day he came in to see me and after talking the subject over he stated he would send a message quoting me as denying the report, but said then that

the first newspaper statement had caused considerable commotion in South America.

We have found in almost every negotiation we undertake that some unforeseen occurrences will come in and we simply have to be prepared to meet all these things and work around the difficulties that arise.

We have the assurance from Vickers that they will cooperate with us in every way possible in Brazil and I do not think that ultimately it will be necessary to have the order pass through that channel. We have a number of subsidiary companies and any of the names could be used in closing the contract if necessary, although the Electric Boat Company is the logical company to do that work, the Submarine Boat Corporation itself never appearing in connection with any submarine boat work, it simply being the holding company of the Electric Boat Company stock.

You can see from the above that it was simply by following out the suggestion of the Minister of Marine in relation to a loan that this thing leaked out and you can give him our assurances of appreciation of the importance of the business and of our always exercising discretion in the premises.

With kind regards and trusting that Madam Aubry and your family are enjoying good health, we remain,

Yours very truly,

(Signed) HENRY R. CARSE, Pres.

#### EXHIBIT No. 100

E. W. BLISS Co.,  
Adams & Plymouth Sts.,  
Brooklyn, N.Y., U.S.A., April 20, 1923.

Commander AUBRY,  
(% U.S. Naval Attaché),  
Rio de Janeiro, Brazil.

DEAR SIR: At the suggestion of the Office of Naval Intelligence at Washington, we cabled you to know if you would be willing to represent us in the matter of making a tender for our Bliss-Leavitt torpedoes for the Brazilian Government, and we are very gratified that we have been able to come to an arrangement with you and hope that the arrangement will be beneficial both to you as well as to ourselves.

As a matter of record, we give you herewith a confirmation of the messages that passed between us.

Our cable to you dated April 9, 1923:

"United States naval attaché has suggested you represent us in connection with sale of Bliss-Leavitt torpedoes to Brazil. Understand agreeable to you. Will allow you 2½-percent commission. Cable if satisfactory and on receipt of advice as to size and quantity wanted, we will give you full information as to details of torpedoes, prices, etc."

Your reply dated April 15, 1923:

"With thanks I accept your representation. Request commission four percent covering selling expenses. Two sizes diameters 45 and fifty three centimeters, lengths 5,400 and 6,400 centimeters. Actual prospective orders hundred each size. Waiting your full information to tender. Send it through office Naval Intelligence Washington."

Our reply dated April 17, 1923:

"Your cable received. Please to learn of your willingness to represent us but it would not be possible to pay more commission than mentioned in our previous cable. Trust you may feel justified in acting for us. Answer."

Your reply dated April 19, 1923:

"I accept representation previous terms."

Our reply dated April 20, 1923:

"Your cable accepting representation our terms received. We are preparing specifications and will forward to you through Naval Intelligence Washington."

We have advised the office of the Naval Intelligence at Washington through the Bureau of Ordnance of our having reached an agreement with you to represent us in this matter, and that we are to make the specifications covering the proposed order for torpedoes, which we will send to them for their approval with the request that same be forwarded to you in Rio de Janeiro, but we

desire to get this letter off to you by the first mail in order that you may be informed as to what we are doing.

We shall also prepare a letter giving you as much information as it is possible to give you in a letter as to our torpedoes, also the prices and terms.

With very best regards, we remain

Very truly yours,

E. W. BLISS COMPANY,  
(S) JAMES SKINNER, *Secretary*.

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EXHIBIT No. 101

RIO DE JANEIRO, May 23, 1924.

GERMANO BOETTCHER,  
*Rio de Janeiro.*

ELECTRIC BOAT COMPANY,  
*Groton, Conn.*

GENTLEMEN: Please excuse me for writing you in Portuguese, but I am doing so in order that no one here should know about what I am going to write.

On the 15th inst., I sent you the following cable:

"Strictly confidential. Nothing can be referred to steel company. Minister has in this moment resolved order 5 submarines, 5 destroyers, 1 cruiser. Aubry must leave as soon as possible. Telegraph privately departure.

"FLAMENGO."

and on the 19 I received your reply reading:

"Impossible for Aubry to reach Brazil before 20th June unless you obtain quickly written request from minister for tender and cable us when received.

"SPEAR."

The situation at the present time is as follows: On the 14th of the present month, during a Cabinet meeting which takes place every Thursday under the Presidency of the President of the Republic, the latter, taking into consideration the precarious condition of our navy, as well as alleging that the relations between the nations of this continent were not as they should be, instructed the Ministers of War and Marine to make a report containing a statement of the materials most needed to place our army and navy on a more efficient footing than they are at present.

Although nothing had transpired of what took place at that meeting, I was informed of everything on the same day, and the following day both the Minister of War and the Secretary of the Navy gave confidential instructions to the staff to draw up as soon as possible an estimate of what should be purchased with most urgency. At the time, in regards to ships, the Secretary of the Navy expressed his opinion as to the purchase of 5 submarines, 5 destroyers, and 1 cruiser. That same day I advised you by wire of the developments asking you to send Commander Aubry to look after the technical questions which would come up. I also asked you to keep this information secret from the Bethlehem Steel Co. because I had given my word to my friends that I would send you this information and to no one else but yourself. Moreover, any indiscretion on the part of the agent of the steel would be harmful to us and he is not very discreet.

The stage reached by this business may be summed up as follows: The staff, in combination with the Department of Naval Engineering, are drawing up the technical basis on which the ships are to be purchased, and according to the opinion which the Secretary of the Navy has made known to his intimate acquaintances as soon as this basis has been agreed upon prices and conditions will be sought from the best-known shipbuilders. I believe the drawing up of these technical details will take another two weeks at which time it is necessary that Mr. Aubry be here or at least be on his way.

The time being opportune, I went at this business more forcefully still and through the agent of the steel obtained that the Brazilian Ambassador recently returned from Washington, declare his opinion to the Minister of Foreign Relations, the Secretary of the Navy, and finally the President of the Republic regarding the disappointment in the United States in case the build-

ing of those ships were not intrusted to that country. This was a good move in our favor.

But the Secretary of the Navy is an old-time sailor, very much in favor of English equipment. He is personally acquainted with the English shipbuilders, and has maintained friendly relations with them for a long time; he is a great admirer of the English Navy, a fact which he has made known in public, especially at the time of the last exhibition for the centenary of the Republic, which took place here when he spoke publicly at the opening of the English pavilion. Therefore, to speak frankly, I must say that the friendliness of our Secretary towards the American Mission is purely platonic friendship. At the bottom, the man is an Englishman, in the full meaning of the word and has no leaning towards any other nation, and far less towards America. I have never been afraid of Italian competition, but I have always been suspicious of the English, for with them the danger lies. And I am unfortunately finding out that my opinion was correct.

This is what just happened: In his own private house, the Secretary discussing privately with his family the next purchases, expressed himself in such a way as to make it very plain that he was frankly on the side of the English. Among other things the Secretary said that he was convinced that the plans elaborated by the Americans were very fine, but that the construction was very poor and that nothing could compare with English equipment. He added that when an Englishman said that the plates would be of such and such thickness or that the tubes would be of such and such an alloy, one could trust him implicitly, while with the Americans it was the contrary. In order to prove his assertion, he cited the case of the Brazilian dreadnaughts which were repaired in the United States, which repairs were the object of very unfavorable comment here, not only on account of the poor workmanship but also on account of the poor quality of the material used. He said also that a great part of the material used on those ships in the U.S.A. was being constantly replaced here. Finally, the Secretary ended by saying that no comparison could be made between an English and a U.S. job of construction. By this you will know what is in the mind of the Secretary and that he is against us, although in public he may pretend to be impartial.

I give you all these details because they are true and so that you may form an accurate opinion as to the mind of the Secretary who is going to decide on these purchases.

But the danger does not only lie there. Mr. Lynch, head of the house of Davidson, Pullen & Co., agents of Vickers, is also the agent of the banking house of Rothschild in London. Mr. Lynch has held secret conferences with the Minister of the Treasury and a few days ago, both spent the evening in the Palace of the President of the Republic at which time the question of a loan of twenty million pounds sterling to extinguish the internal floating debt left by the preceding government was discussed and also another loan of eight million pounds sterling as a reserve to be held for the coffee valorization. It seems that a crop of more than twenty million sacks is expected for 1925 which is double this year's crop and in order that the Americans may not bring about a fall in prices at that time, the Government wants to be ready to purchase coffee in excess of normal production.

I have been able to find out that Mr. Lynch had already secured from Rothschild those eight million pounds sterling, plus ten million of the twenty million which the Government needs. Things are taking a turn for the better for it is sure that finally Rothschild will supply the entire twenty millions.

Now it is clear that the English will not lose this opportunity of doing their best so that the building of the ships may be awarded to their shipbuilders. Mr. Lynch himself will see to that and so will Walter & Co., the representatives of Armstrong who are closely acquainted and related with Lynch. One of the partners of Walter, Mr. Hime, who is an English Jew born in Brazil has been a great friend of the Secretary for many years and visits at his house on very friendly terms.

That is why I found it proper to cable you to advise you of the situation in order that in view of all these authentic facts you might lend your best card. I do not believe in the intervention of the American mission in this affair because the mission has adopted the course of hardly answering inquiries and does not give its opinion except under those conditions. I do not believe either in diplomatic intervention because in the United States you have not as yet understood that one does not obtain anything unless one asks for it. Here whoever wants anything must declare himself. If one remains silent it is

taken that he does not want anything. And that is the case of the United States. I believe only in what we do ourselves. For this reason I have thought fit to suggest to you in my cable given below that it perhaps would be a good thing for you to keep up the combination which had been made last year with London. A bird in the hand is worth two in the bush.

This is an accurate outline of the situation and it being so I wired you so that you might act in your own interest. However, it may happen that the situation take another turn but this will take place only if the United States should act or if some such action should take place or else if the Secretary should resign. I shall advise you of further developments.

Yours very truly,

(Signed) GERMANO BOETTOHER.

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EXHIBIT No. 102

ELECTRIC BOAT COMPANY,  
Date, May 7, 1923.

To New York.  
From Washington.

DEAR MR. CARSE: An opportunity was present this morning to secure the enclosed extracts from a report. As this is my first day out after a severe illness, I asked Mr. Lord to handle the matter for me.

Yours very truly,

(Signed) C. S. McNEIR.

I was given the opportunity today of reading a report on the Brazilian matter from an official source which I am not at liberty to state in writing, but which Mr. Spear, I believe, will readily recognize.

It assumes to give a complete history of the proposed Brazilian naval increase. It begins by saying that Rear Admiral Souza de Silva, recently promoted to that rank from captain in the Brazilian Navy, entered into a conspiracy with some alleged revolutionists in Brazil for the assassination of the former President of that republic, only a short time before the expiration of his term of office. De Silva, it seems, gained the full confidence of the conspirators, whose plan was to fly over the President's palace and drop a bomb upon it. De Silva, after gaining their full confidence, revealed the entire plot to the President, with the result of course, that it failed to materialize. In appreciation of this act, the retiring President recommended De Silva to the incoming executive, Signor Bernardes, with the recommendation that he be named a member of the cabinet with the portfolio of Minister of Marine. It appears from my recollection, from my hasty reading of the report, that De Silva did not desire this position but used his prestige and influence for the appointment of one Alencar, who was named and is now Minister of Marine. Alencar is seventy-four years of age and was Minister of Marine in a former administration. He is said to be largely under the influence of De Silva. The report indicates that De Silva is in the pay of British naval constructors, and received a stipend amounting to \$110 a month from them for work that he had previously done in obtaining contracts for naval construction, particularly for two large vessels which the British built some years ago for Brazil.

It states further that Argentine would look with much displeasure upon an increase in the Brazilian Navy at this time, the increase involving 1 scout cruiser, 5 destroyers, and 5 submarines. On the other hand, certain factions in Brazil, anticipating a limitation of naval armament as applied to Latin American countries in the near future, desire upon entering such agreement to be upon the same naval basis of defense as Chile and Argentine. However, the state of the Brazilian exchequer is somewhat depleted, their unit of value having fallen to a point somewhat lower than it has been in several years. For this reason, the Administration is desirous of postponing the naval construction. On the other hand, the British interests are pressing it strongly, and so is De Silva. A leverage which they have is the fact that in 1914 Brazil had contracted with the British for a large battleship, to be known as the Rio de Janeiro. Owing to economic conditions, it was necessary to cancel this contract, and it was done with the promise that at a future date the British would be given contracts for naval construction to an amount equal to what the Rio de Janeiro would have cost. This argument is being used very effectively.

De Silva, who seems to have quite a degree of influence and particularly over the Minister of Marine, Alencar, is also urging it very strongly. He is now a member of the Brazilian Mission to the Pan-American Conference at San Diego, and has sent several telegrams and wires urging the carrying out of the program. The inference from the report, although it is not explicitly so stated, is that there may be a compromise within the next few weeks which will permit of the submarine construction.

The report also goes on to state what the activities of the Electric Boat Company have been in the matter, and states that the Electric Boat Company is corresponding with Vickers in an effort to get the matter through, so far as the submarines are concerned, by a compromise which will be satisfactory to Vickers.

My recollection of the reading of the report, while I am not quite clear on this point, is that it says that the Electric Boat Company suggests a twenty-five percent allowance to Vickers on the proposed contracts.

The report is quite long and as I only had an opportunity of reading it over once without making notes. I was only able to absorb the high points. However, when Mr. Spear is here, he will have no difficulty in getting access to it himself.

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EXHIBIT No. 103

APRIL 30, 1923.

C. S. McNEIR, Esq.,

*Hibbs Building, Washington, D.C.*

DEAR MR. McNEIR: As you know, we have been negotiating for quite a long time with Brazil about the construction of submarine boats, and Commander Aubry, who is representing us at Rio de Janeiro, advises that the Minister of Marine there indicates that some form of loan will be necessary in order to have the work placed in the United States.

We have been discussing the subject of the form of loan with the bankers in the city here, and they have raised the point as to how the making of a loan to the Brazilian Government for the purpose of paying for submarine boats to be built in the United States would be looked upon by the State Department.

I wish you would call upon the officials of the State Department tomorrow morning, present the matter to them, and secure if possible an expression of opinion, which at this time need not be absolutely official.

The bankers in New York who have in the past acted for the Brazilian Government have at the present time one of their representatives in Rio de Janeiro, and they wish to write to him fully on the subject so that the letter can go off in the steamer sailing the latter part of this week. You will, therefore, appreciate that this information should be obtained from the State Department at as early a day as possible.

With kind regards,

Yours very truly,

(Signed) H. R. C.

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EXHIBIT No. 104

ELECTRIC BOAT COMPANY, GROTON, CONN., U.S.A.

J. Machado Coelho de Castro, Agente Geral No. Brazil.

RIO DE JANEIRO, BRAZIL, March 4, 1923.

MR. LAUREL Y. SPEAR.

*Vice President, Electric Boat Co.,*

*Groton, Conn.*

MY DEAR MR. SPEAR: I just received yesterday your letter of 8th February with enclosures (copies of cables exchange). Your letter contains a memorandum of investigations and explanations of the situation in regard to the models 1004-B and 1005-B.

I had a long talk with Commander Monroe this morning and showed him your letter. Of course, he will have I think, for the mine layer the same battery cells, the same main motors, and the same main engines as in the



torpedo boats proper, that is to say 1005-B (d). He was unable this morning to give me his definite opinion because he said that for the design 1004-B we had—to have on our submerged speed at a maximum of 10 knots and at a minimum of 9 knots. I have arranged with him to go to his house this coming week in the evenings and we are going over the situation from the beginning in order to get his mind set exactly about what will be the minimum that he will be content with and also that he said he is sure that you can do. The only uncertainty at the present time is in regard to the 1005-B, and in regard to the 1004-B, everything except the submerged speed is O.K., that is to say the same M.A.N. engines, the ironclad batteries and special armament, which will also be the same for the 1005-B, but what is not settled yet in regard to him is which the keys for the 1005-B is the most suitable because he has to consult and study the question of surface buoyancy. Therefore my next letter will be very complete in all details, but you will have then to present optional tenders that is to say, one tender for the 1004-B (8 boats) to be constructed in the States as primarily thought of and one tender for the same boat “knocked down” proposition, with delivery at Rio price and the scheme of “cost plus”, as you explained in your letter to me of 8th February, with the drawings and specifications accordingly, because as you remember we will to withdraw the tenders that I presented in September with the impossible condition of speed that I promised in order to kill off the Italians.

Regarding the 1005-S tender I will let you know definitely in the next mail which is the exact key that you shall tender, also the drawings and specifications and the number of boats. The exact weight of the mines which I have been unable to find out as yet, and Monroe does not know either. For this tender as well, you will have to present optional tenders, that is to say, one with a price for delivery in the States, and the other for a “knock-down” condition for delivery in Brazil.

*Small engines.*—In regard to this subject, I explained to you in my last letter of 23rd February that they required for the submarine tender “Ceará” 2, and probably 4, stationary engines to be used as generating sets. I got your wire confirmation of which I enclose, and Commander Monroe told me this morning that he wanted me to be prepared when they asked for tenders. He is not certain yet when that is going to be, so far he knows that the Sulzer people are trying to place some of the engines that they have here in the exposition, but he cannot yet give an opinion as to whether these engines would suit the purpose. He will recommend ours. That is also a waiting proposition. I expect to get your drawings and details in this respect shortly.

I understand that the mission is at present very busy inspecting the Navy; I understand also that they are studying a sort of a programme for the Brazilian Navy, which will be presented in the next six weeks. This programme, of course, involves the building of submarines, but Commander Monroe is not very sure about the number that the admiral will think to recommend. I got the particulars that I gave to you of 8 and 1 from the Minister of Marine, which is the idea entirely of the present administration and is not very far away from the opinion of the mission, but as I remark to you again, it is not the last word. The mission seems to be in a great hurry to propose the number of units required, and in that respect I may tell you that Admiral Alejandrino, the Minister of Marine, has requested Admiral Vogelezang to submit his programme as soon as possible because they want to decide upon it soon after the Santiago Conference. Commander Monroe told me this morning that he was pretty sure that they could not build anything because they have not any money and that they have had difficulty in paying the payroll of the Navy every month. Of course, I respect very much his opinion in regard to the technicalities of the submarines, but he knows very little about the organization of these countries: they might not have money enough to pay the pay roll of the Navy, but they have money with which to pay for any contract they may enter into. For instance, the other day they signed a contract with Schneider from Creil, France, for 120 batteries, i.e., 480 field guns 75 mm and they have paid in advance 20,000 contos (\$2,500,000).

The other aspect of the business is as follows. I have had two more interviews with Admiral Alejandrino, who is very anxious indeed to get this business of the naval armaments carried through as soon as possible, especially the question of the submarines. In fact he insinuated to me the difficulty at present of making a contract until the finances of the country were in order,

but he said to me if you will have any scheme to propose in regard to the finances we certainly can go very rapidly. Your letter, par. 14. is therefore very welcome. I am going to see this week not only Aleandrino again, but I am going to try and see President Bernardes and inquire what sort of a guarantee they will be willing to offer in case they decide to place a loan for this construction.

Germano Boettcher has been so far the most important and powerful ally we have in all of these dealings and he has an enormous influence with the Minister of Marine. I am working with him very satisfactorily. I am absolutely optimistic about the result as I told you before, but I insist on telling you that it is impossible to obtain a contract in one of these countries by following the same road and covering a well-known distance; you have got to change your course and lower your speed or increase it in accordance with the course of events. Patience is also a great gift here.

I would ask you to send my cables through the All America Cable Co., and not through the Western Union, which is an English concern at this end. A few months ago I received a notice from the company to send all my messages by the Western Union, but I have not done so, and I am very pleased, for the reason I am telling you about it being an English company at this end, and at the present time as you know we are competing only with the English. I feel very much surer and safer than I would if using the Western Union, as the All America is entirely an American company.

Also, I want to ask you please not to send copies of my letters to Buenos Aires so long as I am here as I am afraid they might go astray.

Commander Monroe told me this morning that in the letter you wrote him you said that in case something will be done here you will come on your way to Europe. That would be fine and believe me the time may arrive when your presence here to close the contract in regard to details will not only be very desirable but very important.

In regard to myself, the situation is such here at the present that I intend to remain here. If you think different, please let me know.

With best regards, my dear Mr. Spear, I remain, as ever,

Yours very sincerely,

(s) LUIS AUBRY.

7/3/23. The Minister of Marine whom I see this morning tells me that if I can provide the money a loan of 15,000,000 dollars he will sign the contract with me in 24 hours.

#### EXHIBIT No. 105

NAVAL CONSTRUCTION WORKS,  
Barrow-in-Furness, 6th November, 1933.

L. Y. SPEAR, Esq.,  
Electric Boat Company,  
Groton, Conn., U.S.A.

#### (Brazilian Naval Programme)

MY DEAR SPEAR: You will no doubt have received full information about the submarines required by Brazil. According to our information, they want:

- 4 submarines, 850/900 tons surface displacement, and
- 2 submarine mine-layers, 700/800 tons surface displacement.

I do not know what attitude you are going to take up regarding this enquiry, but I think Mr. Carse and you will agree that some British firms will have to compete for the submarines, and this being so, it would be very desirable in our mutual interests that we should be one of them.

I am told that Japan is going all out for the whole programme, and therefore I think it reasonable to suppose that pressure may be brought on me to put forward an attractive offer.

I shall be greatly obliged if you will consult Mr. Carse and kindly let me know what royalty should be reserved for the Electric Boat Company. I sincerely hope it will be kept as low as possible, because you know the intense competition there will be.

With every good wish,

Yours sincerely,

Digitized by Google (S.) C. W. CRAVEN.

## EXHIBIT No. 106

NOVEMBER 17, 1933.

Commander C. W. CRAVEN,  
*Naval Construction Works,  
Barrow-in-Furness, England.*

MY DEAR COMMANDER: I have seen your letter of November 6th to Mr. Spear regarding the Brazilian naval program and note that you say: "I am told that Japan is going all out for the whole programme, and therefore I think it reasonable to suppose that pressure may be brought on me to put forward an attractive offer."

I do not understand how Japan has secured the right to bid on building submarine boats for other countries, for in the agreement which I signed for the Electric Boat Company on November 15, 1916, and sent to Vickers on November 17, 1916, after cable correspondence between us, for them to have executed by the Mitsubishi people, the right for a period of twenty years was given only to build boats for the Government of Japan, and while that agreement apparently was never executed but without any notice to us replaced by your agreement of September 22, 1917, with Mitsubishi for a period of twelve years, which limited their right to build vessels for the Government of Japan, and also China and Siam, I do not now question the agreement made in the name of Vickers because on October 25, 1923, I accepted your action in the premises. The matter, however, of the Japanese entering into a world competition in the construction of submarine boats for other countries might be very important to both Vickers and ourselves in the future because of the low cost of wages and material in Japan and, therefore, the right of the Japanese firm to do this business I think should be carefully scrutinized.

We have not yet received the full details in regard to the Brazilian proposition, but as soon as we have an opportunity to study the matter we will be very glad to take it up with you further, as the question of the Brazilian Government expending the amount necessary for such a great naval program at a time when they are not paying the interest on their foreign obligations may cause some action by other Governments in regard to their subjects taking the business on the conditions indicated.

With kind regards, and trusting you are enjoying the very best of health, I remain,

Yours very truly,

HENRY R. CARSE, *President.*

## EXHIBIT No. 107

DECEMBER 20, 1933.

Mr. L. Y. SPEAR,  
*Vice President, Electric Boat Company,  
Groton Connecticut.*

DEAR MR. SPEAR: I enclose herewith a copy of a letter received this morning from Commander Craven dated December 16th in relation to the Brazilian business, also the two new English boats.

I have not replied, as there is nothing particular to be said at the present time and we simply have to await developments.

I do not see how the Japs could bid on this business, as they have no license from us, unless they simply ignore all our patents.

Yours very truly,

HENRY R. CARSE, *President.*

## EXHIBIT No. 108

[Private]

NAVAL CONSTRUCTION WORKS,  
*Barrow-in-Furness, 16th December 1933.*

H. R. CARSE, Esq.,  
*Electric Boat Company,  
33 Pine Street, New York.*

MY DEAR MR. CARSE: I apologise for having taken so long to answer your letters of the 17th and 27th November, but I have been in Spain in the meantime and have been desperately busy in London.

With regard to your first letter, you will realise, of course, that I am not thinking only of the Mitsubishi people as competitors. I am told that the Japanese Ambassador has definitely stated that the Japanese shipbuilding industry will put forward offers which will be better than anything that can come from other countries and, of course, it may pay the Japanese Government to give some veiled subsidy to their shipyards in order to have a small navy building in Japan in case an emergency arose. I am having every pressure brought to bear on me to put forward a most attractive offer and, for your private information, I have managed to do a good deal by way of cutting down British competition. We shall be the only British firm tendering for the submarines and, therefore, I want you to look at our tender from the point of view of knocking out foreign competition.

I join with you in wondering how the Brazilians will pay, but I am told that they can find about a million pounds a year after meeting all other obligations. The whole thing is very involved and may take a long time to clear up, but, of course, I must see that British tenders go forward for every unit in the programme and I have arranged for this.

Very many thanks for your letter of the 27th November, in which you confirm your cable regarding the royalties on the two submarines, tenders for which I am sending in in the next few days. I am very hopeful that something good will result, but I doubt if it is reasonable to expect both boats in view of competition and the necessity of spreading the work about to relieve unemployment.

I have been very interested in Mr. Spear's activities and I am so glad that it looks as if you are going to have a better time in your company during the next year or two.

With every good wish to you all for Christmas and 1934.

Yours sincerely,

(S.) C. W. CRAVEN.

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EXHIBIT No. 109

JANUARY 30TH, 1934.

Subject: Brazilian business.

H. R. CARSE, Esq.,

*President, Electric Boat Company,*

*33 Pine Street, New York City.*

DEAR MR. CARSE: 1. I am enclosing herewith copy of a letter from Mr. Bardo of Jan. 29th in reply to an inquiry from me as to the present status of his plan with regard to the Brazilian business.

2. As you know, I have felt from the beginning that insofar as making any money in this connection was concerned, the best bet in this case would be Vickers; on the other hand, I have also felt that for obvious, more important reasons, we ought to go as far as we reasonably could to meet Mr. Bardo's wishes. When he first took the matter up with me, the general idea was that designs for the whole program would be submitted at this time. As you will see from the enclosure, however, his present idea is not to submit now designs or firm prices except on cruisers, so that it now looks as if it would not be necessary for us to prepare any designs or proposals on his account.

3. Turning now to the question as to whether we ought to make any proposals on our own account, my feeling is that even if we could get around the apparently insuperable difficulties connected with financing and our high prices as compared to Europe, we would not want to go after the business for construction here in view of our other prospects. There is a distinct limit to our ultimate capacity, and it looks to me as if we are likely to reach that limit before very long without any Brazilian business. If, therefore, we wish to submit any tender at all, the only practical way to do it would be to bid for construction by Vickers. You will note that under the first clause of our license agreement with Vickers, business by either of us with that country must be made a matter of special agreement. If we had an order for execution in Vickers's yard to our design, we would supply the engines and electrical apparatus, which, of course, would be advantageous to us from the point of view of the work load in our shops. As we have not as yet made any agreement with Vickers as to the terms under which they may do the business, it might be worth our while to take up the matter of our submitting a tender for construction to our design in their yard. I doubt if they would like the idea, and if they don't, we might be able to trade it off for a higher royalty than we could

otherwise get. I am by no means convinced that this would be good policy, so I am simply throwing out the idea for consideration. Should you think it wise to open up that subject with them, I will have to take it up with Craven very soon, and, accordingly, I would be obliged if you would let me hear from you about the matter as soon as you conveniently can.

4. Should we finally decide to make any tender, it will be necessary for us to determine definitely whether the 50 contos deposit has been waived, or not. If it has not, it can be taken care of in London with funds which we already have there.

Very truly yours,

L. Y. SPEAR.

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EXHIBIT No. 110

1296/85/LYS

DECEMBER 26, 1925.

Commander LUIS AUBRY,  
Grand Hotel, Calle Florida,  
Buenos Aires, Argentina.

DEAR COMMANDER AUBRY: 1. I am in receipt this morning of your cable of the 24th in reply to my no. 8 and after further consideration of the matter of Brazilian commissions, I am today authorizing Mr. Sloat to add to the net prices as follows, viz:  $7\frac{1}{2}\%$  for special commission, 2% for you, 3% for him, and, if necessary, local commissions up to  $2\frac{1}{2}\%$ , making the maximum 15%. I am enclosing for your information copy of his letter of Dec. 9th together with copy of my letter to him of today.

2. With all the compliments of the season, to Madame Aubry and yourself, I remain, as always,

Very sincerely yours,

LYS: B  
ENCs.

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EXHIBIT No. 111

LAW OFFICES  
FREDERICK E. CHAPIN  
HIBBS BUILDING, 723 FIFTEENTH STREET  
WASHINGTON, D.C.

FEBRUARY 15, 1922.

The honorable, the SECRETARY OF STATE,  
Washington.

SIR: At the instance of representatives of the Argentine Republic, the Electric Boat Company of Groton, Connecticut, submitted plans, specifications, and prices for the building of a number of submarine boats. The negotiations started some six months ago and were temporarily suspended during the early part of the Conference for Disarmament which held its sessions here in Washington.

In the meantime the company sent its personal representative, Commander Luis Aibry, an ex-Peruvian Navy officer, to Buenos Aires, for the purpose of ascertaining conditions as they exist. His reports are quite satisfactory in many particulars, but in a recent letter, dated January 4, 1922, he reports a condition of affairs which is most annoying and evidently indicates German interests are active in negotiating the sale of submarine boats to that Republic. After stating that our proposition is looked upon with favor, Commander Aubry states as follows:

"But there is something which I am afraid is going to delay and complicate matters considerably. There is here an ex-captain of the German Navy whose name I will ascertain very soon, who has come in touch with the President and Navy Secretary and apparently has convinced them that German submarines can be obtained through Sweden of much better quality and prices than the ones offered, shipping them in portions to be assembled here at Mar del Plata, where he has proposed building a yard also with material brought from Germany. He has even promised the elimination of the accumulators.

"As the President has a good deal of respect for the Germans he has swallowed this pill, establishing a sort of disturbance that has stopped practically the proceedings in this matter until the report from the two officers sent to Sweden last week, Ferrer and Zeballos, is obtained. You can easily understand how extravagant and absurd is such a scheme, first because of the treaty of Versailles and secondly due to the enormous difficulties and cost of establishing a yard for the sole purpose of assembling these submarines.

"Yesterday I interviewed Admiral Gonzales Fernandez, who by the way spoke to me very highly of the products of your company. He is a personal friend of Mr. Schwab of the Bethlehem Corporation, and had a very frank and nice talk with me, pointing out exactly the same views as his Secretary has expounded to me.

"He said that they had almost decided to build six boats of the 509A design, when this German had come forward with his silly proposal, which unfortunately has been taken very seriously by the President and therefore will delay considerably the matter. I explained to him the different clauses of the Treaty of Versailles which I happen to be acquainted with by reason of my having been delegate of Peru at the Reparation Commission in France just recently. I told him the fact that Peru tried to buy sometime ago 150,000 rifles that were interned in Holland from the beginning of the war, and sent the transport Urubamba for them. General Puente, the Peruvian Military Attaché at Washington, was sent to receive them with the result that the inter-allied Military Commission forbade the rifles to be sold and the transport Urubamba returned in ballast to Callao, Peru, suffering the humiliation for it.

"The same thing happened to Chile with a lot of Krupp guns bought in Denmark.

"It was very easy to convince him of the impossibility of carrying out successfully such an adventure, which in the end will only compromise Argentina before the Allies and friendly powers. Of course I said to him that the Germans do not lose anything but on the contrary they have to gain by putting in evidence that they have friends and influence in this country. He did not only agree entirely with me, but also told me how pleased he was of my coming. He offered to introduce me to the President and to the Secretary of the Navy as soon as he comes back from Muerto Militar, Bahio Blanca where he is going today and will return on the 18th. He said that he has pointed out similar arguments to the President and Secretary, but he was certain that I will carry more authority and weight in the matter because of the fact that I have been recently in the Reparation Commission and acquainted with the details mentioned.

"It appears here that in the Government circles they are perfectly ignorant of the rights and obligations that the treaty has created, and therefore they are very candid about the possibilities of buying from Germany through Sweden.

"Due to this, the President has not yet sent the bill to Congress for the appropriation for the construction, because they are not certain about the right sum required. The Admiral is sure of the failure of the project, and he went as far as to say that the two officers sent to report to Sweden will inform against the scheme. On the other hand he advocated for the building of a yard for assembling one or two submarines, the parts being bought either in U.S.A. or any other country. He also is in favor of the double hull, the argument he puts forward is very candid; the case of collision. He advised me in the meantime to become associated with the most important officers in the Navy in order to discuss and make propaganda in favor of your submarine. I have already been introduced to many of them."

In the meantime, the company sent a cable to Commander Aubry requesting him to cable the name of the German builders offering to build submarines for the Argentine Republic, also the name of the representative of that company in the Argentine, and further whether the builders are in fact a long-established Swedish corporation or whether the proposed builders are Germans who are operating under a Swedish name. The purpose of the cable is to ascertain whether the Swedish building corporation is a going concern or whether it is an attempt on the part of Germany to evade the plain stipulations of the Treaty of Versailles.

An answer to this cable is expected within a few days, and in the meantime it is respectfully requested the Department will exercise its good offices

to ascertain from its Legation in Sweden or its representatives in Germany the actual state of affairs and, if proper, make protest to the Powers concerned against conducting an enterprise which is so palpably contrary to the intent of the Treaty of Versailles.

I remain, Mr. Secretary, with great respect,  
Your obedient servant,

F. CHAPIN.

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EXHIBIT No. 112

ELECTRIC BOAT COMPANY,  
Groton, Conn., January 13, 1922.

Mr. H. R. CARSE,  
President, Electric Boat Company,  
New York City.

DEAR MR. CARSE: Enclosed please find copy of a cable just received from Aubry.

Unfortunately we can do nothing about the torpedoes as the Bliss Levitt people have already quoted directly to the Argentine Government and do not see their way to associating us with the matter at the present time.

The morning papers refer to negotiations now going on in New York with regard to additional loans to the Argentine. In my judgment the financial aspect of the matter will ultimately control the placing of the order and I therefore think that it is of vital importance that we should get in touch with the banking people who are negotiating this loan. I passed the same thought on to Bethlehem but do not think that it would be well to rely wholly on them.

Very truly yours,

L. Y. SPEAR.

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EXHIBIT No. 113

ELECTRIC BOAT COMPANY,  
Groton, Conn., May 25, 1922.

Mr. H. R. CARSE,  
President, Electric Boat Company,  
11 Pine Street, New York City.

DEAR MR. CARSE: 1. I enclose herewith Commander Aubry's expense account covering his trip from Lima to Buenos Aires in our interest. Under our agreement with him in regard to this trip he was to be paid not only expenses but reasonable compensation for his time and services, which compensation he has waived.

2. I have made definite arrangements with Bethlehem under which they assume one-half of this expense which should be accordingly charged against them. I expect to make definite arrangements with Bethlehem, under which so long as we are working with them, they will carry one-half of the expense involved by special representation in South America, and if that goes through, they will be charged one-half of our future payments to Commander Aubry.

3. No cash is required in this case as the amount due him can be placed to his credit against his half of the cost of the small Crusette. The same thing will apply to his salary.

4. I have under preparation here a revised contract for the Peruvian submarine boats, also a memorandum covering our proposed arrangement with Commander Aubry. The completion of the latter paper necessarily awaits decision as to the details with respect to his representation of Launch Company, the E. D. Company and the Submarine Boat Corporation. As to the arrangements for submarines and engines, all details have been completed, except as to the Brazilian submarine situation; as to that he has agreed that I shall fix the commission at what I consider fair and feasible, and I have indicated that the maximum which the situation will probably stand is  $\frac{3}{4}$  of 1%. This figure is based on the idea that our limit for commissions and similar expenses will be 5% as provided in the present contract with Boettcher and that in rearranging this contract we will be able to reduce the Boettcher commission

enough to take care of Aubry. In view of Azevedo's death and the service which we are providing through Aubry, we are certainly entitled to a reduction in the Boettcher commission. The crux of the whole matter however will be the commissions which will have to be paid to third parties in Brazil, so that we cannot very well fix upon definite figures until we get more information than we now have.

Sincerely yours,

(Signed) L. Y. SPEAR.

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EXHIBIT No. 114

RIO DE JANEIRO, September 2, 1923.

Mr. LAUREL Y. SPEAR,

*Vice President Electric Boat Co., Groton, Conn., U.S.A.*

MY DEAR MR. SPEAR: I was on the verge of writing you when I received your cable yesterday, which I promptly answered, as per copy inclosed.

As you know I was requested by the Minister of Marine and presented to him a new scheme which was authorized by the company to make possible the signing of the contract the present year because the Minister of Marine had done all in his power to put the matter through right now, but the unprecedented fall of exchange, which has been discussed very widely by the press here and by Congress, has practically brought the determination of everybody concerned to stop all the expenditures that they had decided to make this year regarding the new bills sent to Congress, which have now been put in abeyance.

In the conference that I had with the Minister 2 days ago, in which I was to ask for a reply to my last proposition on your cable agreeing to the beginning of the payments next year, and which was at the suggestion of the Minister himself, he told me decidedly that the situation was such financially and the regard made in regard to economies so big that it had been impossible for him to obtain the President's consent to sign any contract at all this year; that he was very confident that next year, not before April or May however, they will be in a position to contract for the "subs"; that it was positive that they were going to obtain during the present administration at least the five submarines, which was the most important and first thing on their program; that there was no discussion any longer regarding the type and builders, that that was settled some time ago between the President and Admiral Vogelgesang that we will construct the new program.

Of course, I stated that I was a little bit surprised that if the determination was to build the submarines with us, having agreed on the type and builders, and having also proposed to us in principle to sign the contract now and start the payments next year, I could not see any advantage in delaying the signing of the contract, when it was practically the same thing for them. "Yes", he said, "but you do not take into consideration the most important factor, the moral effect on public opinion when everybody is crying for economy. If the contract is signed next year the situation will, without question, have improved and we know now exactly how much money we will have next year." Of course I told the Minister that I would explain the matter to my company and that we will always be ready to serve.

Last night I took the opportunity to see Admiral Vogelgesang, and to whom I related my conversation with Admiral Alejandrino. He ratified to me that "nothing could be done in regard to new construction until April or May next year when they will buy your 'subs', they know very well today that the best is the American."

Now, I think that there is no reason for me staying here longer. I have done all in my power to bring things to a successful conclusion this year, and inasmuch as I was sure to have succeeded if there had not been general factors of such momentum here in the matter entirely out of my control. I am perfectly confident that these people will order the submarines from the Electric Boat Co. in April or May of next year. I suppose that you will have more or less the same confirmation from your friends in the mission.

The news that I have from the Argentine from very reliable sources has been always the same, that is, that the Government is developing a plan there which consists in presenting to Congress bills for armament so exaggerated that they now cannot be passed and, at the critical moment if they see Brazil building anything, they will agree to a logical reduction and then also



build. In other words, they are bluffing because they think in that way they will prevent Brazil from building anything. Here they have absolutely ignored these tactics, and if they have not ordered what they so badly need it is because they cannot do it for the reasons I have already explained.

The sensible thing that I propose to do will be this: To return to the Argentine, where I will only stay a few days, and investigate thoroughly the situation there, and then proceed to Lima, where I have been called by both cables and letters from my friend Dr. Rodrigues Larrain who tells me that the discussion between the Pro-Marina and the Government has been settled and that the Government can now dispose of the funds of the Pro-Marina to start the construction of two "R" boats and that my presence is requested there for the dealings. In the message of President Leguia to Congress he has stated that he is going to contract for two units. Although I think that Dr. Rodrigues Larrain is absolutely capable for closing this deal, because there also there is no competition for us due to the fact, as you well know, that we have accomplished that work long ago there and that the American naval mission has also recommended the type and company 2 years ago, but under the circumstances having nothing to attend to on this side it will be the most sensible thing for me to go there, where naturally I could bring things to a conclusion quicker.

It will be perfectly safe to leave here on the lookout Germanno Boettcher, who although not qualified for signing any contract for the reasons explained to you long ago regarding his commercial situation, he is the man without question better prepared and better connected to attend to our business, besides he is perfectly interested in the affair and I am entirely confident of him, and so I suggest that you will authorize me to entrust him with the care of our interests here, and I will manage to be in constant communication with him.

Now, if you approve of this, please wire me authorizing me to proceed to Peru; if not, to return to B.A., and if you have any reasons for me to remain here that I am ignorant of, also please wire me so that I will know exactly how to handle the situation with my friend Dr. Rodrigues Larrain by letters and cables. If you authorize me to proceed to Peru, I will understand that it is via Argentine.

I want to point out that here in Brazil I have withheld the prices even in this last proposal so if conditions change by next year we will have no difficulty in altering them. In regard to the dealings in Peru, although they have there the complete specifications that you sent to Dr. Rodrigues Larrain last July, and also the price that you gave me in June, if I am authorized to go to Lima please send me any alterations that you might consider advisable or desirable. My address will be as follows:

Buenos Aires, postal, Las Heras 1914; cable, Aubry.

Lima, postal, Basaje Velarde 177; cable, Aubry.

I hope to hear from you soon, in order that I may shape my plans accordingly.

Believe me to be as ever,

Yours very sincerely,

[S.] LUIS AUBRY.

#### EXHIBIT No. 115

ELECTRIC BOAT COMPANY,  
Groton, Conn., September 20, 1923.

H. R. CARSE, Esq.,

President, Electric Boat Company,  
11 Pine Street, New York City.

DEAR MR. CARSE: Enclosed please find copy of letter from Commander Aubry dated September 2nd.

According to his cables, he plans to sail for Buenos Aires on the 27th instant. I have advised him both by cable and by letter (which he will receive on boarding the steamer at Rio) that we want him to stay in the Argentine long enough to give us full reports and to receive and carry out instructions from us. I have advised him in a general way that it may be our policy to support the bid of our English friends in the Argentine and that we may also decide to have a friendly controlled bid put in from Italy. I have tried to make it clear to him that his reports from the Argentine are part of the data which we must have before us before we adopt a final policy.

In view of the situation in Peru, I suppose it will be well to authorize him to proceed there as soon as we release him from the Argentine and, if you agree, I will do so.

Sir Trevor Dawson's cable of yesterday shows that he is in accord with my suggestion, viz: That we should arrange for an Argentine bid from our Italian friends. As Sir Trevor's cable is not quite clear, I propose, if you agree, to cable him substantially as follows, viz:

"Your cable 18th not fully intelligible. Stop. Have not approached Italy or Argentine about proposed tender and will do nothing until after receipt of your letter."

As Dawson has agreed in principle, I propose to communicate now with Passano with a view to ascertaining whether our Italian friends want to go into the matter and if so, whether they are in a position to do the needful with regard to Italian diplomatic support.

The general idea, of course, is to fix the Italian price a little higher than Vickers' price and if by any chance they should get the order, the profit will be ample to take care of them as well as Vickers and ourselves.

When the time comes for us to discuss the details of the arrangement between Vickers, Cantieri Navale, and ourselves, I will have for our guidance some rough figures to indicate the amount available for distribution.

Very truly yours,

L. Y. SPEAR

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EXHIBIT No. 116

ELECTRIC BOAT COMPANY,  
Groton, Conn., January 7th, 1925.

(Refer to No. 1023/63/LYS. Subject: Argentine Order, Y-Guns, Depth Charges, etc.)

H. R. CARSE, Esq.,

*President, Electric Boat Company.*

*11 Pine Street, New York City.*

DEAR MR. CARSE: 1. I am forwarding you under separate cover by registered mail, four copies of the contract with the Argentine Government for Y-guns, arbors, cartridge cases, and depth charges, together with four copies of the three specifications accompanying the contract and I enclose herewith check to the Electric Boat Company for \$1,000, being the advance payment on the order in accordance with the terms of the contract.

2. You will note that three of these copies have been duly executed by the Argentine Commission. Please have the company's seal placed on all three executed copies and on all of the specifications attached to them and have them forwarded to Rear Admiral J. Irizar, President, Argentine Naval Commission, 250 West 57th Street, New York City. The remaining copy is for your files. I am acknowledging to him the receipt of the check.

3. The New London people are now engaged in making up their estimate of the cost of this stuff and as soon as those figures are available, I will take up with you the question of the terms and the necessary formal arrangements with the American Ordnance Corp., and with me. Of course these matters will have to go before the Board and I would suggest that it might be well to hold back the contract with the Argentines and let it go before the Board at the same time so as to make one bite of the whole cherry.

4. When this negotiation started, the order was of substantial size, but owing to the diversion of their funds to battleship construction by Bethlehem, they have had to cut it down to small proportions so that the importance lies not in the amount of money involved but in the fact that they have adopted our type of stuff in competition with the British which, of course, puts us in a preferred position to get the business when they are ready to place a substantial order as they well may be next year.

Very sincerely yours,

(Signed) L. Y. SPEAR.

LYS: B.  
Encl.

## EXHIBIT No. 118

10 JULY, 1926.

Mr. L. Y. SPEAR.

*Vice President, Electric Boat Company,  
Groton, Connecticut.*

Subject: Argentine.

DEAR SPEAR: I have received your cablegram of July the 8th, as follows: "European construction for Argentine probably essential account price. Procure immediately all information and requirements from Galdinez Mission in London. Subject to necessary arrangements with Vickers to be made later contemplate construction Italy or preferably Belgium. Ample time preparation design and estimate essential. Unless Johnstone presence Finland essential suggest that you recall him soon to assist you."

I have at once taken the necessary steps to go to London, and will see what I can do in the matter and will report as soon as possible.

I am now handling outside the usual negotiations for submarines, the following matters:

- 1.) Obtain affidavits for plans covering claim against the German Government.
- 2.) Direct campaign in Holland with the aid of French and Italian, and perhaps the U.S. Government—if you can obtain that instructions be sent to your Ambassador at The Hague—in view of the combating of the "N.V.Ing. Kant v. Scheepsbouw", as well as further German activities.
- 3.) Obtain information, data, and, if possible, plans about German torpedoes.
- 4.) Obtain requirements and information about Argentine submarines.
- 5.) Direct lawsuit against Whitehead-Fiume, in which the Company has a 50% half interest.

6.) Follow up orders for guns, etc., for Peru.

7.) Development business Y-gun, Davis gun and depth charge.

8.) Redemption of directors and friends of the company.

For all this important work, outside of the normal business, the company pays me a salary in francs, which is equivalent to what, I suppose, your draftsmen or your stenographers get, and whilst you wrote to me that for some time you had been thinking about this matter, I wish to say that the time to act, is now. And I request to be paid a suitable salary which will allow me to live like a man in my station of life, and which I beg you to fix at one thousand dollars a month, payable in dollars.

Please give this matter your best consideration, and believe me,

Very sincerely yours,

EXHIBIT No. 119

DEPARTMENT OF STATE,  
Washington, September 16, 1926.

(In reply refer to LA 835.34/409)

Mr. C. S. McNEIR.

596 Hibbs Building, Washington, D.C.

SIR: On September 9 the Department at your request informed the American Ambassador of Buenos Aires by cable that the Electric Boat Company of New York was competing before an Argentine Commission in Paris for an order for three submarine torpedo boats of about 900 tons each, which it was proposed to build at the works of the Cockerill Company in Belgium from designs and under the superintendence of the Electric Boat Company which would also furnish certain parts. The Ambassador was instructed to seek an early opportunity informally to request the appropriate Argentine authorities that American firms be given an equal chance to compete for the business and that their offers receive consideration equal to that accorded to any other foreign companies.

The Department is now in receipt of a reply from the Ambassador, stating that he has taken the matter up with the Minister for Foreign Affairs and had been assured by him that American bids will be given the equal opportunity re-

quested and that they will be examined, strictly upon their merits, without regard for other considerations.

I am, Sir,

Your obedient servant,  
For the Secretary of State:

(Signed) BUTLER WRIGHT,  
Assistant Secretary.

EXHIBIT No. 120

[Telegram]

BAIRES, November 14, 1926.

Elecbontco:

LALYGNIDTE UKMID MUZEF NODCOGIFOB LEHUGLAHZO BIHUZ  
KLOTZ OBCHOMOHM EPUSDBUGUJ RUICTDIZIF APUHMFULUX JO-  
POHCUMAF IDVUDPIOVK ULMFAAKDIZ JUNJEOHVOS MYTITLCEVA  
UKWYRTYDE AKUFDNOOBZ OWBENOHVOS KYDKYIFORS WREMVDI-  
ZIF BIYMEABWUF JUANLEGUÍA AIGAGKUKIB LADYXHMFO IMVTO  
ANFIBIANS REPLY BY POSTAL.

AUBREY.

[Translation]

No. 3. I am of opinion that we will obtain orders for six now but we must agree to pay 50,000 dollars cash against signing (on) contracts as an extra local commission. In return they will also maintain price of your three therefore such net amount ought to be reduction of price not to be included. Writing contracts. Cable if you accept. Juan Leguia due to arrive New York 15th November. He may be interested in amphibians. Reply by Postal.

Postal 9 a.m., Nov. 15th.

EXHIBIT No. 121

[Telegram]

ELECTRIC BOAT COMPANY,  
New London, Conn., November 15, 1926.

AUBREY, Grand Hotel, Buenos Aires:

Lalzawisaz uzwujukkib vamorohvos gifoblehug wicyppekaf akcuborbra  
lecvaukkib lrfelmudny miutsepud ahjenafarf gumafusewj mohmyepusd  
obhygbugky neoznrufve diziftugny ldetywuemf edixytygpe disargionk vem-  
woagzyn ospuzijloy vezkobisok seawrtugny uhorttytde edwuzoconf akidizniecs  
owtijjyrmo oconfummer efufjmyojk lehugtugny deczaneozn olnyx Spear.

(Translation)

No. 4. With understanding that unit price for six will be same as already quoted for three that is \$713,500 we agree to additional commission total \$50,000 payable cash on signature contracts. Important you defer submitting contract form until after receipt information from us by next steamer. Telegraph whether such delay permissible also your opinion regarding maximum permissible time for delivery of six. Congratulations on prospects.

SPEAR.

EXHIBIT No. 122

[Copy]

BUENOS AIRES, March 24, 1927.

Mr. LAWRENCE Y. SPEAR,

Vice President Electric Boat Company,  
Groton, Conn.

MY DEAR MR. SPEAR: (1) I wish to acknowledge receipt of your personal letter of February 10th and your 3 letters of February 10th, nos. 124, 125, and 23; also yours of Feb. 11th, for all of which please accept my best thanks.

(2) I must apologize for not having written after my letter of February 24th, with the exception of a very short one under date of March 10th. The reason for this being that the impressions received since February 24th until recently have caused many uncertainties which placed me in the position of preferring to write you as soon as I was certain of what I was saying; and that, unfortunately, was not the case from February 24th up to March 16th. My cable of March 8th, requesting the \$20,000 in advance of commission promised, duly arrived on the 10th March. I cabled you in regard to this because it was imperative to get action from the man to whom we have offered \$50,000 and I knew at the moment that only he could avoid the consummation of the plans of the Minister of Marine and the Minister of the Treasury in regard to French construction. That man told Ribero that he would not undertake any action that might compromise himself in any way unless he could see part of the money offered in sight; and I, therefore, made arrangements by which he might be sure of obtaining this amount of \$20,000 and I also made sure that he cannot touch the money until the contract is signed; so I am therefore responsible, as I stated in my cable, for the refunding of the money to the company in case the company or our licensees do not obtain the contract. The only thing that I did was to convert the dollars into pesos, as per enclosed bank liquidation. I do not know whether, if I have to convert these pesos into dollars again, it will mean any loss to the company.

(3) Your cable no. 68 in reply to my no. 33 was also very welcome, because we are making a very, very big effort to develop a great campaign to see that all our work is not lost at the last minute by a combination such as the French one which I explained to you in my letter of February 24th. We have been able, in this respect, to get an editorial in the most reliable newspaper in the Argentine, "La Prensa", which I herewith enclose in order that you may have an idea of what it says. You can, I suppose, imagine who is responsible for this editorial.

(4) My week-end cable asking that you do not consider that I wrote in my letter of February 24th and stating that we were *almost* in the same position as we were on February 8th is exactly the present state of affairs. The Minister of Marine, Domecq Garcia, has been making efforts, in conjunction with the Minister of the Treasury, to arrange for the use of the \$20,000,000 that France owes the Argentine. Now the President has been told by very responsible people in this country and by the press, as you can see by the editorial which I enclose, that such a policy cannot be followed with safety for the good of the country. The President has now stepped back in the arrangements and has definitely told Ribero that the order will be ours unless France gives Argentina the wonderful type that they are building at Loire for the French Government (which the French Government so far refuses to cede). This explains my cables nos. 33 and 34. Your cable no. 68 allows us to bring to certain quarters the conviction that the French are just playing a trick and that what they want is to get rid of something no good in which they have no faith.

(5) Our team work is being carried on all the time and I can assure you, Mr. Spear, that I cannot swear, but I certainly can tell you that my strong opinion is that we will not lose the order, one way or another. The only disagreeable thing is that these negotiations have taken too long. Another disagreeable feature is that the contracts will not be signed here, but in Europe—at least, that is what the Minister says and what everyone else says at present.

With best regards to Mrs. Spear and yourself, believe me, my dear Mr. Spear,  
Yours very sincerely,

(S.) LUIS AUBRY.

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EXHIBIT No. 123

LIMA, PERU, May 12, 1927.  
Avenida del Progreso, No. 603.

MR. LAWRENCE Y. SPEAR,  
Vice President the Electric Boat Company,  
Groton, Conn.

MY DEAR MR. SPEAR: I arrived here from B. A. via Chili, on the 5th of May, and also received, upon my arrival, your cable #1 simultaneously with a cable message from Ribero informing me about the situation in B. A.

1. Argentine business: I acknowledge receipt of your letters of the following dates: April the 21st and April the 26th. It is now evident that we are going to have a definite action. The Minister of Marine had to realize that it was of no use to continue this fight with Ribero and he had to adopt the only attitude possible under the circumstances. We will have the order for three submarines to be built in France and I entirely agree with the suggestions contained in your letter of the 26th April to Sr. Ribero, especially as regards paragraph no. 2, where you refer about how exceedingly difficult it is to deal with the French firms, especially when they think that the Government has designated any particular yard for the construction. The selection of the Building Yard, I hope, is going to be let entirely in our hands and I have sent, today, a very impressive wire to Ribero to that effect in order that our friend, Capt. Koster, will not suffer the same ordeal as in the past at Buenos Aires. I am in touch by wire with Ribero all the while and I have also received already letters from him. In his last letter of the 27th April he sent a copy of the wire he had forwarded to you on that date, in which he pointed the specific commission of £5,000 per boat for the friends and, besides, the special commission agreed with me some time ago; and he said to me that everything is in order in regard to this matter excepting that he had noticed that in his document covering his personal commission the expiration date is 9th June, 1927, and although he felt sure that morally he is absolutely well covered because any contract that will be signed weeks or even months after the 9th of June will be the result of our work and efforts and recognized so by the company, he would very much prefer to have everything legally in order. So he requested me that the company send him a wire stating that he will receive his commission irrespective of the date in which the pending contract will be signed by the Argentine Government and The Electric Boat. I think that this request is perfectly in order, and, incidentally, I request you also to send me a letter extending my contract rights and obligations until the 9th of September, because my contract expires on the 9th of June, and this extension of three months I request and I consider necessary to satisfactorily conclude the business in Argentine as well as here; and although I am perfectly sure that the company will always recognize my rights on what will be the result of my work, I think it is more businesslike to have everything as it is in writing. So I will highly appreciate if you will kindly send me a letter signed by your or Mr. Carse extending my contract for three months.

I hope that by September, or before that date, I shall be able to go to the States after concluding the business in Argentine and adjusting here something new and hence to talk over with you there about my future services, if they are wanted, with the company.

No. 2 Peruvian business: I acknowledge the receipt of yours of the 12th, 14th, 18th, 19th, 21st, and 26th April.

Regarding yours of April the 12th, about Juan Leguia's visit to you and the construction of the larger boats for Peru, I spoke last night, at length, with the President and he told me that he has not instructed, commissioned, or requested his son, Juan Leguia, to act in any capacity whatever in regard to this, and whatever he might do will be entirely in harmony with what he promised me in October last; that is, to increase the national defense funds and buy armaments for the Army, which are required very badly, and order two more "R" boats. He promised me that at the end of June next he will be entirely prepared to discuss the matter thoroughly with me, as he expects to have by that time the financial scheme accomplished, which will very likely permit the withdrawal of the bonds issued by the National Defense Act (that is, our bonds) and then contract two more boats on a cash basis.

He told me that he has not discussed the matter over with Admiral Howe because he was perfectly aware that the Admiral did not want any more subs but destroyers, and he added, smilingly: "But you and I, we do not want any destroyers, but subs, and, therefore, why should we discuss the matter with Howe when we have the opinion of his predecessor, which is in line with ours."

My opinion, my dear Mr. Spear, is that I shall be able to do something here, probably in July, that is, I shall be able to obtain, I think, an order for 2 more "R" boats; now, what I request is that you should send me a price on cash basis—that is, an independent contract entirely from the last one, including 50 torpedoes and ammunitions, guns, etc. You can quote a price only a little lower than the last ones, and I will also try, as we are speaking about available cash, that the first payment should be very large, say 40% of the

total contract price. You have also to consider the usual commissions plus the one for J. L.

I am sorry that this prospect will not fit entirely with your desire expressed in your letter of April the 14th, but in case it should come at the meantime with the other larger expected orders, we always can apply to some other yards for the building of the hulls. Of one thing I can be sure, and that is that I will do my best to get the most advantageous price, terms, and conditions for the company, and also that it will not be any change in the design because not only the president is absolutely satisfied with the "R" boats, but also everybody in Peru.

No. 3. Regarding your enquiry about the Callao port improvements, before having a talk with the president upon my arrival, I went through the different departments of the government and obtained all the data concerning the past and present projects of improvements, but I stopped this activity as soon as I spoke with the president last night. He told me that this matter is already committed with a gentleman named Mr. Clark, in which our old friend Chester has a hand to accomplish such an undertaking; and therefore, he could not promise anything at all in this respect. In other words, my dear Mr. Spear, there is nothing to do in regard to this matter. Somebody else will have the job, whatever Mr. Juan Leguis may have told you.

Referring to the letters of the 26th, as regards the bills sent to Admiral Howe, I spoke with him this morning and he told me that the bill will be ordered payment as soon as O.K. by Capt. Jordan; but he told me that there were some items which we have sent that have already been paid. Of course, I suppose both sides will have documents in regard to such a thing; so I do not anticipate any difficulty, but on the contrary.

No. 4. Mr. Carse has written to my uncle Pedro Larranaga, in regard to obtaining from Dr. Alvarez Calderon a statement about the legal aspect of the last contract that I made in October 1926. My uncle has passed the request over to me and I am attending to it and expect to be able to send the requested document to the company by next mail.

I want to mention in regard to this that I did not consult Dr. Alvarez Calderon at the time of the contract for the obvious reason that Alvarez Calderon, at such time was not here but in the United States, and I am not sorry for that neither, because at such time—that is, other contracts—his opinion and intervention would have cost the company a 25%—that is nearly \$9,000 cash. Now, his bill, of course, will be quite different.

With very best regards to you and Mrs. Spear from Mrs. Aubry and myself, believe me, my dear Mr. Spear,

Yours very sincerely,

(S.) LUIS AUBRY.

("Exhibit No. 124" appears in text on p. 195.)

#### EXHIBIT No. 125

VICKERS LIMITED,  
Barrow-in-Furness, 7th November, 1927.

PRIVATE

L. Y. SPEAR, Esq.,  
Electric Boat Company, Groton, Conn., U.S.A.

MY DEAR SPEAR: Referring to my letter to you of the 7th October and your reply of the 21st concerning the new British submarines, I have again carefully thought out the whole matter. The same crowd of firms are tendering this time and in addition Yarrow is tendering. This means a cut-throat performance.

In view of the fact that the Vickers-Armstrong matter is not definitely settled and passed by the shareholders they are preparing their own estimate. However, I think I shall be able to guide them when the final tender goes in but only at the very last moment.

May I suggest to you that it is in your interests as well as ours that we should get as many boats as possible this time. I do not think Beardmore's will get much of an order unless they put in a terribly low price, because they

are so far behind with the two boats they are now building. We, on the contrary, have made very good progress considering the slackness of the Admiralty in approving drawings, and we are well ahead of Beardmore's and Chatham dockyard. I am hoping to knock both out by a good many months in final completion.

However, I am very doubtful whether the Admiralty dare order more than three or four boats from us, but I still think it worth while to put in a tender for six on the basis of paragraph two of my letter to you of the 7th October. I should be very grateful if you would wire me your approval of the suggested royalties in that paragraph.

During the last few days by skillful maneuvering we have managed to get some of our competitors' prices in the Chilean competition put up, and so may have prevented a real price-cutting war which would have resulted in our taking the boats at a loss. However, I hope we shall know our fate soon and, of course, I will cable you immediately I hear anything.

Yours sincerely,

C. W. CRAVEN.

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EXHIBIT No. 126

VICKERS-ARMSTRONGS, LIMITED,  
NAVAL CONSTRUCTION WORKS,  
Barrow-in-Furness, 31 March, 1928.

L. Y. SPEAR, Esq.,  
Messrs. Electric Boat Company,  
Groton, Conn., U.S.A.

MY DEAR SPEAR: I apologise for having taken so long to answer your letter of the 28th February, but I wanted to have a talk with Thurston about it.

First, let me tell you that "Z" has written and asked for a copy of the "O" class design to be sent to Fuster. We took some considerable time to deal with the matter, but a hastener came, and as the Admiralty allowed us to send the design, minus certain secret fittings, we had to agree. I am afraid you will be upset, but it really could not be helped.

With regard to paragraph 2 of your letter, the price is £1,004,000, including, of course, all the usual Admiralty supplies, wireless, torpedo tubes, etc. It is not as good as I hoped for. I have included £10,000<sup>1</sup> per boat for you, and the delivery dates in the contract are June, July, and August 1929. The whole thing has been most secret, and as Dawson negotiated the final contract with the chief of the commission in London, I had to accept his ruling, that I was not even to mention the matter to you in writing, hence the message by Roberts. Even today, we are bound to secrecy, so will you please promise me not to let your little friends from the other South American country know what is going on at present. Delivery, as you will see, is a terribly tight one, and I have heavy penalties against them, but I am afraid that cannot be helped.

You will have seen in the press about the trouble with the steel columns in the "Oxley" and "Otway." I have asked Rabbidge to write to you and explain the whole situation. It is a damned nuisance, as the boats were doing so well.

Regarding paragraph 3 of your letter, I have now been able to have a talk with Thurston. He tells me it is really rather difficult for him to support your contention about the stability of the "C" class. He says that we have nothing in our records to support the figures obtained by the Spanish boats, and he would find it rather difficult as a naval architect to definitely say they are good for the Spaniards. However, he has promised to do what he can if we are consulted.

With regard to paragraph 4, I wish you the best of luck and hope you may be able to knock out some of your Government dockyards. They seem to be even more of a nuisance with you than they are here.

I wonder whether you have heard that our old friend Percy Addison is now the director of dockyards. I helped him all I could to get the job, and I think he will be an ideal fellow for it. It means his retirement, but it also means his having a permanent job for about ten years if he behaves himself, and as he has no private means worth talking about, you will appreciate what this means to him. I have suggested to him that you and I, and he and Johns

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<sup>1</sup>As per your telegram of 13th April 1927.



(who is anxious to meet you), should have a party and thoroughly wet the appointment next time you are over here.

I am having a terribly busy time with the Armstrong Works on my hands as well as Barrow, but I am going away for five or six days at Easter, in the "Orford", a new liner we have just delivered to the Orient Company.

Yours sincerely,

(s) C. W. CRAVEN.

EXHIBIT No. 127

[Copy]

AUGUST 6, 1928.

1038/127/LYS  
Confidential

Commander C. W. CRAVEN,  
*Vickers-Armstrongs Ltd.,  
Barrow-in-Furness, England.*

MY DEAR CRAVEN: I am just in receipt of your letter of July 25th in reply to mine of July 13th with reference to a new compensating system for fuel oil, etc. In accordance with your request, I am enclosing herewith copy of the preliminary patent papers and sketch, which I think will give you all the information you need. Since your letter indicates that it will be desirable to secure patent protection in Great Britain for this scheme, I shall act accordingly, unless I hear from you to the contrary. Until our British application is actually filed, I think it would be in order for you not to pass the information herewith to anyone.

I have recently received a note from the late unlamented Mayers advising me of his arrival in New York enroute to Washington. The note was, of course, duly filed in the wastebasket.

I hear that friend Livingston passed through New York recently on his way back from Peru. I, however, have not seen him. It is too bad that the pernicious activities of our State Department have put the brake on armament orders from Peru by forcing the resumption of formal diplomatic relations with Chile. My friends advise me that this gesture means that all contemplated orders must go over until next year. This hitch also means that we must not delay too long in getting Aubry back on the job in Lima. The indications are now that he ought to be there about Jan. 1, 1929, which means that his private arrangements will have to be made quite soon. Since the arrangement which we may make with him will necessarily be affected in some degree by any arrangement which you may make, I would be obliged if you will, if possible, step on the gas so that we can chase the matter up next month.

Very sincerely yours,

LYS:B

EXHIBIT No. 128

[Copy]

NAVAL CONSTRUCTION WORKS,  
*Barrow-in-Furness, 8th February 1929.*

L. Y. SPEAR, Esq.,  
*Messrs. The Electric Boat Company,  
Groton, Conn., U.S.A.*

MY DEAR SPEAR: I am very grateful to you for your letter of the 28th January, and for so promptly sending me copies of the instruction books issued by you relating to the H type of submarine for Chile and the R type of submarines for Peru. These will be most useful to us in preparing something similar regarding the Chilean "O'S."

Thank you also for letting me know the latest about Aubry. I am very relieved to know he is now on the mend, but am terribly sorry to hear he has had such a bad time.

Again many thanks,

Yours very sincerely,

/s/ C. W. CRAVEN.

## EXHIBIT No. 129

NAVAL CONSTRUCTION WORKS,  
Barrow-in-Furness, July 13th 1929.

L. Y. SPEAR, Esq.,  
Messrs. Electric Boat Company,  
Groton, Conn.

MY DEAR SPEAR: Thank you very much for your interesting letter telling me of the visit of the Spanish Mission. I think both of us are feeling a bit more optimistic regarding the Spanish submarine business than we were a few months ago.

Your note regarding the limitation of armaments is very interesting, and I can assure you I am extremely anxious about some of our present contracts. Although the papers say that certain submarines have been cancelled, nothing has yet taken place although there is always a possibility of it happening. However, we shall know our fate within the next week or two and if I hear anything I will at once let you know.

Our second Chilean submarine has done her preliminary sea trials and is due to go out for official trials on Tuesday the 16th instant. They are all about a month late, but really my people have done remarkably well as the engine column trouble gave us a serious set-back.

The "H.47" "L.12" collision is a pretty bad show, and it is really a marvel that "L.12" was not taken down by the other boat.

All good wishes to Mrs. Spear and yourself,

Yours sincerely,

CRAVEN.

## EXHIBIT No. 130

FEBRUARY 1ST, 1916.

Memo for Mr. Spear.

At 9:00 a.m. on January 31st, I met Captains Carranza and Garcia of the Spanish Navy at the Parker House, Boston, by previous appointment.

I expressed Mr. Davison's regret that he was unable to be present.

Previously, requests for passes had been obtained signed jointly, as is customary, by Mr. Gardner and a Fore River Company official. *These requests referred to "Mr. S. B. Smith of the Electric Boat Company, and two assistants."*

We went to the Boston Navy Yard where the commandant's aide informed me that the captain of the yard, Commander Haswell, handled such matters personally. *Commander Haswell gave me the necessary order to Mr. Roth and we went on board the boats. During our visit these two officers were not recognized.*

We went on board H-13, and for three hours went over the boat very carefully. One of the engines was run charging battery. The periscope (after) was raised and lowered and diving gear operated. Steering gear, hand and electric, was demonstrated. The conning tower as an escape lock was explained, also the safety features of the partial bulkheads and escape hatches.

The boat was in excellent condition, clean paint, and shining bright work, and all gear that we tested operated perfectly. The periscopes were exceptionally clear, considering the misty and foggy weather.

Captain Carranza said that he liked the boat very much and was anxious that Captain Garcia see it so that on his return to Madrid he could take information first-hand.

The rank of each officer is Lt. commander.

Captain Garcia's address in New York, where he returned today, is the Hotel McAlpin. His name is "Mateo Garcia de Los Rayer."

(Sig.) S. B. SMITH.

("Exhibit No. 131" appears in text on p. 206.)

## EXHIBIT No. 132

[Copy]

Confidential.

Translation by JRD.

JUNE 5, 1924.

ERNEST B. SANBOM, Esq.,  
*London.*

DEAR MR. SANBOM: We have pending an important negotiation with regard to a contract of guarantee for the new submarines, of the program which is under consideration by the Ministry of Marine, and I prefer to write to you in order that you may consult on the question with Sir Trevor Dawson at the moment that you may consider most opportune. The important points on this question are the following:

The contract which our company had made with the Electric Boat Co. was signed in 1912 for a period of 10 years. It thus terminated in 1922. Really, the submarines which we are now constructing of type "C" of 900 tons surface displacement, were contracted for with the Ministry of Marine after our agreement with the E.B.C. had terminated, and it has been considered (supuesto) that this agreement remained tacitly prolonged with exclusive application to these six submarines "C" which we are constructing in Cartagena.

When I was in England in the month of June of last year, the question was brought forward in the terms which you perhaps are familiar with, and Sir Trevor Dawson and Lieutenant Spear of the E.B.C., delivered to be a "rough draft" of which I included a copy herewith (document A); also send inclosed a copy (document B), in which are set forth the amounts which we would have to pay the E.B.C. and to Vickers, Ltd., if we made with both firms the contract which they proposed to us. This proposition could not be accepted by our society, and in order that you may see that it is completely unacceptable, I include a statement which we have made out (document C), in which we have sought to apply the "rough draft" to various assumed cases of estimates for submarines. Also I am sending you (document D) a note in which is explained the intention (or basis ?) on which we have prepared the above-mentioned statement.

It may be seen from said statement that although the profits reserved to the E.B.C. and to Vickers, Ltd., are very important, that of the sociedad disappears rapidly, and may easily be converted into a great loss for us.

From another point of view, the foundation of the new concern the "Union Naval de Levante" is bound to have its influence on the prices which are conceded to us for submarines, tending to make them lower than those authorized up to now, since it is evident that said combine has come here attracted by the prices which it has become acquainted with regarding our previous contracts, and is already proclaiming that they are going to make much more economical offers to construct submarines, employing plans and guarantees from the Krupp company. We must therefore be prepared to offer reasonable prices and it would be convenient that we might arrive at conditions very similar to those established in our contract with the companies which give us their guarantee for the other surface boats, or in other case, at a reduction not only of very considerable amount, in the price of the guarantee as set forth in the "rough draft", but also at an elastic price sufficient so that in case we should have to reduce our prices of construction by exigencies of the Government, this reductions would not be at our expense but might be borne equally by the guaranteeing firms.

As an important question I may tell you that on treating with the authorities with respect to the new submarines, we are acting with the belief that they will not ask of us the guarantee of any foreign company since they consider that the society in condition to design many of the types of boats which they are constructing. Is this not an indispensable condition for us, to present a technical guarantee from important companies, but our desire to continue associated in the study of boats, with the firms with which we are already

acquainted, is what causes us to attempt to arrive at reasonable terms, within the changes suffered in general circumstances from 1912 to present date.

I will thank you very much for any attention which you may give this matter and remain.

N.F.

Document A: You have copy.

Rough draft.

Document B: Simple note showing deduction of the 5% and then 10%.

Document C: Enclosed.

Document D.

#### GUARANTEE FOR SUBMARINES

By the contract of 1912, the E.B.C. supplies the general plans, the construction plans, and specifications and covers the expenses of their technical inspection and collects 5% of the value of the boats and the half of the profits.

Under the proposal of July 1923, the E.B.C. supplies only the general plans and specifications required for the presentation of the projects and collects 5% commission and 10% after deduction of the 5% previous (9.5%) as royalty; supplies the construction plans at cost, and there passes to the account of the S.E. de C.N. the travelling expenses and salaries of the engineers or technical inspectors. Not being acquainted with the amount of these costs we assume them provisionally represented by 2.5% of the contract price.

With this data and assuming various alterations in the cost of the boats and the prices at which they are awarded, we have made out the enclosed statement in which are represented the profits according to the contract of 1912 and according to the proposition of 1923. In comprising the profits, we see that the proposal of 1923 has for us no advantages if the profit is great and might prejudice us greatly if the profit be small.

The contract of 25th Sept. 1916 with the British group for surface warships, fixes as price of guarantee 10% of the actual profit obtained from each boat, and said remuneration is never to be less than 8 per 1,000 of the contract price. When the plans are supplied by the British group the cost of the execution of the same will be paid by the S.E. de C.N.

#### EXHIBIT No. 133

ELECTRIC BOAT CO.,  
Groton, Conn., July 16, 1925.

Refer to no. 1255/126/LYS.

Mr. H. R. CARSE,

*President Electric Boat Co.,*

*New York City.*

DEAR MR. CARSE: 1. Referring to our recent conversation about the possibility of getting some cash now out of our anticipated profits in Spain, I am giving you below some figures to turn over in your mind until we have a chance to talk the matter over.

2. When I broached the idea, I had in mind the profits on the six C boats, but before dealing with that, it may perhaps be well to refresh your mind as to the six B boats. We have had an accounting on four of these, and while we have not received everything that is due us on them, the whole situation is quite hazy and there is no certainty that we will ever receive anything more. On the remaining two boats, viz. B-5 and 6, we ought to receive about \$135,000 each, with the peseta at its present value of 14½ ¢. As far as we can tell at this distance, these boats are due for delivery about as follows: B-5, August 1925; B-6, January 1926. In the case of B-1/4, the Spanish Co. did not render us any account until after the expiration of the 1 year guaranty period. I hope that in the case of B-5 and 6 we shall be able to change this and get the accounting shortly after the delivery of the boats, but, of course, there is no certainty as to that, so that on the whole there is no telling when we will get in our money on these boats.

3. Turning now to the six C boats, the contract price of these is 13,186 pesetas each and the lowest estimated gross profits per boat—after taking care of Zedzed's 5 percent—is a little over 4,000,000 pesetas, so that our anticipated minimum total income from the six boats is \$1,750,000. While turning over the matter in my mind, it has occurred to me that instead of

attempting to sell the profits, it might be possible to make a deal in the form of a loan. Assuming, for instance, that these prospective and partially earned profits, together with our general credit would warrant a loan of \$900,000, we might borrow \$150,000 per boat at 6 percent, obligating ourselves to devote the proceeds as and when received to the discharge of the loan, but reserving the right to pay it off, principal and interest at an earlier date, and to sweeten the loan we might offer a bonus of 10% of our gross profit. Assuming the following dates for the receipt of the money, viz, C-1, October 1927; C-2, April 1928; C-3, August 1928; C-4, December 1928; C-5, April 1929; C-6, August 1929; and assuming the loans to be made about September 1, 1925, and to run to about the above dates, the interest would come to from \$165,000 to \$175,000. Taking the larger figure for interest, the expense, including the bonus, would run to \$350,000, which would leave us a net return of \$1,400,000 or 12 percent of the contract price. Of course, we all expect that we will be in funds in about a year through recovery under our United States claim, in which case, of course, we could pay off the loans and thus save the greater part of the interest and correspondingly increase our net return on the Spanish business.

4. I suppose that the whole thing is too far out of the beaten track to warrant the hope of swinging it over here, where people have no personal knowledge of the Sociedad and the facts relating to these contracts, but as to that you, of course, are a much better judge than I am. If, as I suspect, the thing, if done at all, will have to be done with or through Zedded, I think it would be wise for us to make up our minds as soon as possible as to what we would like to try for, and if the loan idea appeals to you as it does to me as probably the easiest thing to put over, I would be glad to have as soon as convenient your views about the details, and particularly about the sweetening.

Very sincerely yours,

(Signed) L. Y. SPEAR.

LYS/AM

P.S.—Whether such a loan should be made in dollars or pesetas is, of course, a question of the future trend of exchange, about which perhaps you may have some definite opinion.

#### EXHIBIT No. 134

ELECTRIC BOAT COMPANY,  
Groton, Conn., October 24, 1929.

File No. 1259/454/LYS

H. R. CARSE, Esq.,

*President Electric Boat Company,  
11 Pine Street, New York City.*

DEAR MR. CARSE: Replying to yours of the 23rd in re Spanish business, if the Sociedad gets the order for these boats, Vickers and ourselves share equally in the royalty. If our design or patents (including Vickers) are used, the Spanish company pays the old 5% which we pass on, and in addition pays to each of us a royalty of 3½% of the balance of the contract proceeds after deducting the said 5% and the cost to the Spanish company of any gun armament included in the contract price. If, by order of the Spanish Government, the Sociedad should build some other type of boat, then they have to pay each of us 1½% of the total contract proceeds.

Taking everything into account, including the financial aid which the Sociedad has been rendering to the government, I do not believe that there is any real danger of the order going to anyone else. As to design, while the German interest has been and is still active in Spain, I think that the odds are much against their chances of pushing us out of the nest. All of the official documents with regard to the new construction refer to the boats as new construction to our design.

Very sincerely yours,

(Signed) L. Y. SPEAR.

LYS:B

("Exhibit No. 135" appears in text on p. 211.)

("Exhibit No. 136" appears in text on p. 212.)

## EXHIBIT No. 137

[Copy]

NAVAL CONSTRUCTION WORKS,  
Barrow-in-Furness, 14th March 1934.

Personal and confidential.

L. Y. SPEAR, Esq.,

*Electric Boat Company, Groton, Conn., U.S.A.*

MY DEAR SPEAR: I am awfully sorry that I neglected to answer your letter of the 9th February, reference 1259/283/LYS, and that you therefore had to send me a shake up on the 28th February. I have wired you this morning as follows:

"Apologize my neglect answering your letter 9th February. Consider your proposals paragraph three for payment for work done reasonable. Leave you to approach Sociedad in view by dual position. Writing."

As I am deputy chairman of the Sociedad—and I can assure you I am having plenty of difficulties with them by virtue of that position—I should much prefer that you should take up the question under discussion. If it is referred to me, as I think it will be, I shall say that I consider your proposal very reasonable.

I note that you have written to Colonel Fuster, asking him whether the press information regarding the Government decree is correct. We have recently appointed Colonel Cervera as managing director of all the works of the Sociedad and in charge of naval business generally, and Captain Calonje as managing director in Madrid and in charge of military business. I think, therefore, that in future you should write direct to Cervera, because Colonel Fuster, having been promoted to the board, is now acting as an adviser only.

I can tell you at once that there is every possibility of the Government approving the construction of certain warships, including two repeats of the submarine now building. Of course, things look very stormy in Spain at present, and I sincerely hope nothing will be done to check the swing to the right which has recently taken place, because the present government look as if they are going to be most sympathetic to the Sociedad and give us a modest naval programme, which, I can assure you, is very sorely needed to keep the place going.

Again apologising for my delay in writing to you, but I really have been terribly busy.

Yours, sincerely,

(S.) C. W. CRAVEN.

## EXHIBIT No. 138

SUBMARINE BOAT CORPORATION,  
*Affaires Continentales, Paris, 9 Nov., 1920.*

President HENRY R. CARSE.

*Submarine Boat Corporation,  
5 Nassau Street, New York City.*

DEAR PRESIDENT: I have received your letter of October the 28th on the subject of Mr. Hurley's book, and have also received the book itself. I have written to Mr. Hurley to thank him for his gift, and am much obliged to you for having obtained it for me.

I have just these days been decorated by the Italian Government with the Crown of Italy, and have applied to the Queen of Holland, to be allowed to accept this decoration.

With kindest regards,

Yours faithfully,

KOSTER.

## EXHIBIT No. 139

JUNE 5, 1923.

HON. SECRETARY OF STATE,  
*Washington, D.C.*

SIR: The representative of the Electric Boat Company in Europe, located at Paris, has been in negotiation for some time with Cantieri Navali della Spezia, of Italy, in relation to entering into an agreement with the Electric Boat Com-

pany for the building of submarine boats in Italy for the Italian Government, the Electric Company furnishing complete designs, plans, and specifications for submarine boats as might be desired by the Italian Government, and the construction of said boats to be accomplished by Cantieri Navali della Spezia from said plans with such assistance as might be necessary to be given that organization by the experts on submarine construction in the employ of the Electric Boat Company.

We understand that certain competitive tenders are to be submitted to the Italian Government on or before June 11th, and our vice president, L. Y. Spear, who is now in Europe in close connection with this matter, has made a special appeal for us to present the matter to the State Department at Washington with the hope that it will instruct the Ambassador of the United States at Rome to support the proposals of the Electric Boat Company for the construction of submarine boats that may be made through the Cantieri Navali della Spezia.

The work of the Electric Boat Company is well and favorably known in Italy, as during the late war eight submarines were constructed by the Electric Boat Company at Montreal for the Italian Government, which made the trip to Italy under their own power.

We would appreciate the intercession of the State Department in this matter as far as it is considered proper and desirable.

Respectfully,

(Signed) HENRY B. CARSE, *Pres.*

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("Exhibit No. 140" appears in text on p. 219.)

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("Exhibit No. 141" appears in text on p. 220.)

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#### EXHIBIT No. 142

Nov. 9, 1923.

C. S. McNEIR, Esq.,  
Hibbs Building, Washington, D.C.

DEAR MR. McNEIR: We have received a letter of which the following is a copy:

ITALIAN EMBASSY,  
Washington, D.C., November 2, 1923.

THE ELCO COMPANY,  
Bayonne, N.J.

GENTLEMEN: I would consider it a favor if you could send me a copy of the contract between your company and the Royal Italian Navy, which was drawn on November 1916 for 28 submarine chasers, \$44,500 each, 75% paid at the signature of contract, the remainder at delivery.

Thanking you in advance for your courtesy in this matter, I remain,

Yours very truly,

Comdr. E. SOMMATI DI MOMBELLO,  
*Naval Attaché.*

I wish you would call on Commander Sommati and try to find out what he has in mind. The contract of November 1916 was for 4 motor yachts instead of 28 and was between the Elco Company and Paul Koster (our representative in Europe—and not the Royal Italian Navy, and the price for the boats was \$48,000 each and not \$44,500, and only 25% was paid at the signing of the contract, and not 75%. The order was negotiated by Koster in Paris through the Italian Embassy there and was executed by Koster as the party of the first part because the United States was not then at war with Germany and the State Department had ruled that these motor boats would be considered as war craft, and it was therefore considered unwise to have any of the belligerents a party to the contract. We have no special knowledge here as to the arrangements made by Koster in Paris, but the payments were all made to us through the Italian Embassy in Washington. I give you these items of facts for your

information in talking with the commander to find out why he wants a copy of this contract.

We had other orders for motor boats, viz:

2nd Jan. 1917, between Koster and Elco Co., 12 at \$48,000 each;

15th Feb. 1917, between Koster and Elco Co., 12 at \$48,000 each;

6th April 1917, between Koster and Elco Co., 12 at \$48,000 each;

20th July 1917 between Carlo Pfister representing Royal Italian Navy and Electric Boat Co. 50 at \$44,500 each, we making the concession because of the larger number; and

6th Feb. 1918, between Major Luigi Galileo and Electric Boat Co., 20 at \$43,500 each, we being obliged to make a reduction of \$1,000 in order to please Mr. Baruch who was handling the matter of purchases because of the money being advanced by the United States Treasury.

All of these boats were accepted, delivered, and paid for.

Yours very truly,

(Signed) HENRY R. CARSE, *Pres.*

#### EXHIBIT 143

5 NASSAU STREET,

New York City, November 15, 1923.

Comdr. E. SOMMATI DI MOMBELLO,

*Naval Attaché, Italian Embassy, Washington, D.C.*

DEAR SIR: Referring to your favor of November 2nd and to the interview of our Washington representative with you on the 10th instant, we have been going over our records in relation to this subject which accounts for the delay in replying to your inquiry.

We find that hulls number 7 and 10 (the Italian numbers of which were 71 and 12) were part of the first contract for the construction of 4 motor boats, which contract was executed between Paul Koster, our representative in Paris, and the Electric Boat Company, in order to avoid any question being raised of neutrality in regard to building for a belligerent what might be claimed by the German Government to have been war boats, and I enclose herewith a copy of said contract for your confidential information.

This order for 4 boats was succeeded by several orders—one for 12 boats in January 1917; 12 in February 1917; 12 in April 1917; 50 in July 1917; and 20 in February 1918; the parties to these contracts in the first part being individuals, but the boats all being intended for the Italian Government.

Trusting this information will cover what you have in mind, we remain, with kind regards,

Yours very truly,

(Signed) HENRY R. CARSE, *Pres.*

#### EXHIBIT No. 144

DEC. 28, 1925.

Personal.

W. D. BENSON, Esq.,

*Pacific Coast Manager,*

*San Francisco, Cal.:*

I have your confidential letter of the 21st instant, which I have read with a great deal of pleasure, but I am surprised that Mr. Hill should have taken such a position as indicated, because our relations here have been so intimate for many years, and certainly not to the loss or detriment of the Bethlehem Company. I figured up about a year ago that since 1919 we have paid the Bethlehem Company between twenty and twenty-five millions of dollars for work done for us, all on a cost-plus basis, in connection with contracts which we were doing mostly on a straight price contract, and in this connection we paid the Bethlehem Company three million or more for increased wages paid during the war time on construction for the Navy Department for work they were doing on submarine boats for us, which we have not yet been able to recover from the Navy Department, but on which we have lost interest these seven or eight years, and you can figure up very readily that it runs into extremely large figures. There are some unsettled accounts between us, but we have paid them every penny of their out of pocket, and the only unsettled



items are some which depend upon whether the Navy Department allow certain claims and pay to us, in which case we will pay them over to Bethlehem, and if we do not receive payment they cancel themselves; and others, where they were to receive a certain bonus if they turned out certain work at a lesser amount than the estimated cost, or in quicker time; but, as we have not come to a full and final settlement with the Navy Department, we do not feel that such comparatively small items are pressing.

We know very well the very friendly relations between ourselves and Mr. Tynan, because, in connection with his splendid services we did a remarkable stunt in 1914-1915 in building submarine boats for England at Montreal, where a bonus of one million dollars was earned, and our friend Tynan received from Mr. Schwab a substantial acknowledgement for his extraordinary services, and in addition to that, which gave prestige and reputation he gained by that work, which brought to the Bethlehem Company orders for over three hundred millions worth of work from Great Britain.

The personal relations of the three executive officers of this company with Mr. Schwab are very close, almost as though we were junior partners, and our relations with Mr. Grace and his staff are very agreeable; so that it has really hurt us to feel that anybody in the Bethlehem organization would divert any business that they could possibly send our way, and I have felt so strongly that it was simply some little oversight or mistake that I have not even mentioned it to Mr. Schwab when I have met him.

I would be glad if you would convey to Mr. Tynan my best remembrances and respect and trust that his management of the Pacific coast end of the Bethlehem Company will be very successful, and you can show him this letter if you think best.

With kind regards

Yours very truly,

(Signed) HENRY R. CARSE, *Pres.*

Correct: Henry R. Carse.

#### EXHIBIT No. 145

ELECTRIC BOAT COMPANY,  
Groton, Conn., November 3, 1925.

Refer to: 1285/156/LYS.

Subject: Roumanian business.

H. R. CARSE, Esq.,

*President Electric Boat Company,  
11 Pine Street, New York City.*

DEAR MR. CARSE: 1. Forgetting that it was election day, I called you up this morning to talk to you about Roumanian business before cabling Koster, but as the matter is urgent I am releasing today the proposed cable as per copy herewith. He has several things to do before he can make any commitment to the Roumanian Government and consequently if for any reason you do not approve of the proposed action, there is time to stop it by cable.

2. To refresh your mind, I will say that when the Roumanians got in tenders sometime ago, everyone expected that the order would go to Italy. All the Italian yards, however, grouped themselves into a syndicate and offered exactly the same price, at which the Roumanians took offense, and consequently reopened the business. As the thing now stands, they are asking for quotations on six boats on which they have placed a price limit of \$120,000 each. To fully meet their specifications would require a boat of about 600 tons displacement which is too big for the money available and we have accordingly worked out a project with a 500-ton boat which comes pretty close to meeting their requirements. As construction in Italy in this case is out of the question, our best bet would seem to be Cockerill in Belgium. On this business we would have to pay an agent's commission of 2% and a participation to Vickers of 3% so that the net price would be \$551,000 per boat. The estimated cost including 100% overhead for Cockerill is \$450,000. There must necessarily be a good deal of guess about the cost of production at Cockerill's yard and personally I haven't any too much confidence in this estimate and believe that we will find it is too low. However, there seems to be ample margin to protect us against any real loss and I therefore favor going after the business. Our contract with Cockerill for construction for the Belgian Government is on a

50-50 profit-sharing basis, and provides that unless we make other arrangements anything built for foreign account would be handled in the same way. My feeling is that if we can procure this business, Cockerill ought to give us better terms than for the Belgian business and the simplest way to work that would be for us to withhold something from the contract price.

You will see that I have proposed to hold \$11,000 per boat from which we will have to disburse \$4,400 per boat in addition to our costs and one-half the profits which the accounting with Cockerill may show, taking the proceeds as \$109,000 per boat. Our costs for plans, supervision, and everything else which we may supply, including our 45% overhead on the labor should not exceed \$30,000 per boat and as the contract with Cockerill requires each party to share eventual losses in proportion to their expenditures, we will not be taking any risk at all if Cockerill accepts our terms.

Very sincerely yours,

(Signed) L. Y. SPEAR

LYS-B.

Enc.

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EXHIBIT No. 146

JANUARY 21, 1929.

L. Y. SPEAR, Esq.,

*Vice-President, Groton, Conn.*

DEAR MR. SPEAR: Your favor of the 18th instant to hand, with the letters from Koster about giving a license to the Italian concern represented by Captain Sacerdote.

I cannot see that we can expect any benefit from such an arrangement. It does not matter what the information of any individual in Italy might be, as the policy of the Government is clearly stated, that everything they can possibly control or direct is for Italy and not for outside. The only thing that would happen would be that the Italian would get some information and data from us, and possibly plans, which he would use for his own benefit.

Years ago we had an arrangement with Orlando, who was Premier of Italy, and he ignored his obligations under the agreement. Since then Koster made arrangements with several concerns in Italy, one after the other, and nothing developed. They simply made the agreements, apparently with the idea that in some way or other they would get some money or information, and I see no use in wasting time and effort in that direction.

Yours very truly,

(Signed) HENRY R. CARSE, *Pres.*

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EXHIBIT No. 147

JUNE 17, 1927.

L. Y. SPEAR, Esq.,

*Vice President, Groton, Conn.*

DEAR MR. SPEAR: Your letter of the 16th at hand in regard to Aubry. When he was last in this country, he discussed with me the subject of being our representative in Europe, which I believe I mentioned to you, and indicated that that arrangement would be very agreeable to him because he felt that the South American field was nearing the point of exhaustion.

The record that Aubry has made in South America shows his efficiency, and we have not been burdened by spending large sums of money and chasing rainbows as in Europe in the past. The position might be taken that if we did not go after business we would never get any, but I think there is a difference between spending your energies on possibilities after close analysis rather than chasing matters that if secured would not prove profitable or beneficial.

I consider that Passano is an absolute loss to the company and all the money spent by him is vanity and vexation of spirit. The people with whom he discusses these matters are simply looking for what they can get out of him and I cannot see that there is any reason for continuing him.

In regard to Koster, the strong adverse opinion of Sir Basil should not be ignored because there evidently is some groundwork for his antagonism, and since Koster was appointed by Mr. Rice in 1912 he has not secured a dollar's worth of business except the submarines and motor boats from Italy which were paid for from the United States Treasury, and he led us into the cargo-

ship proposition, which almost proved a mortal blow. I like Koster and admire his persistence, but he does not produce anything, evidently not proving himself *persona grata* to the powers that be.

Our experience with Aubry shows that he has proper understanding and has been able to accomplish things which would probably have been impossible with anyone else. Of course, if he were our representative in Europe he would not have any connection with our Spanish business, because Sir Basil insists upon that being kept away from our European representative, and of course the question is how would a Spaniard be received by the people of other European countries. Regarding that, my opinion would be of no value. I should say that we could agree to proposition (a) as outlined by Aubry, because he would be entitled in any event, at least morally, to commissions on any business we should develop in the near future from either Peru or Argentine, and, as he states, he would not look to us for any other compensation while he was naval attaché for Peru. If we could retain an option on his services for the future without any obligation on our part, that would also be wise, but I do not believe that we should obligate ourselves to employ him as European agent until such time arrives as we may wish to decide the question.

I really believe we ought to drop Passano, although I realize that he probably would be helpless and unable to earn anything if we did that, but look back on his record and all the result to the company has been trouble, and neither he nor Koster has had at any time any more difficult proposition to work out than Aubry had in Peru, and yet Aubry worked it out to the benefit of the company, while these other people have worked up their propositions in a way that has proved detrimental to us.

I approve your writing to Aubry accepting proposition (a) as indicated above.

With kind regards, yours very truly,

HENRY R. CARSE.

P.S.—You might at the same time say to Aubry that the bankers accepted the Peruvian notes on the opinion of Mr. Stroock without requiring that of Dr. Calderon, and while it would undoubtedly be desirable in the future to have that opinion, there is no particular rush about it now, and his action waiting so as to secure such opinion at a reasonable outlay is approved by us.

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EXHIBIT No. 148

[Copy]

ELECTRIC BOAT COMPANY,  
Paris, 25 March, 1929.

Subject: German claim.

ELECTRIC BOAT COMPANY.

Groton, Conn., U.S.A.

GENTLEMEN: I have received your letter of March 13th, together with memorandum and documents 1-7, and am writing to you in a hurry, just before leaving. I have prepared everything as much as possible for my arrival, by telegram, with the patent agent, Mr. van Hoogstraten, but it is a pity that I did not know before, that Techel had come into the picture, as it is possible that there exist relations between the two gentlemen named. However, I will find that out as soon as I see Mr. van Hoogstraten, whom I have requested to come and meet me at the Hotel des Indes immediately upon my arrival.

In going rapidly over documents 1 to 7, it seems to me that no. 7 is by far the most dangerous (Techel-Neiland); I had already read up all that I possess on the subject in the office, so that in a very short time, I could get an approximate idea as to the data now received. It seems at first sight that the Techel opinion is based on the absence of tank "f" of our patent claim, and that seems the point which Mr. van Hoogstraten has to refute, and you intend probably to make his affidavit part of our reply to the Techel opinion. I am of the opinion that your standpoint is quite correct that tank "f" is a mere refinement, to be used on all smaller boats and on such bigger boats in which the reserve torpedoes are located at an appreciable distance from the tubes, but which tank "f" may eventually be omitted if static stability and the distance from torpedoes to tubes permit. It is a kind of safety valve, to be used, if necessary. Mr. Giese is quite right in not putting any store thereby.

If in our reply we can discredit Techel, it will be a good thing for us, and the following may be of use therefor:

Now, let us see who Techel is. According to his own showing, he was—

1. Employed from 1912-1916 at the Imperial Shipyard at Danzig, where he was in charge of submarine boat construction.

2. Attached from 1916-1918 to the submarine boat Inspectorate at Kiel where he was engaged in the preparation of the plans and where he supervised the submarine boats in course of construction and when finished.

3. At the end of 1925 he withdrew from the services of the "Germania Werft" and since that time he is manager of the Dutch [sic] firm N. V. Ingenieurs Kantoor voor Scheepsbouw, The Hague.

It seems from the above that he was one of the guilty parties in the infringement of our patent 133,607, and is now acting as a witness to pass judgment on his own wrong doings. He is one of the accused, now camouflaged as a witness. It is a great pity that Techel does not tell us something more about his activities in the *Ingenieurs Kantoor voor Scheepsbouw* (Inkavos) at The Hague, which in my mind is nothing but a camouflaged German concern, created by German firms with the consent and probably under the protection of the German Navy, in order to be in a position to keep actively into touch with developments in submarine-boat construction, which, because of the Treaty of Versailles, they cannot follow in practice in Germany. All the German firms who build parts or machinery for submarine boats, have established camouflaged concerns in different *small* countries surrounding Germany (Sweden, Switzerland, Holland, etc.) and I consider "Inkavos" their rallying point. If the foregoing is correct, and the way in which "Inkavos" was created makes me believe it, then the Techel opinion comes in a strange light, and ordinary people may be surprised that he tells us so little about his activities since 1918, especially as he is the soul of the whole thing. It is most interesting if Techel would tell us:—

1. How "Inkavos" was created.

2. By what people (some Dutchmen who know nothing about submarines and are pure strawmen).

3. Who put up the money at its creation?

4. Who own the shares at present?

5. Who direct the company?

I have sent you a copy of the Statute Laws of "Inkavos" several years ago. But Techel is more; he is the bold knight who has overcome all the formidable difficulties enumerated by the German agent, Mr. von Levinsky. He, Techel, has obtained *all* the data which Mr. von Levinsky stated that it would be impossible to obtain (see his objections 1 to 9). How is that Techel overcame all these extremely forbidding conditions; is it too bold to say that he was probably invited to violate the sanctuary. As a matter of fact, Techel says:

"The original drawings (supposed to be delivered to the Allies) utilized by me bore handwritten dates", and "I could ascertain that these were the actual original drawings."

Very, very clever of Techel to have obtained all this, and will he tell us, where, when and from whom he obtained the information, and also by whom he is paid. We may then get the Allies to enforce the Treaty of Versailles. (See von Levinsky objection no. 5 and no. 9.) It shows certainly that the archives of the German Admiralty are not as barren of documents as the German agent said it was.

If I did let myself go, I would say that the entire thing is a huge camouflage and a lie, and I suppose that Mr. von Levinsky is shaking in his shoes as to the military sanctions which the Fatherland may incur. (See objection 9.) I will volunteer in the invading army, and I might go on in this strain, if I were not in such a hurry. Regenbogen is another bird of the same feather, and I will recollect having met him on two of my four visits to Berlin.

1. With Mr. Sutphen (Regenbogen).

2. Alone.

3. With Mr. Carse.

4. With Mr. Spear (Regenbogen).

When in The Hague, I will—

1. See whether van Hoogstraten is free from "Inkavos."

2. Submit the *documents 1 to 6* to van Hoogstraten to begin with; later on 7.

3. Let him study the matter first for himself with a view to giving us what we want.

4. Hang on, and guide him as best I can.

I will cable you from The Hague as soon as I am in a position to say what we may expect.

Time is up.

Yours very sincerely,

KOSTER.

P.S.—I recollect very well that when I was on board the submarine boat of German design for the Russian Government and running a submerged trial in Eckernfjorde Bucht, the captain of the boat, Mr. d'Equivilley, who also had supervised the construction, would not permit anybody, when running under water, to go from one compartment into the other. As Techel says that patent 133.007 is of very little value, why did he (Krupp and the navy) make such frantic efforts to obtain possession of it?

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EXHIBIT No. 149

[Copy]

PARIS, Le 13 February, 1934.

Ref. 691/E

L. Y. SPEAR, Esq.,

*Vice President Electric Boat Co.,  
Groton, Conn., U.S.A.*

DEAR SPEAR: Your letter of January 31st, ref. 1000-10/61 re my trip to the United States, duly received, and many thanks.

Yours of January 31st, ref. 1000-10/619, re Davison gun, duly received, but I must honestly say that your suggestion to leave France (England, I do not mind so much) out of the picture is not welcome. With my letter of February 3rd, which has crossed yours, I have given you information about my connections.

Yours of January 31st, ref. 1000-10/617, re data which I sent you about certain Bofors guns, duly received. I am collecting further data which you require, but would much like to know how I stand as to collaboration with the owners of the dual gun. You undoubtedly know that it is not easy to obtain the information which you ask for, as Ordnance firms do not care to give out such information. As there is already a desire on the part of owners to leave France and England out of the picture, and to let me work in secondary countries, the business is losing quite an amount of its attraction.

I have recently gone on the board of the Bergmann Company, in Berlin, and would like to make an agreement for the construction of our submachine gun with a firm in the United States. Would it be possible for you to recommend some firm, and in this connection I am enclosing a little pamphlet? *Confidentially* I may tell you that that we are building these guns for certain organizations in Germany.

Yours of February 1st, ref. 1000-10/620, re Welsbach, duly received, and I thank you very much for the perfectly rotten information. What is the matter with these Yankees; do not they any more know how to run their companies? Naturally, gas mantles in 1934 are about in the same class with torches stuck into sconches on the wall, as our forefathers did in their castles.

Are we downhearted? No! Wot a life!

Yours,

(Signed) KOSTER.

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EXHIBIT No. 150

ELECTRIC BOAT COMPANY,  
*Paris, 48, Avenue De La Bourdonnais.*

L. Y. SPEAR, Esq.,

*Vice President, Electric Boat Company,  
Groton, Connecticut.*

Subject: Submarines, Holland.

DEAR SPEAR: When I left Holland, I asked Mr. Johnstone to write out his understanding of the situation in Holland, to address his letter to you, and

to send me two copies thereof. I told him that I would send you my comments on his letter, so that you might have both of our opinions in full.

I must say that Johnstone has set down the facts very fairly and clearly, and my comments on his letter therefore can be short. There are, however, other matters, which I want to call to your attention, and certain conclusions and proposals which I want to submit to you:

It is now perfectly clear to me who Schelde desire no interference from this office, as their actions cannot stand the light, and as they are afraid to be found out in their crooked dealings.

Towards the Navy they even take the standpoint that they have nothing to do with the Electric Boat Company, and act in general in such a way as to anger the authorities against them.

Their dealings with Feyenoord are very clear to the Navy, and that certainly is one of the reasons why the Amsterdam yard has been into the business, as the Navy see clearly that Schelde and Feyenoord are no longer competitors, but are working on a mutual understanding.

Captain Zeeman, the man who is in charge of the submarine business, and presides at the Navy Department when discussions on construction are held, is fully aware that an understanding between Schelde and Feyenoord exists, and has no use for Schelde and their methods at all; he stated so to myself. He is responsible for the cable I sent you on January eighth, and has in general been very outspoken and kind to me in these matters.

I would most emphatically state, that Schelde's communication to Mr. Johnstone—as moreover Mr. Johnstone is fully aware of—that the submarine business is a question of politics, is completely erroneous and false; politics have nothing to do with the matter, but there naturally is a desire to keep the work in the country.

I naturally have no absolute proof that Schelde and Feyenoord have an agreement on submarine business (I know that they used to have me, years ago, about torpedo boat building) but all indications lead every unbiased person to believe that such agreement exists. It is in my mind perfectly correct that Mr. Johnstone says in his letter:

"and it wound by Schelde not bidding on our design and thus throwing the contract to Feyenoord. There must be some sort of an agreement between the two yards."

In this respect, I would propose that you have a letter written to Schelde of about the following contents and drift:

**GENTLEMEN:** We have been informed that at the time when the Dutch Navy called for tenders for three "K" boats, you have not put in a bid and have therefore enabled Messrs. Feyenoord to obtain the order of all three vessels. You may have taken this action, or rather you may have abstained from tendering, with a view to control submarine building in Holland, but the result has been that by your not bidding you have thrown the contract to Feyenoord.

We do not at present wish to criticize your actions, but quite understand that for smoothing the path for Feyenoord, you will have come to some understanding with this firm, by which you have reserved for yourselves certain advantages resulting from the construction of these three vessels. It would be entirely unreasonable to come to an understanding with your competitors, and to let the work go to them, unless some agreement has been arrived at by which you have reserved an interest in the work, and we feel that we are justified in thinking that such agreement exists. Moreover, we have further information which corroborates this opinion.

Under these circumstances we would call your attention to clauses 19 and 20 of our contract as follows:

"19. The Schelde Company will not assign this agreement without the previous consent in writing of the American Company."

We think that this is practically what you have done, if not to the letter, at least in the spirit. But even if this should not be the case, we consider that you did not have the right to even treat-let-alone come to an understanding with Feyenoord without our consent. For the present, however, we only wish to protest against your action, and do not desire to push the point home.

We would request you to inform us about your dealings with Feyenoord, which have been so manifest to everybody concerned, and to let us know what understanding you have arrived at.

We also call your attention to article 17 of our contract:

"The Schelde Company shall use all reasonable endeavors to promote the interests of the undertaking, and to obtain all orders for the said submerged

boats in the countries aforesaid which in their opinion would be likely to result in a sufficient and reasonable profit and so as to make the manufacture and sale of submerged boats a commercial success."

We are of the opinion that you have not used all reasonable endeavours to promote the interests of the undertaking, whilst there can in our minds—and we believe in the minds of reasonable people in shipbuilding circles—be no doubt that a *sufficient* and *reasonable* profit might have been obtained, resulting in a commercial success.

You will certainly understand that a commercial success is such as defined by the ordinary and usual profits made in shipbuilding, as you are perfectly able to find your own books over all work carried out by you in a long term of years. We feel quite sure that the "K" boats would not have given less profit than the average of your other shipbuilding operations. But even if this were not the case, we can be guided by the results obtained by shipbuilding firms in general in Holland, and as a matter of fact, all over the world.

In view of the above, we would like to know what you have done to protect our interests, and what participation you have in the result of the work which you have thrown to Feyenoord. In case you should not have adequately protected yourselves and us, we would hold you responsible for this lack of foresight, and would be obliged to protect ourselves in another way.

We repeat that we desire to settle this question in as amicable way as possible, and remain \* \* \*

This is only a form of letter, and undoubtedly will be put in some other form by yourselves.

I am asking Mr. Johnstone, in whose common sense and intelligence I have much faith, to send you a proposal for a letter to Schelde, in case he can think of some better way in saying practically the same thing. You will then have the result of our two minds, which may guide you in the drawing up of the letter which you will finally write.

In case Schelde should not come forward with something acceptable to us, I would call *Article 20* of the contract to your attention.

"Should any dispute or difference arise between the parties hereto under or with regard to this agreement such difference or disputes shall be decided by three arbiters who will have to judge in equity, and their decision shall be final and both parties agree not to defend against their decision either in Holland or America.

"Said arbiters are to be appointed by the parties hereto and failing agreement upon the choice of the arbiters then by the Court of First Instance (Arrondissements Rechtbank at Middelburg) (Holland) on the demand of the most diligent party."

I must frankly say that I do not at all like this clause, as I think that Schelde will never agree upon the choice of the arbiters, so that the appointment will go to the Arrondissements Rechtbank in Middelburg, and Smit the leading spirit in the crooked Schelde ways, lives at Middelburg and *may* have influence on the nomination of the arbiters.

If we could claim that it is not "*a dispute or difference* under or with regard to the agreement", but an absolute *violation* of the agreement, then we might get away from the arbitration, and be able to prosecute them in the law courts; which first of all will give us better chance and, secondly, will be much more feared by Schelde, as then the matter is public, and I can make matters very hot for them.

I cannot help thinking, that with such dishonest and unreliable people as Schelde have now to direct their affairs, it is practically useless to have a contract, and I would set the following proposal before you:

1. Prosecute Schelde for their action on the "K" boats, and try to get as high a sum of money out of them as possible for this matter.

2. Propose to them to buy from us the remaining part of the contract up to August 5, 1927.

3. Make a new contract with another firm in Holland, either Smulders or Smit.

There undoubtedly is further submarine business in Holland; at present there is a committee of five members at the Navy Department, studying future construction for the Navy. I know that this committee, which is presided over by a classmate of mine, Captain Gooszen, chief of the staff, will propose only the construction of small vessels: submarines, destroyers, mine layers, etc. Captain Gooszen is going in the near future to India, in order to study matters with

the chief of the naval forces there, Admiral Umbgrove, who is a good friend of mine.

The committee's report may partially be made known in a few months, and it is expected that in the course of this year, and even before the new Navy estimates, appropriations will be applied for from the Second Chamber.

As far as the use of submarines in India is concerned, K-3 and K-5 have both arrived, and as you know, I have in September 1920 offered a prize for an essay on "The Use and Future of Submarines for Our East Indian Colonies."

The Naval Society have accepted my offer, and have issued a call for competitors.

During my stay in Holland I visited my friends of the Navy League, which, as you know, I created about sixteen years ago, and of which I am the only honorary member. We have agreed on a campaign for the strengthening of the naval defences in Holland and India for which a prominent part will be played by submarines.

As far as the protest is concerned which you sent to Schelde about the Navy calling for bids on plans for "K" boats, which undoubtedly are derived from our K-3, Mr. Johnstone and myself went to see in The Hague a Mr. Doyer, patent attorney, who is the correspondent of Mr. Picard in Paris, and we discussed at great length with him in what way we could follow up the protest. Mr. Doyer was uncertain about the matter, and the next day we had another meeting with his lawyer Mr. Cramer, but the result is that we have no leg to stand on.

Under these circumstances, and if you will authorize me, I am going to take the standpoint with my friends at the Navy Department, where some feeling exists because of the way Schelde informed them of your protest, that I obtained from the company to withdraw the protest, and thereby may get a bit farther in their good graces.

Please send me your instructions on all the above, and oblige.

Yours very sincerely.

KOSTER.

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EXHIBIT No. 151

ELECTRIC BOAT COMPANY.  
Groton, Conn., February 2, 1921.

Mr. H. R. CARSE,  
*President Electric Boat Company,*  
*New York City.*

DEAR MR. CARSE: The expected report from Koster on the Dutch situation has just come in without date or signature, and I enclose copy herewith. You will note that Koster makes some specific recommendations as to the steps that he thinks we ought to take.

You will recall that the whole situation is hooked up with our general contract with Vickers and that they have an interest in the Dutch profits. In view of the somewhat delicate nature of our general relations with Vickers and their recent active intervention in Holland, I am inclined to the belief that we should not open up the matter with Schelde by correspondence or otherwise until after we have conferred with Vickers. The main point in my mind is to avoid taking any action which Vickers might possibly construe into a violation of our contract with them.

While in my mind there is no doubt that we will have to do something quite radical in Holland or permanently lose quite a nice little business, I do not believe that the matter is so pressing as to make it necessary for us to open up the contract question with Schelde immediately.

Very truly yours,

L. Y. SPEAR.

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("Exhibit No. 152" appears in text on p. 239.)

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("Exhibit No. 153" appears in text on p. 241.)



## EXHIBIT No. 154

SUBMARINE BOAT CORPORATION,  
*Affaires Continentales, Paris, 27 June, 1919.*

To the SUBMARINE BOAT CORPORATION,  
 5 Nassau Street, New York City.

GENTLEMEN: I have just had the visit of a representative of the Lloyd Francais, who came to see me on the subject of the letter I have addressed to their editor, on their malevolent publications about American shipping industry.

This gentleman began to explain to me that much indignation existed in French shipping circles about the fact that the United States keep the German ships which they had in their ports, and that they try to sell to the French bad wooden ships at high prices; further that a certain amount of exasperation existed against Americans, etc., etc.

Anyhow he promised that the tone of the publications in his journal would be changed, and wound up by asking me for *two thousand francs* to publish the letter which I had written them, as it might serve as a great advertisement for us.

I explained to him that I have written on the subject to Mr. Tardieu, who has thanked me for the copy I sent him, that I have requested you to bring the matter to the knowledge of Mr. Hurley, that I have half a dozen letters from French companies asking for our ships, that I can publish the letter in two other papers if I wish, and that I consider his demand for money as a kind of blackmail.

Very much down in the mouth, he has left the office, and has promised that my letter will be published in a general way, and without making any allusion to the Submarine Boat Corporation. This is exactly what I want, as everybody in French shipping circles knows that the American ship industry is represented by the Submarine Boat Corporation, so that whether he publishes the name yes or no comes to very much the same thing.

I told him moreover that if the way in which my letter was published did not suit me, I would have it published anyhow in another paper, and that I would then also publish his demand for 2,000 francs. We will now see what happens, and I will keep you informed. I have no objection at all to this letter being shown to Chairman Hurley.

Yours faithfully,

(Signed) KOSTER.

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(" Exhibit No. 155 " appears in text on p. 243.)

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(" Exhibit No. 156 " appears in text on p. 243.)

## EXHIBIT No. 157

ELECTRIC BOAT COMPANY,  
 Groton, Conn., Sept. 14th, 1931.

In reply refer to file No. 1210/891/LYS.

H. R. CARSE, Esq.,  
 President Electric Boat Company,  
 40 Wall Street, New York City.

DEAR MR. CARSE: 1. We have been approached by a certain Mr. Menelas Metaxa, of Athens, who wants to take the agency, on a commission basis, for the sale of Davis guns, Y-guns and depth charges to the Greek Government. While the contract between the Electric Boat Company and the American Ordnance Company provides that all such business is to be handled directly by the Boat Company, it has occurred to me that in this case we might think it better to let the American Ordnance Company make the agency arrangements direct, then if the matter drags on in Greece as in all probability it

will, the Boat Company will not have any commitment there which it would have to consider in connection with the continuance of the manufacturing contract with the American Ordnance Company. If we prefer to take that course it will be agreeable to the American Ordnance Company.

2. As yet, no agreement has been reached as to the terms of the agency. I have in mind generally the following: A one year agency with the privilege to both parties to terminate at the end of the year provided three months' notice has been given, and if no such notice is given, the agency is to continue for periods of six months with the same provision as to termination after three months' notice. As to commissions, I think it would be best to keep some elasticity in the arrangement. Unless there has been some recent improvement in morals in the Balkans, I judge that the commission will have to be rather liberal in order to make business possible. My idea is to leave the commission open for adjustment in each case with the understanding that if the parties are unable to agree to any other figure, the commission will be 10%.

3. I would be obliged if you will, at your convenience, let me know if you have any preference as to how the matter should be handled and also any suggestions you may care to make as to the terms of the agency which we can practically control even if the arrangement be made directly by the American Ordnance Company.

Very truly yours,

(Signed) L. Y. SPEAR.

LYS:B

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EXHIBIT No. 158

GENOA, October 22, 1924.

Refer to file no. 406-G/208.  
Subject: Turkish submarine.  
Letter no. T-19.

Mr. L. Y. SPEAR,  
*Vice President Electric Boat Company,  
Groton, Connecticut.*

DEAR MR. SPEAR: 1. Your cable of the 15th instant was received in Pera the day before I left and I immediately wired you as follows: "No. 6 mutilated words are UVHYK FIKYN BIHEV ARZDO." The last code word I was at fault in not spelling it correctly in my cable no. 5.

2. I left Constantinople the afternoon of the 16th and reached here yesterday morning. I found your cable, unnumbered, in reference to my cable no. 5. This cable reached Constantinople after I left and was badly mutilated when finally received here but I think that I understand what was intended.

The armament wanted for these two boats is apparently the final decision of the technical committee and was supposed to have been given to us on the 8th of September, but we did not receive the letter until the 29th. I am certain that not one firm submitted bids to meet these requirements except us. The boat is to have four internal bow tubes and twin deck revolving tubes, total number torpedoes carried to be ten (10). Size of torpedoes, 18".

My letter no. 18 and my cable no. 7 explains what is meant by European price.

I called on C. N. R. yesterday afternoon and saw Mr. Piaggio and told him what I wanted. Mr. Calcagno is in Palermo but is expected back here on Sunday. In the meantime I have started things going here in obtaining prices for main engines, main electric motors and storage battery. When Mr. Calcagno returns I can take up the other questions and hope to be able to give you their figure within ten days from now.

From the telegram of Captain Koster, copy enclosed, I see that you wish to use the American engines. The offer from here will be for MAN engines and spares and will be cabled to you as an alternative. Ordera, Ansaldo, and Piaggio are interested in a firm called "Savoia" who will tender for the engines.

3. There is one thing we have wanted to let you know about but were afraid to even write about it while I was in Turkey. That is the question of commission. I will relate to you exactly how the matter came up and what we did.

Shortly after I arrived in Angora the first time I was showing some of the designs to the officers at the Navy office. One young officer, Escher Bey, came to me and started talking about torpedoes. He is the torpedo expert in the

Navy office and was trained in the British Navy and at Vickers. After I had finished with the designs he came to me and asked if I would write a letter for him in English. I told him I would be glad to, and he gave me a draft of a letter to the Bucharest agents of the Baldwin Locomotive Works about a 14" railway gun battery the Turks are interested in. He told me that he would come to my room at seven as he did not wish to be seen in any cafe with me.

At seven the same evening Escher Bey arrived at my room and I gave him the letter as I had written it. After a short talk about his stay in England he told me that the letter was only an excuse for him to come and see me as he had been waiting for several days to get a chance to speak to me but as I had not mentioned torpedoes before he was unable to do so. He said the main object of his visit was to tell me that if we wanted the business we would have to deal through an office called "Tessund" which handles all matters for the Minister of Defence. Two of the officers of the Technical Committee, Escher Bey and Avni Bey, are in this business and that unless we wished to discuss this with Tessund it would just be luck if we ever obtained anything in Turkey. I told Escher Bey that I had nothing to do with that end of the business but that I would speak to the Marquis and arrange a meeting with him the following day. He agreed to this and left.

I told the Marquis the whole story and advised him that we should look into the matter and see just what could be done. The following day the Marquis met Escher Bey and Ismail Hakki Bey at the office "Tessund" and they asked for Turkish pounds 50,000 for their help in case we got a contract. As 50,000 pounds would not lose us the contract in any case the Marquis agreed to their terms and when he returned to Constantinople drew up a paper before a notary agreeing to pay to Tessund 50,000 pounds in case we received an order for a submarine, half to be paid with the order and the other half in proportion to payments received from the Government. The first half was to go to the Minister of Defence. Tessund then told us that we would receive a call from Colonel Edib Bey who is Tessund and the right hand man of Kiasim Pacha. Edib Bey called in due time and talked with us about the business. Said our great trouble was our very high price and we went into detail explaining why our prices were high as compared to foreign firms. He said that he was going to Angora soon and that he would see the Minister.

When the Marquis joined me in Angora on the 27th of September Edib Bey was also there and it was through him we obtained the twelve-day extension to submit a tender for the boat with the deck tubes and the four internal bow tubes. The Marquis also saw Kiasim Pacha with Edib Bey and started the conversations which finally led the Minister to promise the Marquis two boats if we could give European prices for them. My letter no. 18 explains this matter.

Admiral Bristol's remarks about baksheesh do not hold good.

We watched the office Tessund during our stay in Angora but did not see any of our competitors enter there. De Perrot once told me that he had tried to talk to Escher Bey but that he was turned down by him. So it appears that they were not playing the game in every direction but acted on the square with us.

This naturally brought up the question of the 5% to Ben Ayed. We told the Prince that owing to the keen competition we would have to reduce his commission and he agreed to accept one percent (1%). Thus to the price we submitted with his one percent we added \$25,000 to cover Tessund and also for the necessary stamps duties we would have to pay in case we received a contract.

I know that the above is irregular but it was our only chance to do business there and we took it.

So that for the new tenders we will add 1 percent for the Prince and \$25,000 for Tessund and the stamp duties. Stamp duties are about one Turkish pound in every one thousand.

4. Up to the time I left a decision had not been given as to what firm would be given the one boat but general opinion was that Chantiers de la Loire would get it. It will be a French firm we know. Just before the 28th of September General Mougin arrived in Turkey on a mission and was in Angora that week. Edib Bey, who had told us that he would not go to Angora unless absolutely necessary, left hurriedly for Angora in response to a wire from Tessund. Also just previous to that France had given Turkey 50,000 pounds for the Ezerum earthquake victims. Putting all this together and adding the remarks of the Minister to the Marquis that he was "controlled", it seems to me that

it developed into a political question and Turkey repaid France by giving the French firm the order for the first submarine.

5. The Marquis had a very severe time of it with the Prince and worked for three or four days with him to keep him (the Prince) from making a scandal and injuring our future chances in Turkey. The Prince when he heard that we would not get the order went wild. He wanted to write open letters to the opposition press in Constantinople about the submarine business and also wanted to send a telegram of protest to Ismet Pacha the Prime Minister. For three days there was a struggle and at last the Marquis convinced the Prince that the only thing to do was to keep quiet and keep on fighting for the future. The Prince agreed to this. Undoubtedly the Prince was a great help in the beginning and through him the Marquis met Chukri Bey and several other very influential naval officers in Constantinople and who have and will do everything in their power to help us in obtaining orders there. The Marquis acted properly after he got to Angora and did not take the Prince into his confidence in any way. That was why the Prince wrote to Captain Koster complaining about the way he was treated. We were told by many people to Angora to get the Prince out of that place as soon as possible and keep him away as he was doing us more harm than good by his everlasting talking about things he knew nothing about. We did get him away and he remained in Constantinople the rest of the time. His uncle owns the paper of the opposition and any one connected with that crowd is not at all welcome in Angora. Another thing the Marquis handled extremely well was the deputies. They hang about Angora and Constantinople trying to obtain their 1 percent commission on orders for the Government and really do more harm than good. They have no direct influence at all and only hope that luck will get them a commission. The Marquis was approached by any number of such men but always turned them down. I, too, was approached in Angora by several men but passed them by. More people have come to grief in their dealings in Angora by mixing up with the deputies.

The Marquis is in excellent relations with the Minister of Defense and the officers of the technical committee. Abdul Rahim Bey is the only man I am not sure of but he is such a fool that one can expect anything from him at any time.

The Marquis is also in good relations with very prominent members of the opposition including Enver Bey, Rizza Bey, and the leader of the opposition Ranuff Bey, who was Prime Minister before Ismet Pacha.

The political situation in Turkey is serious and they expect a lively time at Angora during the special session which met last Saturday. Kiazim Pacha has held the office of the president of the national defence under both Prime Ministers and no matter what happens to the present cabinet Kiazim will certainly remain at his post.

6. Chukri Bey, who is commander of all light craft and will also have the submarines under him when they are in commission, has written to the Minister of Defence protesting against awarding a contract for the submarine until after he has had a chance to examine the various projects submitted and can make his recommendations also. This the Marquis asked of Chukri. Just what will come of it I do not know but when I left the rumor was about that a special committee would be formed to examine into the plans. I wrote you about that before but it then seemed to have died a natural death but now seems to have come to life again. Constantinople is full of rumors all the time and one must use care in believing anything.

7. The Marquis will stay in Constantinople until he receives the Y gun letter and then will go to Angora and see the Minister about the ordnance business. It is again a question of price especially for the depth charges and I suggested to the Marquis to make a strong talk about the safety features of our type of charges. He has a copy of Winkler's letter to you and there is also a short notice in Jane about the charge.

8. As soon as Mr. Calcagno returns we can get down to work and have the offer for you in plenty of time. We have until the middle of November and can probably get an extension if absolutely necessary but I do not think that it will be necessary. I can't talk to any one at C.N.R. now that Mr. Calcagno is away and Ing. Ferrari has left. I can make Mr. Piggio understand but in the technical office it is hard work. Use a mixture of English, French, German, and Italian and in that way can get things started but I am not sure at all times that I am understood.

9. Captain Battaglia is in Rome and last night I wired him that I would be here for a week. This noon I had a wire from him saying that he would be here Friday. I will find out what the situation is in Italy and also about the two destroyers C.N.R. are building at Riva Trigossa.

Yours very truly,

H. H. JOHNSTONE.

Encls.

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EXHIBIT No. 159

[Copy]

ELECTRIC BOAT CO.,

Hibbs Building, Washington, D.C., Jan. 19, 1928.

LAWRENCE Y. SPEAR, Esq.,

Vice Pres't Electric Boat Co., Groton, Conn.

DEAR LAWRENCE: I ran into a situation that may prove to be very attractive and profitable. However, there are certain conditions that go with it which are absolutely and positively part of the bargain or understanding at the start—conditions over which I had no control, and which were not suggested by myself, and which are most arbitrary because of the fact that this whole proposition had been carefully canvassed before I was brought into it at all. It has to be absolutely confidential in every manner, shape, and form. However, for your information, on a separate card I will tell you who has approved of the primary proceedings.

I have been in long conferences with no. 1, no. 2, and no. 3, with no. 3 and no. 4 present, and secretly, this is the story: Because of certain conditions developing in their country, and "forewarned being forearmed", Kemal Pasha, head of the Republic, has communicated with his representatives, nos. 1 and 2, expressing a desire to arrange to place orders in the United States immediately for submarines, for antiaircraft guns, for aircraft, machine guns, and for other necessary munitions for this equipment. When this request was forwarded to nos. 1 and 2, they immediately took it up with no. 4, and nos. 1 and 2 discussed it with no. 4. I think nos. 4 and 5 discussed it between themselves. Then it resolved itself upon the question of picking the man whom all parties could trust. That party was no. 6. Of course, no. 6 was delighted to have an opportunity to discuss the matter. Nos. 4 and 6 met with nos. 1 and 2 at nos. 1 and 2's residence and had a very long discussion. It was then and there decided that no. 6 was to proceed to secure the information, arrange for a conference at no. 1's residence, and to bring about, if possible, a defensive program so far as the parties concerned were in a position to prepare and supply. This will necessitate certain men from various companies—after a conference here—proceeding to Turkey and conferring with Kemal Pasha and his officials for the closing of the orders, meaning terms, payments, prices, deliveries, and types of equipment to be approved of in Turkey. This may lead to program of reorganizing to a fair extent their military program at this time. They have been buying large supplies of material in England, France, and other countries. They are now in a position to really purchase in the United States, and it is their desire and absolute disposition to do so because they believe that the United States Government has no selfish interest from a territorial point of view, and that the other nations really have. Also that the placing of the business in the United States will equip them in a diplomatic way to treat on other subjects which are being diplomatically considered at this time. The strength of our position is the fact that we are the only ones called in and that we will be the ones who will bring in the others, and that our position is absolutely confidential up to this point, and that you and the writer will bring about the meeting and will from time to time have private conferences and that we will be in a position to control the activities of anyone we bring in, provided we are careful in our choice and that we have the proper understanding in advance with those whom we bring into the picture. The machine gun they have in mind is the Browning gun, which is manufactured by license through the Browning interests by the Hartford, Colt Arms Company, of Hartford, Conn. They are also quite willing to consider other machine guns. They have spoken of the Driggs Company. However, having had dealings with that company and with the most friendly relations existing at this time, I do know their methods and strongly recommend against even giving them a hint of a possibility of an alliance in this business. I shall be glad to explain in detail.

The antiaircraft guns should be in line with our own recommendations and types.

The confidential feature of the matter is that no. 4 will really be the one whom they will largely depend upon in private conference, and it was no. 4 who, through courtesy and kindness, brought me into the picture, on the advice of no. 5. There are certain Oriental conditions, quite confidential and personal, which will enter into this matter, which we will also have to discuss and which we will also have to control.

The last part of the picture is that they insist that I close the contracts with Kemal Pasha, and that such men as go over are simply technical experts, because they do not want to complicate the situation with too many executives, and unless these conditions can be met, they would discourage any further consideration. They give us considerable latitude, saying that they are perfectly willing to have us recommend various companies, so long as we can assume responsibility for their integrity and guarantee the quality of their output. I can arrange quite readily any time for a conference at no. 1's residence with you and such representatives of organizations that might be identified with our organization, and will do so after you have had a chance to discuss the situation thoroughly with the people whom you care to bring into the matter. So far, this is a cash proposition, properly protected and fortified in a business-like way. In addition to that, there are certain military requirements that will be purchased, such as tanks, etc. Also guns, one-pounders, etc., which will be used for antitank warfare. Aside from the above, there are certain industrial requirements, machinery and equipment for arsenal purposes and commercial purposes, which will also be purchased.

This business will be without competition because of its confidential nature, if I am correctly informed at this time. One of the essences of the whole feature is speed. If you can arrange with the Colt people, or any other people who manufacture machine guns, to show to nos. 1 and 2 certain samples of their guns, or in any case to present photographs, specifications, and such other information as they may have available, it will serve the purpose of nos. 1 and 2 so far as their position here is concerned, and they in turn will then communicate with Kemal Pasha and such other officials as are to be associated in this matter, and make the necessary arrangements resulting from any decisions arrived at during our conferences. Am quite interested in learning your reaction just as soon as possible. Keep this entirely confidential, please.

Very sincerely yours,

(S) S. J. J.

SJJ/MLS.

P.S.—Since dictating the above, have talked to you on the telephone.

(Approved by no. 4, who will have the final say in the confidential, most secret capacity, and by the State Department, who will approve of the shipment and any contracts entered into, and which understanding has been approved after careful discussion by Mr. Shaw of the State Department. Please keep this part of the understanding strictly secret, because of certain reasons which we can discuss.)

No. 1. Ahmed Mouhter Bey, Turkish Ambassador.

No. 2. Ahmed Bedy Bey, counsellor.

No. 3. Kemal Djenany Bey, second secretary, 2607 Military Road; telephone, Cleveland 2831.

No. 4. Admiral H. E. Long.

No. 5. Admiral Hillary Jones.

No. 6. Mr. Sterline J. Joyner.

EXHIBIT No. 160

[Copy]

34, LIME ST.,  
London, E.C. 6th June, 1912.

I. L. RICE, Esq.,

*President of the Electric Boat Co.,*

*c/o Ritz Hotel, London.*

DEAR SIR: In confirmation of the conversation the writer had with you on the 4th instant at the office of Messrs. Vickers L., Victoria Street, S.W., we beg to record by this letter the arrangement made with reference to our sole

agency in Japan for the sale of your submarine or nearly submerged boats, on a commission basis, as follows:

We undertake to exercise due diligence and to make our best endeavor to secure orders, either directly or indirectly, from the Japanese Government.

We will employ the services of Admiral T. Matsuo to cooperate with us in securing such orders from the Japanese Government.

On all orders received by the Electric Boat Co., either directly or indirectly, they will pay a commission of ten percent on the total value of such orders.

Out of this commission we agree to pay for Admiral Matsuo's services as well as such other expenses as cablegrams and other incidental items.

Payments in respect of the above commission to be made to us as and when the Electric Boat Co. receive payments in cash.

It is clearly understood that, notwithstanding the agreement now recorded, we shall be at liberty to work for Messrs. Vickers L. for similar products whenever we are called upon to do so.

The agreement in question is terminable at any time by one year's notice to that effect, given by either party.

We shall be glad to have your confirmation of the above and we would ask you to consider this letter and your reply as forming the agreement between us.

In the event of your confirmation we propose to send a copy of this letter to Messrs. Vickers L.

We beg to remain, dear sir,

Yours faithfully,

MITSUI & Co., Limited,  
Sem. Watanable, Dir.

RITZ HOTEL, LONDON,  
June 13th, 1912.

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EXHIBIT No. 160-A

I. L. RICE, Esq.,  
6th June 1912.

Messrs. MITSUI & Co.,  
34, Lime Street, E.C.

GENTLEMEN: We have taken due note of your letter of the 6th instant, which embodies our understanding arrived at as expressed in the letter.

It is of course understood that we shall have the decision as to all questions relating to price, type, etc. in any tender to the Japanese Government, and, further, that the commissions as fixed in the letter, namely ten percent, will be subject to negotiation for a reduction whenever the price of a boat or the size of the order may make such a course advisable.

Yours truly,

ELECTRIC BOAT COMPANY,  
\_\_\_\_\_, President.

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EXHIBIT No. 161

SEPT. 17, 1926.

Mr. L. Y. SPEAR,  
Care Captain Paul Koster,  
48 Avenue de La Bourdonnais, Paris, France.

DEAR MR. SPEAR: Mr. Joyner has returned and has gone over things very elaborately with us and, as previously advised you by cable and letter, he has in hand two submarines of 2,500 H.P., two of 3,000 H.P., and two mine layers, also several of the other vessels mentioned. There is no doubt from the details he has gone over with us that he has this business in hand, and he having spent two days at Groton with Mr. Sutphen, they feel there that the company can without doubt fulfill the requirements. Mr. Joyner sails on the "Beren-guria" on the 22nd and will meet you in London to discuss matters.

He mentions that Mitsubishi has been building a large number of submarine boats for Japan for some years back and claims that the boats are from our designs. They have even been figuring with the Argentine Minister about building the Argentine boats in Japan. He states that Vickers have a very large office at Mitsubishi's plant and that Vickers has a claim against the Japanese Government of twenty-four million yen, but just what it covers he

does not know exactly but has an idea there is something in it about submarine boats. He states that Japan has offered Vickers twelve million yen in settlement, and I have thought that perhaps we might have some interest in this claim. It would seem as though Vickers had double-crossed us in Japan in not having the contract executed by Mitsubishi which I sent them in 1916, which provided for a royalty of ten percent of the gross price. I know they have given you an explanation that the British Government had given the plans of the "K" boats to Japan and therefore Mitsubishi did not think it necessary to go forward with our contract, but this might be something that would be worth while your investigating pretty closely while in London. I do not like to say anything harsh about Vickers because they have proved to be our friends in a number of other cases. You will see Joyner and he will give you all this at first hand.

We have received a cable from Aubry, of which I enclose a copy, and after carefully considering this for two days and discussing it with Sutphen and Otto Marx, I have sent the reply which I also enclose a copy of. I have done this before making any banking arrangements for the sale of the Peruvian notes, because I feel that I will be able to borrow against six month maturities if we need the money and I do not want to pay any "Shylock" discount. The Peruvian loan of sixteen million dollars which White, Weld & Co. brought out was sold immediately and the Peruvian bonds have held their price extremely well. You will note that Aubry speaks about our forwarding a finance contract, but my understanding, as expressed in my reply, was that he was to work out that contract with Calderon and submit it for our approval. I did not consider it necessary to give Aubry "A B C" instructions in the cable, because we certainly discussed it among ourselves very thoroughly indeed before he left and he understands our position exactly, and he has the intelligence and ability to work the matter out in a way that I believe will be entirely satisfactory to us.

Naval carried out their agreement to the dot, and on September 15th, after sending us pesetas 4,250,000, they deposited with the Royal Bank of Canada, at Barcelona, pesetas 2,257,933, covering the 10 $\frac{3}{4}$ % up to date, which covered an additional payment which they had received from Spain since the agreement, for which they also sent us a check for the 5% due Zaharoff. Taylor, from his accounts here, proves within less than pesetas 100 of the amount due us. We have not touched this money excepting the proceeds of 250,000 pesetas, which they sent us in dollars, so that we have in Barcelona, or in the mail enroute, pesetas 6,257,933, which I will sell as we need the funds, hoping for some improvement in pesetas which are now selling between 15.20 and 15.30.

Joyner, at request, is going to London to consult with Hayashi in regard to the trip of the Prince here next year, and it is further intimated that perhaps Hayashi has additional business. Matsaduria telephoned Joyner this morning that his business would probably be increased to three of the smaller submarines.

I have not heard anything from you in relation to the quotation on the cargo vessels, and Joyner seems to be extremely confident that the Japanese friends will take six of our boats at at least \$160,000 apiece. If this should be so, we would of course prefer not to sell any more just now, especially at the lower price.

I have your letter of September 5th from Paris, and note what you say about Vickers' statement and the amount we may have to pay on account of the Spanish settlement, but will hold that over until you return. Also note what you say about the Russian claim and have had Mr. Taylor working on it, so that he will be ready by the time you return.

Joyner is very firm in the opinion that nothing should be said about this to Vickers, because he is afraid it will get back to Japan through them and perhaps open up the matter to competition, where he expects to arrange it all through his personal friends.

There has been quite some activity in the stock since you left. A friend of Otto Marx by the name of Hines bought 15,000 shares between 7 and 8, and the stock has sold as high as 10 $\frac{1}{2}$ %, but has sold off a little today.

We are trying to keep everything quiet because we fear that publicity might spoil some of our plans.

During the last twenty-four hours we have chartered six cargo vessels to carry coal to England at \$6.25 to \$6.50 per ton, showing a net profit over all expenses, including maintenance, of about \$5,000 a vessel, and illustrates the value of these ships in the minds of the New York charterers.



Harding, of the Southern Pacific, was here yesterday and undoubtedly we will receive orders for engines for three more boats, making five in all, and if the operation proves successful, as we believe it will, they have about thirty more ferry boats which they will want in the course of time to recondition. While the price we gave them was low, it was \$10,000 above the next bidder, and some of them were \$20,000 lower.

Mr. Sutphen and I trust you have had a very pleasant and successful trip through Europe and that Mrs. Spear and yourself are enjoying the best of health.

Should you see Sir Basil, give him my very best regards.

Yours very truly,

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EXHIBIT No. 162

VICKERS ARMSTRONGS, LTD.,  
NAVAL CONSTRUCTION WORKS,  
Barrow in Furness, 28th November, 1930.

PORTUGAL

L. Y. SPEAR, ESQ.,  
*Messrs. Electric Boat Company,*  
*Groton, Conn., U.S.A.*

MY DEAR SPEAR: For your very confidential information, we have come to an arrangement with Hawthorn Leslie's and Thornycroft's in connection with the Portuguese naval programme.

The broad outline of the scheme is that we shall take a half, and the other two firms each a quarter of whatever orders we can get. Representatives of the three firms have just returned from Portugal and it looks as if we might have a chance of doing something.

Our object in agreeing to work with two other English firms is that very considerable deferred payments will probably be required, and we have wedded ourselves to two firms of good financial standing who will each be able to take their share of whatever finance is required. The enquiry is to be broadcast to about twenty continental firms, but I do not think we need fear English competition, and I am advised that the Portuguese will probably insist on British armament as they are admirers of our navy, and of course, very old friends of our country. Further, they want to make sure that in the event of trouble in the Mediterranean they will be able to get supplies of ammunition from us.

After the tremendous rebuff I received from your company in connection with the "G" boat I do not know quite what to say regarding royalty, but I think it will be obvious to you that if we have to add  $4\frac{3}{4}\%$ , we are going to be properly up against it with the Italians.

Cumming has been out to Portugal and obtained all the information required for us to get out our designs, which will be required with our tender in about six weeks' time. I do not know whether you are competing for this programme, but whether you are or not, I suggest that you seriously consider your royalty, and suggest to me some modest percentage which will not kill our chances.

All good wishes,

Yours sincerely,

(s) C. W. CRAVEN.

P.S. The present arrangement is that we get the submarines and armament, at any rate.

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EXHIBIT No. 163

APRIL 13, 1925.

L. Y. SPEAR, ESQ.,  
*Vice-President, Groton, Conn.*

MY DEAR SPEAR: I have your letter of the 9th instant, with copy of cablegram from Passano and one from Koster in relation to Passano's expenses.

It has been my opinion for some time that Passano was an expensive ornament which we could ill afford to maintain and it would be better for us to

dispense with it. He receives greater compensation than does Koster and is apparently rather free in his expenditures. As you will remember, he borrowed \$1,000 from us some time ago, which of course he has made no movement to repay. When I was in Europe last August I discussed these different matters very thoroughly with Koster, and he was quite strongly of the opinion that whatever we might do in relation to representation in Europe that he be not given any authority in relation to Passano's expenses because, he stated, if Passano thought and knew that he had anything to do with Passano's expense accounts Koster's life would not be worth living because of Passano's constant requests for additional funds. He stated that Passano then almost worried him to death, and the only way he could get rid of him was by saying he had no funds and it would be necessary for Passano to send to the United States for money.

The whole record of Passano for four or five years seems to me to be a regular *opéra bouffe*.

Yours very truly,

(Signed) HENRY R. CARSE, *Pres.*

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EXHIBIT No. 164

AUGUST 11, 1933.

MR. L. Y. SPEAR,  
Vice President Electric Boat Company,  
Groton, Conn.

DEAR MR. SPEAR: In relation to your proposed trip to Europe, a very important matter to be considered is the effect at Washington of you and Mr. Nibbs both being absent at this time, which might be considered as our not giving the work for the U.S. the proper attention and consideration and the difficulty of explaining to the satisfaction of the Navy Department. There is nothing of importance for us in Europe except the Lanova development at Munich, where Mr. Nibbs will be. If, however, you should visit Spain, while a rumor was current some time ago that Sir Basil Zaharoff had died, I saw an article in one of the papers a few days later denying the early statement and declaiming that he was apparently in very good health; so that if Sir Basil is still alive, we would not be at liberty to discuss with either the Spaniards or with Vickers any modification of the current agreement with the Spanish concern, as that is absolutely the business of Sir Basil.

The only thing in England that I know of open at the present time is the inquiry from Esthonia, regarding which we have advised Craven we would not bid. Our agreement provides 4¾% for the Electric Boat Company; Craven has suggested modification of 1% and I have agreed to accepting 2%.

There does not seem to be any possibility of our doing business with any other country in Europe except the barest chance of selling plans and specifications to Holland or the Scandinavian countries, and this is only visionary. We would not trust the Italians and would not care to take contracts for any of the southeastern country nor would we care to negotiate with Russia until after the United States Government had recognized the Soviet Government.

Koster may bring forward a lot of schemes, but as he was not able to secure any business during the period of twenty years, there is no reason why we should consider he might be more successful now. His reputation as an international spy ruins any usefulness.

Vickers' contract does not expire until 1937, so it is too early to discuss with them any modification; but if any proposal should be submitted by the Spaniards or by Vickers for modification of present agreements, you could not agree to anything but could only take them to be presented to the board of directors and subject to the approval of the board of directors, so as to avoid any embarrassment in case the board of directors should not approve the suggestions brought forward.

With kind regards,

Yours very truly,

(S.) H. R. CARSE.

EXHIBIT No. 165

Nov. 30, 1929.

L. Y. SPEAR, Esq.,

*Vice President, Groton, Conn.*

DEAR MR. SPEAR: I have received from you this morning the carbon copies of Koster's two letters, Nov. 18th, but the matter of his going to London during the naval conference is absolutely out of the question. He apparently, has no comprehension of the state of affairs in this country of such matters, and it is not necessary to wait even for Joyner's opinion on the subject. The conference will work itself out in its own way and without any advice, assistance or interference, actual or claimed, on the part of any of our representatives.

With kind regards,

Yours very truly,

(Signed) HENRY R. CARSE, *Pres.*

Joyner cables from London 11/29 arrived.

EXHIBIT No. 166

## GROUP "A"

Vickers, Ltd., controls—

1. Vickers Armstrongs.
2. Vickers (Aviation).
3. Vickers (Crayford).
4. Robert Boby.
5. Electric Holdings.
6. Airship Guarantee Co.
7. Cooke, Troughton and Simms.
8. Manufacturers' Estate and Assets Co.
9. Vickers Train Lighting.
10. Ioco Rubber and Waterproof.
11. British Separators.
12. Supermarine Aviation (Vickers).
13. Isle of Walney Housing Co.
14. Walney Housing Co.
15. Vickers Commercial Steel.

Vickers, Ltd., has interests in *Assoc. Electrical Industries*, controlling—

16. British Thomson-Houston.
17. Edison Swan Electric.
18. Edison Swan Cables.
19. Ferguson Pailin.
20. Metropolitan Vickers Electrical.
21. Metropolitan Vickers Export.
22. Assoc. Electrical Industries (India).
23. Cosmos Lamp Works.
24. General Rly. Signal.
25. Harcourts.
26. Hotpoint Electrical Appliance.
27. Park Royal Engineering Co.
28. Birtley Co.
29. Electrical Manufacturers Finance.
30. Through International General Electric the company is associated with
31. General Electric Co. (America) and
32. Assoc. General Elect. Industries was formed to merge Australian interests of the two groups.

*Cammell Laird and Co., Ltd.*, controls—

33. Tranmere Bay Development.
34. Interests in *Compania Miniera de Sierra Minera*.

*Vickers and Cammell Laird* are largely interested in—

35. *Metropolitan Cammell Carriage Wagon and Finance*, controlling—
36. Metropolitan-Cammell-Weyman Motor Bodies.
37. Blake Boiler Wagon and Engineering.
38. Willingsworth Iron.

38. Leeds Forge.
39. Patent Shaft and Axeltree.
40. Midland Rly. Carriage and Wagon.
41. Newlay Wheel.
- Armstrong Whitworth Securities controls—
42. A. W. Consolidated Stock Trust.
43. Sir W. G. Armstrong Whitworth (Engineers).
44. Sir W. G. Armstrong Whitworth (Shipbuilders).
45. Sir W. G. Armstrong Whitworth (Ironfounders).
46. Armstrong Construction.
47. Craven Bros. (Manchester).
48. Pearson and Knowles Coal and Iron.
49. 50 percent of Armstrong Saurer Commercial Vehicles.
- Vickers and Armstrong Whitworth own Vickers Armstrongs, which controls—*
50. Thames Ammunition Works.
51. Variable Speed Gear.
52. Vickers (Ireland).
53. Whitehead Torpedo.
54. Placencia de las Armas.
55. Internal Combustion Locomotives.
- Cammell Laird and Vickers Armstrongs control English Steel Corp., which controls—*
56. Taylor Bros.
57. Industrial Steels.
58. Darlington Forge. Also associated with John Brown (Group F) in
59. Carnforth Hematite Iron.
- Armstrong Whitworth and Vickers Armstrongs—*  
per Securities Management Trust have large shareholding in—
- Lancashire Steel Corp., which controls:—
60. Wigan Coal Corp.
61. Wigan Coal and Iron.
62. Rylands Bros.
63. Pearson and Knowles.
64. Partington Steel and Iron.
65. U. K. Ferro-Manganese.
66. Whitecross Co. (Warrington).
67. Pearson and Knowles Engineering.
68. William Robertson.
- Cammel Laird have interests in—*  
*English Electric, which controls*  
*Willans and Robinson and interests in*  
*English Electric Co. of Canada, and recently a large foreign contract was*  
*taken by*  
*English Electric with*  
*Metropolitan Vickers, which is associated with*  
*Dorman Long (Group "D") in—*  
*Dorman Long and Associates, China.*

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EXHIBIT No. 167

ELECTRIC BOAT COMPANY

11 PINE ST.

EDIFICIO ITALIA, OFICIAN No. 308,  
Lima, Peru, 9th October 1929.

MR. LAWRENCE Y. SPEAR,  
Vice President Electric Boat Co.,  
Groton, Conn., U.S.A.

MY DEAR MR. SPEAR: I have taken some time in answering your personal letter of September 12th. I am very thankful to you, for the news you give me in it, specially the one's regarding Mrs. Spear's health. Luisa and I are both happy to know that the source of trouble was only from drainage of an infected tooth. Her recovery now is sure. Kindly express to her our best regards.

Regarding the building of my new house, I might say that it is pretty well advanced; it ought to be finished by next February. The style is Florentine, and it will have two separate apartments, consisting of two floors, the ground floor with garden, etc., will be occupied by us, and the second or top one, totally independent, by Luisa's sister Teresa, married with a naval officer, Commander Saldias. The house is quite large, each apartment in itself, consisting of 10 rooms.

I am glad to know that you with your extraordinary foresight could see trouble ahead by having any contract with Shearer.

I am afraid that the British-American negotiations will tend to stop for some time any activities in regard to armaments in these countries, who are so emotives, and liable to copy.

I am expecting soon the data you request, regarding sea-keeping ability, and so far, of the submarines from Burnett, and will send to you immediately.

With our best regards to dear Mrs. Spear and to you from both of us, I am, as always,

Yours very sincerely,

LUIS AUBRY.

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EXHIBIT No. 168

JUNE 18, 1919.

Sir TREVOR DAWSON,

*%Vickers Limited, Broadway, Westminster, London.*

DEAR SIR TREVOR: Your cablegram of the 13th came duly to hand, and as the date was at our Groton office we telephoned to our Mr. Davison about it, and he has prepared a statement in relation to the torpedo gun and blueprints of plans of various designs, which we take pleasure in enclosing you herewith. We cabled you today that these papers were being forwarded to you by the Lapland, which is scheduled to sail from New York on Saturday, June 21st.

If this subject should prove of interest to your concern, we would be pleased to go into the matter in a most exhaustive manner.

We take this opportunity of confirming our cablegram to you extending our most sincere congratulations upon the magnificent performance of the aeroplane constructed by your organization, and if it should be your wish to have this company work in conjunction with you in relation to aeroplane matters that is a subject we would also be very happy indeed to discuss with you in detail.

With kind regards and trusting that you have been enjoying good health during the trying years that have passed, we remain,

Yours very truly,

(Signed) H. R. CARSE.

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EXHIBIT No. 169

[Copy]

ELECTRIC BOAT CO.,  
February 5, 1924.

1082/LYS

Finnish Business.

Sir TREVOR DAWSON,

*Vickers Limited, Vickers House, Broadway, Westminster,*

*London, England.*

DEAR SIR TREVOR:

1. Referring to your cable of January 22nd reading as follows:

"Many firms will compete Finland including Norman Thornycroft. Consider it advisable we should compete as well as you including Finland in mutual countries. Please cable."

and my reply of January 28th, reading as follows:

"On account of contract with Sandviken impossible to include Finland in mutual countries now. Matter really is not urgent. Will write."

I am now taking my first opportunity to write you in accordance with my promise.

2. The question under consideration is covered by the following provision of our contract with Sandviken:

"Should the Government of Finland negotiate for construction in foreign countries, the American company shall have the right to undertake such construction direct or through other licensees, with reasonable compensation to Sandviken in the event of orders in foreign countries being placed with the American company or its licensees. It is however the intent of both parties to use their best efforts to secure orders from the Finnish Government for the construction by Sandviken so that the provisions mentioned hereabove are only to apply if the Government on its own initiative negotiates for foreign construction. The American company will keep their other licensees from negotiating with the Finnish Government except under the circumstances cited above, and then only as directed and approved by the American company."

In view of the above stipulation, it is obvious that your participation in this competition will necessitate special arrangements in advance between your firm, yourselves and Sandviken in case the Government does, of its own initiative, negotiate for foreign construction as apparently will be the case.

3. It is our understanding that the Finnish naval program will be submitted to Parliament this month and in connection with the matter, we contemplate sending Captain Aarestrup to Helsingfors in the near future. We believe it would be wise to intrust to him the negotiations with Sandviken with regard to your participation including of course the important question of fixing reasonable compensation for them, and if the matter is arranged that way, it would seem desirable for Captain Aarestrup to discuss the subject with you before he goes to Helsingfors. I am by this same mail advising him of the situation and requesting him to make his plans accordingly. I do not know his present whereabouts but he can always be reached through our Paris office, viz: Captain Olof Aarestrup, care of Captain Paul Koster, 48, Avenue de la Bourdonnais, Paris.

4. Mr. Curse and I both think that we had better postpone discussion of the financial arrangements between you and us until we know what terms can be made with Sandviken and have a clearer idea as to price and profit possibilities. In this connection, I hope it may be possible to arrange the matter so that any contracts for you which may result will pass through us so that we can avoid the British income tax. Obviously, any saving which we can make in this way would benefit the whole situation.

5. As my cable of January 28th might readily be interpreted to mean that you would necessarily be excluded from Finland indefinitely, I am cabling you today as follows:

"Am writing you this mail about necessary arrangements Finland."

Very sincerely yours,

LYS: B

#### EXHIBIT No. 170

DECEMBER 28, 1923.

Captain L. F. ORLANDINI,

*President of the Argentine Naval Commission,*

*250 West 57th Street, New York City.*

DEAR CAPTAIN: Referring to our conversation of yesterday I hand you herewith a memorandum in regard to the number of submarine boats built by the Electric Boat Company and its licensees, which I have received this morning from our works at Groton, Connecticut.

The numbers stated here do not exactly agree with the table published in our paper Speed-up of August 15th, 1922, a copy of which we gave you, but the discrepancy is undoubtedly accounted for by the last paragraph in the enclosed memorandum, that the tabulation does not include a large number of boats constructed in England, Germany, and Austria wherein a certain number of Electric Boat patents were used.

In relation to our arrangement with shipbuilding companies in foreign countries, our agreement with Vickers Limited in Great Britain dates from 1901 and has many years yet to run. This in general provides that we shall furnish all information, data, plans, etc., required in the construction of the submarine boats, giving superintendence if so desired, and payment to us is arranged in different ways. We have or have had agreements somewhat similar in form to that of Vickers with leading shipbuilding concerns in Holland, Belgium, Norway, Russia, France, Spain, Italy, and Japan, so that

the Electric Boat Company is able with perfect confidence to enter into contracts for the building of submarine boats in any part of the world which the buyer may choose, the cost varying in accordance with the basic price of labor in the different countries together with facilities of transportation, manufacture, etc. To properly carry out such contracts we have built up a very large and able force of experienced men who thoroughly understand the construction and operation of submarine boats and whom we send to the different countries where we may have contracts to perform, who oversee the design and construction in accordance with experience and data which they receive from the home office.

Trusting this is the information which you desire, I remain, with kind regards,

Yours very truly,

HENRY R. CARSE, *President.*

EXHIBIT No. 171

ELECTRIC BOAT COMPANY,  
*Groton, Conn., December 27, 1926.*

Refer to no. 1023/243/LYS

H. R. CARSE, Esq.,

*President Electric Boat Company,  
11 Pine Street, New York City.*

DEAR MR. CARSE: In connection with the inquiry of the Argentine Naval Commission, I am enclosing you herewith in duplicate an up-to-date memorandum showing submarines constructed and under construction by ourselves and licensees.

Very sincerely yours,

(Signed) L. Y. SPEAR.

LYS-B  
encl.

DECEMBER 27, 1926.

SUBMARINES BUILT BY ELECTRIC BOAT CO. AND ITS LICENSEES

1. Submarines constructed by the Electric Boat Co. in the United States	
total 165 (number of different types involved, 16), divided as follows:	
U.S. Government.....	115
Great Britain.....	22
Russia.....	12
Italy.....	8
Japan.....	5
Peru.....	2
Spain.....	1
Total.....	165
Submarines constructed in the United States to Electric Boat Co. plans under license from Electric Boat Co.....	
	2
	167
2. Submarines constructed in England by Vickers, Ltd., under license from the Electric Boat Co.....	
Under construction.....	5
By other builders.....	12
	156
3. Submarines constructed in Spain by the Sociedad Espanola de Construction Naval to Electric Boat Co. plans and under Electric Co. license.....	
Under construction.....	6
On order.....	12
	24

4. Submarines constructed in Holland by Schelde under license from Electric Boat Co.....	13
5. Submarines constructed in Russia at the Nevsky Works to Electric Boat Co. plans under license from Electric Boat Co.....	6
6. Electric Boat Co. type submarines constructed for Denmark by Whitehead, Fiume, and Government.....	14
Under construction.....	2
	16
7. Submarines constructed in Norway by the Government to the plans and under license of Electric Boat Co.....	4
Under construction.....	2
	6
8. Submarines constructed in Austria by Whitehead to the plans of and under license from Electric Boat Co.....	3
Grand total of Electric Boat Co. submarines constructed and under construction.....	391

9. The above tabulation does not include a large number of boats constructed in England, Germany, and Austria wherein certain Electric Boat Co. patents were used.

## EXHIBIT No. 172

VICKERS, Limited  
whc.

NAVAL CONSTRUCTION WORKS,  
Barrow-in-Furness, 20th April 1927.

Private.

L. Y. SPEAR, Esq.,

*Messrs. Electric Boat Company, Groton, Connecticut, U.S.A.*

MY DEAR SPEAR: I have purposely not written to you about Mayers because I thought it only fair and right that I should not do so until after the result of his trial. He appears at the Old Bailey next week and all I can tell you is that the case will be tried in camera and that the charge is a serious one.

I have very definite assurances from Lord Beatty, from the Director of Naval Intelligence at the Admiralty, and from the Chief of Staff of the Submarine Service (who was largely responsible for my taking Mayers on) that Vickers can in no way be implicated. Even when the trial is over I do not think I shall be able to let you know the whole story until we meet, which I hope will be before long.

Yours sincerely,

(S.) C. W. CRAVEN.

## EXHIBIT No. 173

[Private]

NAVAL CONSTRUCTION WORKS,  
Barrow-in-Furness, 10th May 1927.

L. Y. SPEAR, Esq.,

*Messrs. The Electric Boat Co.,  
Groton, Conn., U.S.A.*

MY DEAR SPEAR: For your private information, Mayers has called me for the defense. I told the Admiralty I was afraid he would do so if they did not call me for the prosecution. However, it will give the prosecution a chance of getting out of me exactly why I engaged Mayers, and I have so far received definite confirmation from Lord Beatty that in taking Mayers, Vickers acted in the interests of the Admiralty and they apologize for the trouble they have landed us into.

Lieut. Commander Cumming, who is a submarine officer of considerable standing, has recently joined my staff. At present I am keeping him on submarines only, but later on I hope to develop him for naval work generally, and I look forward to introducing him to you the next time you are in this country.

Yours sincerely,

(S) C. W. CRAVEN.



## EXHIBIT No. 174

(2nd Copy)

ELECTRIC BOAT COMPANY,  
Groton, Conn., June 18th, 1931.H. R. CARSE, Esq.,  
President, Electric Boat Company,  
40 Wall Street, New York City.

DEAR MR. CARSE: Referring to the matter of European licensees, touched upon in your letter of June 16th to Commander Craven, our records here show that the Italian and Finland agreements have already been cancelled, so that except for Spain and Great Britain, the only agreements now in force are those with Cockerill for Belgium and Burgerhout for Holland. Apparently, we are free to cancel both of these licenses at any time we should consider that course to be in our interest.

Under the circumstances, I would not think it necessary to communicate further at this time with Commander Craven about this matter, since, while the actual situation is a little different from that outlined by you, nevertheless, we have a free hand all over continental Europe, except in Spain, and can do what we like.

Very truly yours,

L. Y. SPEAR.

## EXHIBIT No. 175

JULY 2, 1919.

L. Y. SPEAR, Esq.,  
Vice President, Groton, Conn.

DEAR MR. SPEAR: Mr. Parker, coming from Washington last night, brought with him as accommodation to Mr. Neagle, the form of contract for boats Nos. 153 to 158, which I enclose herewith for your examination and approval. I see that it is drawn to be executed by the president of the company, so if you find it in accordance with the terms agreed upon, and will let me know, I will execute it in triplicate and send it forward to Washington. Mr. Parker brought a number of extra copies, so that we will have plenty for our files.

Mr. Parker tells me that the performance bond has been fixed at a million dollars for the six boats and that the premium agreed upon by the Department is 2%, or \$20,000, for the full term including acceptance. This is higher than the last rate but as it being paid by the Government and has been agreed to by the proper officials I do not see that it is of any special concern to us, except of course in the matter of our proportion of the saving.

Yours very truly,

(Sgd.) H. R. CARSE.

## EXHIBIT No. 176

MAY 19, 1924.

H. S. SNYDER, Esq.,  
Vice President, Bethlehem Shipbuilding Corporation, Ltd.,  
South Bethlehem, Pa.

MY DEAR MR. SNYDER: I have been unwell and away from the office for 10 days, but on my return this morning have your letter of the 14th instant and the matter will have my early attention.

Mr. Taylor submits to me, however, some preliminary figures, indicating that on the S-boat contract we have already paid the Bethlehem companies \$24,700,000, and that, figuring in reserves provided for in contracts, there is apparently now due the Bethlehem Company about \$104,800; but the accounting branch of the Navy Department has arbitrarily held up payments of over \$565,000, pending some correction or adjustments of their auditing methods, of which sum a goodly portion has already been paid to your company; and in view of the fact that this business has been done by the Bethlehem companies on cost-plus basis, without any risk or responsibility for uncontrollable actions of the Department, and giving further consideration to the fact that in 1917, 1918, and 1919, we paid the Bethlehem companies about \$3,000,000 on account of wage increases directed by the Navy Department, for which we have not as

yet received compensation, and on which we have lost interest all these years. I must say that I am somewhat surprised to have received this memorandum from you, as it would seem to me that your company would only be too glad to share in some slight degree the burden of arbitrary rulings over which we have no control.

I remain, with kind regards,

Very truly yours,

(Signed) HENRY R. CARSE, Pres.

P.S.—Mr. Taylor tells me that since I became connected with this company in October 1915 we have paid the Bethlehem companies \$42,564,073 all of which has shown a substantial profit to you.

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EXHIBIT No. 177

MARCH 28, 1922.

D. J. MURPHY, Esq.,

1024 Connecticut Ave. NW.,

Washington, D.C.

DEAR SIR: Your favor of the 27th instant at hand, and while the directors have thought it best not to enter into a newspaper controversy with these people, for the ones behind Mr. Rice are two former officers of the company whose services were dispensed with in 1917 for the good of the cause, a full report will be made at the meeting of the stockholders on April 11th, but I can give you brief replies to the matters referred to. To go into detail would take a very long letter.

The accounts of this company are audited each year by the Audit Company of America, and all of our reports and tax matters are handled under the guidance of Messrs. White and Case. An analysis is now being made of the cash items mentioned in article no. 1, and that will satisfactorily show how the money was spent.

In regard to no. 2, the plant at Newark Bay: It would be a very long explanation, but the directors feel that is the asset of the future of the company. We have been working for the last few years for a freight export terminal, and I think you can have some imagination of the value of it when developed when I tell you there are 112 acres of land with over 4,000 feet of dock space, on a 30-foot channel to the sea, and at a distance from the narrows the same as 23rd Street, Manhattan Island. I could talk to you by the hour about this proposition, and the United States engineers have recently made a report to Congress dealing with the subject at length.

With regard to nos. 3, 4, and 5, at the time we were negotiated with the Shipping Board for the purchase of this material we were also negotiating with the Italian Government for the sale of the ships and had reached an agreement as to terms. The contract had been drawn by the Italian Minister of Marine, but the fall in exchange prevented that transaction being carried through.

We completed the ships without borrowing any money and have marked down the inventory to \$50 a ton.

Pending this negotiation with the Italian Government and in order to provide for future work for the shipyard, because at that time the shipyards all over the world were filled with orders for three or four years of work ahead, we did arrange for some steel material, but when the Italian Government failed to carry out their contract we stopped all new work immediately, and the loss on that was practically nothing.

In this connection you will notice that we have marked down the inventory for 1921 over \$6,000,000, and if that bookkeeping had not been made the company would have showed a profit of about \$4,000,000.

The latest tax law provided that buildings and vessels constructed during the war could be marked down to present prices, but such marking down had to be done in 1921, and, further, that if the statement for 1921 showed a net loss such net loss could be carried over and deducted from the income of 1922. I think you will appreciate the reason for such entry.

In relation to the service to Cuba, the officers had arranged for dockage at Havana, but when the ships arrived there the people did not carry out their

promises. I, therefore, went to Havana myself and arranged for the preferential use of the best dock in Havana for a period of four years by lending those people \$550,000 at 6% interest, repayable in instalments, and that loan is secured by a mortgage upon property valued in Havana at from \$5,000,000 to \$10,000,000, subject only to a prior mortgage of \$350,000.

None of our ships was returned to this country without unloading cargo; that is absolutely false and there is no foundation for it; they were all unloaded promptly after we secured this docking arrangement and they brought back cargoes of sugar from docking arrangement and they brought back cargoes of sugar from Cuba; but the collapse of business in Cuba has been so great that there has been practically no freight going there the past year except foodstuffs and that is carried on the passenger boats. We have all of our arrangements in hand, however, and if Cuban trade should revive we would be in very fine position.

The Russian contract was entered into in 1916 under the special condition that the rubles should stay in Russia until the end of the war. The officers and directors did not like to make such a transaction but our agent in Russia pressed it because of the influence it would have in securing future business, as a Russian commission had unanimously voted to adopt our type of submarine boats, and they had provided in their budget for the building of 70 of them. We had just finished some boats for Russia on a dollar basis, on which a very handsome profit had been made, and really the company suffered no net loss because the 11,000,000 rubles referred to were charged off at a time when our income tax ran over 80%. These rubles were deposited in five of the leading banks of Russia, and if that country should ever come back I see no reason why there should not be some recovery.

In relation to the "Bug" machine, we made a loan of \$250,000 at 3% interest to a firm that was rated by the agencies at a value of \$1,500,000, and by lending this money secured an option of 51% of the stock of the "Bug" machine company if we elected to exercise it. Our investigation of this thing led us to believe there would be a great demand for it and that it would give very desirable business for our Bayonne plant. There has been some little dispute and misunderstanding owing to the other party not acting straightforwardly, but the whole matter has been adjusted and we have demanded and secured a large amount of collateral to this note, not having exercised our option to purchase the stock. Our counsel, Mr. Peter Knight, who is acquainted with this whole matter states we will undoubtedly be paid in full. The "Bug" machine has not been dropped, however, and it may yet develop into a very handsome business, but our money is perfectly safe. The counter suit brought by the other side was very foolish and ill-advised and has been withdrawn.

I know of no other loans of funds of the company except to the General Ordnance Company which was done to assist them in liquidating, so that Vice President Spear could give his undivided attention to the affairs of the Electric Boat Company. That loan is amply secured and will be paid.

The directors thought it for the benefit of the stockholders in 1920 to buy some of the stock in the market. It is true it has gone down since but it has not been sold and is held in the treasury of the company and will come back in the course of time.

No. 12. The plant extensions referred to were required by the Government to fill Government orders for submarine boats and accessories and they have been charged and paid by the Government as a part of the construction cost of such work.

No. 13. I know of no new activities except the developments at the Newark Bay plant, which I have referred to above.

No. 14. Is an entire misstatement. We have, however, been constructing with Mr. James Craig a Diesel engine of about 1,800 h.p. which gives indication of being perhaps the best Diesel engine that has so far been developed. We have every reason to be satisfied with the work we have done, and while the expense of development work is always large, it has been charged against our rent expenses in the last two or three years. This engine will be in operation in one of our ships within two or three months and all those who know anything about the subject speak of it in the highest terms.

No. 15. Of course you, living in Washington, will appreciate how nonsensical it is. We have a claim against the U.S. Navy, but as you know, the U.S. Navy

has no funds available at present to pay any claims, and this is one of the numerous ones of which you have heard, where the Secretary of the Navy having directed in writing the manufacturers, to pay extraordinary wages and agreed to reimburse them, the Comptroller of the Treasury has ruled that the Secretary of the Navy exceeded his powers, and that it is necessary for him to have the sanction of Congress. This item we will collect in due course.

Nos. 16, 17, 18, refer directly to me and you are entitled to a direct answer, the bonus referred to was voted to me by a committee of the board of directors in 1915 and was \$60,000 and not \$75,000, and was all of it expended by me later for the benefit of the company, and I did not receive directly or indirectly the benefit of a single dollar.

In relation to the salaries of the executive officers, these salaries in 1915 and 1916 were paid by the Electric Boat Company, the Submarine Boat Corporation being a holding company only of the stock. No salary was being paid to me nor did I receive any compensation from the Electric Launch Company, the Electro Dynamic Company, The New London Ship & Engine Company and other subsidiaries.

When the \$150,000,000 contract was entered into with the Shipping Board in 1917 for steel cargo vessels we created an entirely new organization of 15,000 men at the Newark Bay Shipyard, and the directors felt that the executive officers were entitled to additional compensation for that great burden of work from May 1917. I took the position that I did not care to draw any compensation until it had been demonstrated what we were undertaking to do was successful and the other executives followed my example. In 1920 when the work had proved very successful the directors took up the question and felt that the compensation should be paid that year while our tax rate was running over 80%, and while I was in Cuba they voted to pay me at the rate of \$30,000 a year from May 1917, the other executive officers having had their payment adjusted prior thereto. Since the work at Newark Bay has decreased in volume the wages of the executives have been cut from 40% to 80% and I can say to you personally, without wishing to make any broadcast statement, that I have not drawn any pay from the Submarine Boat Corporation since June 1, 1920.

Our statement speaks for itself; we owe no money to anyone except the Shipping Board for material purchased for the ships and for the purchase of the plant at Newark Bay. We have been endeavoring to arrive at a modification of the amount paid for this material, because of the great fall in the price at which the Shipping Board is offering its ships which come in competition with our own, but taking all in all we owe them less than eight million dollars against which we will have a plant upon which the Emergency Fleet Corporation spent \$17,000,000 and 32 ships, or 170,000 deadweight tons, which would cost at least \$100 a ton to replace, or a value of \$17,000,000 which they undoubtedly will have in the course of a few years.

General business has been very flat the past year and it has probably gone lower than most anyone really believed it would, but we have come through in very much better shape than most people who try to do large things, and our potential assets are really enormous, and with the revival of business will become of most active use.

We are now chartering vessels at a profitable rate, having arranged for eight of them within the last two weeks, and if the revival continues, as we all believe it will from now on, our 32 vessels will soon be in active service and earning a handsome income for the stockholders.

Finally, I might say that as Mr. Rice states, he has been a director for years, has been a very regular attendant at meetings, and has voted to approve every action of the board, and contrary to his statement full details of every proposed piece of business have been laid before the board and discussed very fully and freely, our meetings from one to two hours every week.

If you should ever be in New York and have time to stop in the office it would give me great pleasure to go over any subject with you which you have in mind.

Yours very truly,

(Signed) HENRY R. CARSE,  
President.

## EXHIBIT No. 178

Received by telephone from Mr. Joyner Aug. 3, 1933.

OFFICE OF THE SECRETARY,  
DEPARTMENT OF THE NAVY,  
Washington, D.C., Aug. 3rd, 1933.

File SS174-L4-2 (330726).

ELECTRIC BOAT COMPANY,  
Groton, Conn.

SIRS: Your proposals submitted July 26th, 1933, offering for the fixed price of \$2,770,000 each without adjustment for increases in the cost of labor and/or material, to construct two submarines Nos. 174 and 175 under class III, in accordance with your company's design, is hereby accepted and contract therefor awarded to you accordingly. Formal contract covering this work will be forwarded to you for execution at an early date. It is requested that the receipt of this award be acknowledged.

Very respectfully,

(S) CLAUDE A. SWANSON,  
Secretary of the Navy.

## EXHIBIT No. 179

[Copy]

THE DAVISON ORDNANCE CO.,  
COAL EXCHANGE BUILDING,  
Huntington, W.Va., December 1, 1932.

Mr. L. Y. SPEAR,

*Electric Boat Company, Groton, Conn.*

DEAR LARRY: Last week I visited General Summerall at Charleston, S.C., and spent four days with him. To avoid repetition I enclose two memoranda—one covering what he said about my gun and the other covering what I saw and picked up from him and other artillery officers stationed at the Citadel.

Summerall is the only general beside Pershing who wears four stars and they are due primarily to his work with artillery. He is very hard boiled and practical. For that reason and the fact that he is not an enthusiast, statements such as he made to me can be safely accepted at 100% of their face value.

As regards my plan to organize a company with a couple of generals and a couple of admirals on the board and with a view to starting some real competition with Army Ordnance, he tells me I would get nowhere. He says that Army Ordnance first of all will have absolutely nothing to do with anything which they do not develop themselves. Also that they are so powerful with the Military Committees of Congress it would be useless to fight them there. The only way they will ever buy these guns is for them to be first manufactured and sold to some foreign power or to be developed abroad.

I have made up my mind to go ahead and develop this gun regardless of the financial situation or outside help.

When I was in Washington a couple weeks ago, I saw Admiral Larimer of the Navy Ordnance. We discussed landing equipment for the marines and bluejackets. He tells me that their present equipment is not what it should be and showed great interest in the gun. In fact, we arrived at an understanding as follows: I am to prepare description, specifications, and drawings. These will be checked over by his experts and unless they discover something impracticable he will order a gun. He asked me what I thought the cost would be. I told him I did not know, but believed we could sell him a gun for \$10,000 regardless of what the actual cost might be. This was before I saw Summerall, and at the time I had in mind the 75 mm. gun, design of which has been completed. This gun was based on the latest army 75 mm. and has a muzzle velocity of 2,200 feet per second. The design also calls for the use of the Army 3" breech mechanism and recoil mechanism. The old Army 3" is now considered obsolete and I was given to understand in Army Ordnance that I could obtain these parts very cheap. While the 3" gun itself

is obsolete due to its low power these parts are for all practical purposes, just as good as the more modern fashions. In fact, one major of artillery expressed a preference for the older design of breech and recoil mechanisms. But Summerall says that the use of parts from an obsolete type would have a very bad effect psychologically even though they operate just as well as the modern designs. This will mean several thousand dollars to be added to the cost.

In view of what I have written in regard to my interviews with Summerall and Larimer I have made up my mind to sever my refinery connections so as to have time to devote to the development of the gun.

So yesterday I took up the matter with the refinery and while I have not severed all relations I am held only by a thread in the form of a small retainer, which of course is quite welcome under existing conditions.

From what I hear from Caulkins his health does not seem to have improved and I cannot count on using him to any great extent, he may, however, be able to do some drafting work from sketches and dimensions I will send him and also to skirmish around to pick up materials. If he does not improve, I will later pick up some young fellow from Annapolis, West Point, or one of the technical colleges.

In view of the unofficial understanding with Larimer, I have no doubt of being able to get an order from him at a satisfactory price. The next question is the actual building of the gun. If you have the necessary tools, how about subletting the contract to the Electric Boat Company? Payments to be made on completion and acceptance of the gun, or as received from the Navy Department.

It will be a very strenuous job to completely redesign the gun to meet General Summerall's recommendations. But I fear he is right. If I do what he recommends I will not only have an antiaircraft gun with a muzzle velocity equal to that of the armys' mobile antiaircraft gun, but I will also have a field gun far superior in range to their latest 75 mm.

There is one more thing that should be attended to in the near future, and that is the filing of patent applications in the principal foreign countries. I do not know right now where I will get the money unless I sell something at a sacrifice. It may be that I can interest my patent attorney and have him do all the work required and pay him in stock. This would leave only the foreign dues to be taken care of with cash.

You will see from the above that I expect to go ahead with this job regardless of Mr. M. If I have something which the world wants and which will make all the present field artillery obsolete, I think I would be a damn fool to keep tied up with the refinery or a salary or to wait indefinitely for Mr. M. or any other one man to make up his mind. I have not so far approached any of my friends in the oil business. Among them I can count a number of presidents and vice presidents of the big companies with salaries of \$50,000 a year or so. In some ways I would prefer to have a gun to show them before attempting to interest them.

Trusting that everything is going O.K. with you, I am,

Sincerely yours

GREG.  
By M. G. P.

OCD:JS  
Enclosure

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EXHIBIT No. 180

[Copy]

THE DAVISON ORDNANCE CO.,  
COAL EXCHANGE BUILDING,  
Huntington, W.Va., December 23, 1932.

Mr. L. Y. SPEAR,  
*Electric Boat Company,*  
*Groton, Connecticut.*

DEAR LARRY: I have just received from General Summerall a letter signifying his willingness to come in on the gun business for foreign countries. He cannot have anything to do with U.S. business on account of the fool law pertaining to officers of the Army and Navy.

In view of this, please do nothing in regard to Vickers, for the present. Sumnerall now being my partner in regard to all foreign business I will now have to work with him.

So far as U.S. business is concerned he will have nothing to do with it.

I am mighty glad to have him with me, as he has commanded more artillery and killed more Huns than any general in the Great War. When he gets back of this gun I think something will happen.

I will write you more in regard to 6-inch guns for the new cruiser later. If the Navy is willing to use a much longer recoil, there may be some weight-saving possibilities using higher-grade steel wherever practicable. If you have any dope as regards proposed gun, muzzle velocity, length of recoil, weights, etc., it would be useful in a study of the question.

Sincerely yours,

G. C. DAVISON.

GCD:JS

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("Exhibit No. 181" appears in text on p. 287.)

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(No exhibit was marked "No. 182.")

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("Exhibit No. 183" appears in text on p. 289.)

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("Exhibit No. 184" appears in text on p. 295.)

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#### EXHIBIT No. 185

(Copy for Mr. H. R. Carse, president, Electric Boat Co., 11 Pine St., New York, N.Y.)

MAY 23, 1929.

Mr. LAWRENCE Y. SPEAR,  
Vice President, Electric Boat Co.,  
Groton, Connecticut.

DEAR LAWRENCE: Re Turkish matter, had two talks with the Ambassador today, one just a few minutes ago. The net of the situation is that he is moving every power reasonable to believe possible to see that we get the other three boats, and these on a basis of no competition, no bonds, or guarantees, no more dilly-dallying, but a straight proposition from his Government.

He met the cabinet officer in New York, and has been visiting with him up to last night. The cabinet officer will be in this city in a fortnight or so. If I understand the situation correctly, they are both in accord and are making a united effort in our favor.

As you understand, Hilary had the Impression in Geneva and Paris, before he sailed on the *Leviathan* that we would get two if not three; but it was his opinion that it would only be two, and this for political reasons. He felt that at no time was price the consideration and, of course, ridiculed delivery time as a factor. He said he could see the situation very clearly in Geneva, and that there was considerable gossip and talk. When Rushtu Bey arrived he was surrounded by Italians, Germans, and Russians, particularly the Italian group, and they managed to cut short his stay and hasten his departure for Rome, where he was entertained royally and made much of. Apparently from Hilary's statement he had two or three very delicate problems, which necessitated sacrifices on the part of his government. In fact, he remarked they were of serious importance, and in order to save his face, it is thought that he probably agreed to lend his influence with his government to the end that we have the result we know of. However, only for a portion of the business, and it is the impression of our friend here that the balance of the order was purposely held out.

There is also another situation that is peculiar, and that is the Italians accepted approximately twelve to thirteen percent of the total payment up to time delivery, and arranged that the balance of payments should run for eight more years after time of delivery. This may and may not be authentic. It is, however, an accepted version at this time. It is peculiar but nevertheless true that the Department, Hilary, and His Excellency believe that we will still get our portion of the business.

Macomber talked with me today and the essence of his conversation was that we should have no regrets as evidenced by information he has and information we have, his information undoubtedly coming through European sources and probably quite reliable. He says that if they had come through at the time clean they could have obtained the money on terms recommended, and that the situation could have been followed up by a bond issue for a rather large amount, which would have given them an established financial position in the United States as well as a better commercial relation.

He congratulated the company on its clean-cut methods and its frankness in dealing with this whole situation. Not only did he refer to our negotiations with the Turkish Government direct, but also to the manner in which we handled the matter with his interests. He expressed himself along the lines that it was rare a matter of this type received the same intelligent treatment, and that we had made all the concessions reasonable to expect. He said he absolutely now had information in his own office which confirmed the fact that it was entirely political, and that nothing that we or anyone else could have done could have changed this situation after Mussolini took it in hand, and that there were factors, which none of us knew about, at work. He did not in any manner, shape, or form evidence a change of heart if the other two or three came through in the near future. He further said that if the devil got into the stock market the bond market would move free and fast, and that probably a very good bond issue could be handled.

He did advise that we take a very firm place in the future with the Turks and make it clear to them that this was the best proposition ever offered any government by American bankers, so far as he had knowledge of, and that they would never again receive the same cordial welcome, when it came to obtaining credits, etc.; that in the future they would have to step up to the counter and meet the situation frankly, honestly, and immediately.

He got the impression, and this possibly from the State Department, because I know it has been remarked by Jones and Long yesterday, that we would have been much better off had an American been handling the negotiations with the Turk, because of the fact that he was speaking for an American company, and that probably an American would be more blunt, positive, and forceful in his actions; that the Turk would recognize the fact that he was dealing with an American and not a foreigner, who had quite a different psychology from that of the average American representative, who is best fitted to handle matters of this importance. I simply tell you this as one of his reactions, for what it is worth. Several times during my recent talks with the State Department they gave me the same impression, and as the Harris-Forbes people and the First National people of Boston are in constant touch with the Department, it is impossible he got his idea there. The suggestion was certainly never offered by me and I trust it will not carry any weight with you, lest my position be misunderstood.

I was glad to have Macomber say that he wanted us to bring in any and all of this type of propositions to him because they want to look them over and stand behind any that were attractive or offered future possibilities. That is about all on this subject.

Thanking you, and with kind regards,

Sincerely yours,

STERLING J. JOYNER.

P.S.—Glad to give you the Japanese information today, also the information regarding Godo's intended start for America.

It was glad tidings to have heard from Harding this morning. It now looks as though that situation may move along.

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("Exhibit No. 186" appears in text on p. 296.)

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"Exhibit No. 187" appears in text on p. 297.)



## EXHIBIT No. 188

[Copy for Mr. Carse, Electric Boat Co., copy]

OCTOBER 21, 1930.

Mr. JOHN R. MACOMBER,  
24 Federal Street, Boston, Mass.

**LOVING OLD THOROUGHbred FRIEND:** The Italian commercial attaché, one Signor Romolo Angelone, will call on you next Tuesday at your New York office. The gentleman will visit me here today, Tuesday, at which time I will advise him to make an engagement, meaning to communicate with you in order to learn your convenience.

I have made it signally clear to him that you are not seeking the meeting. That it must be thoroughly understood he is soliciting the conference, and that it is a privilege to meet you. If there is anything worth while in Italy you can be the judge, after your meeting with him.

In order that you may be somewhat informed in advance, I wish to state our experience with Italians has not always proven attractive. However, do not let that deter you.

Mrs. Joyner asked me to convey her love with mine when writing you.

I have a tentative week-end engagement with Du Ponts at Wilmington, Del., which I would pass over to the week following if you could dine with us Friday. In that case I would run up to New York Friday afternoon. I hope you can accept.

With all affection and best wishes,

Sincerely yours,

A. J. J.

P.S. Confidentially to you, Secretary C. F. Adams confirmed wheat talk.

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("Exhibit No. 189" appears in text on p. 300.)

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("Exhibit No. 190" appears in text on p. 300.)

## EXHIBIT No. 191

FEBRUARY 10, 1931.

Confidential

Memorandum for Mr. Joyner.

The tariff on oil will have very serious consequences from an industrial, investment, and even international political point of view. I have been very closely in touch with this fight in the last few days. The companies struggling for the imposition of a dollar a barrel have sent here a delegation of 70 men (I am credibly informed) with a million dollars at their disposal. The sole resistance of any effective character is coming from the Standard of Indiana.

The measure will be blocked in the Senate, sent back to the House where it will probably be dealt with as a revenue measure with hearings in the Ways and Means Committee.

My guess is that the Navy Department would very much prefer to have this measure defeated since it wants to buy its oil purely on the basis of price and strategic location. I venture the suggestion that you ascertain whether it would not be regarded as a considerable service on your part to use your extensive influence with Mr. Tilson and others in effectively blocking the measure if that is what they would like to have done.

C.E.M.

## EXHIBIT No. 192

Confidential.

MARCH 7, 1931.

Sir BASIL ZAHAROFF,  
Hotel De Paris, Monte Carlo, Monaco.

MY DEAR SIR BASIL: Your letters received with much delight and the writer feels signally honored because of the time and trouble you have taken to send these notes. You are very, very busy. Of that fact I am well aware, and it is not necessary for you to waste your time acknowledging my missives.

I am glad to tell you now that Congress has adjourned until December, not to be recalled except in case of emergency. The total expenditure of this short Congress was over ten billion dollars, gold, a rather extravagant amount, and we are not sure but what it came closer to twelve billion, when the bonus legislation is taken into consideration. It has had its effect on business. At the opening of the year there were some prospects of new business. However, we have had a relapse back into the old state of unemployment, and even fewer prospects of new business.

We have been assured by high officials that we will receive some business from the Government. We will know on April 18th. The new Navy construction bill never reached daylight due to filibusters on other legislation. It will receive preference when Congress meets in December. However, with the limitation of Armament Conference coming up in 1932, there will undoubtedly be a long delay before anything is reduced to an authorization and financed sufficiently to proceed with construction. Personally, I do not look forward to anything of that kind until probably next June 1932. Don't take me too pessimistically. It is just a reasonable analysis of not only the possible, but the probable condition which we must confront.

With reference to Passano, would assure you he is not drawing one cent from the company in any manner, shape, or form. I have most carefully checked this out and you may have that assurance from me, if you will kindly accept same. I am informed that he is hopping around Italy, France, and other places, but if he is it is not on any deferred compensation of any sort from this company. I am glad the Paris office issue has been settled for once and all.

I am glad that you are well and that all the rumors were false. Of course, at that time it was very disconcerting, but now that we know you are well, everything looks brighter and better.

Very confidential to you, and confidential it must be, I had decided to retire from the organization. In fact my resignation has been in for over a year. I wanted to get out months and months ago. (I am not in accord and never have been in accord with the methods which this company adopts and sees fit to carry through in their endeavor to handle or obtain new business.) Very confidential to you, I think there is a good deal of dry rot, which form of decay is fatal. However, the raising of my voice is like the call of one at Babylon, lost in the confusion, and just as I was about to force my own retirement a rather strange condition developed. The Secretary and the Assistant Secretary of the Navy, Admiral Jones and other admirals in the Navy Department, Colonel Tilson, leader of the Republican Party, the party in power, the White House, and other people brought me into conference, and asked me to remain in the organization in order that they might have faith in an honest construction of any program they favored us with, and also that their dealings might be without conflict or confusion, enmity, or doubt. I was also asked by members of our designing department to withdraw my intention to leave March 1st. It is going to be a very serious personal sacrifice on my part, and while it is most complimentary, I am not too happy. However, it is the first time in the history of the United States Navy. I am told today, that the department has made an official request to any officer of any private corporation to remain in the service of the company in order to better serve the Navy.

I know your most powerful position and influence for the good and the betterment of the company, and I think you ought to know these facts. In fact, I think it would be very nice if you wish to confirm the situation to quietly talk it over in a very confidential way with Admiral Andy Long, who will frankly tell you, if you ask him to do so, the situation I stepped into unknowingly three years ago. What applies in this country, likewise applies abroad and it is sometimes most discouraging. There is, if you will excuse me, an expression sometimes used in America that is fitting on certain occasions but not always pleasant to the ear. It speaks of the situation and men in the phrase of a "stuffed shirt." You have probably heard it in Europe, or I believe it originated in England.

If you are interested in being advised with the progress we are making in this country with reference to Government work, and general work, I shall be glad to keep you advised on that basis. I repeat on the basis of confidential communications, and I suggest you address me to my permanent residence, the Hotel Bossert, Brooklyn, New York, where all mail will be personally and confidentially handled.

I wrote to you with reference to Sir Henri Deterding of the Shell organization, whom I am informed is a personal friend of yours. We ought to be doing some of his business in the United States. They have a large powerful organization, and aside from this, they are now deeply interested in the present embargo controversy. I sat in a brief meeting about two hours ago at luncheon with the men who really have the say as to whether there will or will not be an embargo. I believe I could help, in fact, I know I can. Sir Henri Deterding's interest in this country and on the other hand I think it would be a good thing if his activities were encouraged. I also think I am about the only man in this country who can save the situation for the foreign interests, and this I absolutely and positively believe without any conceit on my part.

I will be glad to make a trip to Europe and call upon Sir Henri Deterding and spend two or three days with him the latter part of April or the first part of May if he would be interested, and if you should be writing him I wish you would make known the fact that you know who I am, and that I am not trying to graft him or do anything of the sort, and that I know positively that the foreign countries are going at the thing absolutely wrong and will be defeated by a tremendous majority in 1932 if they continue the methods they are now using, and that they will absolutely be shut out of the oil business in this country through an embargo. They are being too optimistically advised, and are too confident of their position. I talked today at luncheon with one man who will have practically all of the say when the issue is brought to the floor of the house, which it will be, and I know his position.

There now, I have written you a long letter and I trust that you continue to enjoy your usual splendid activities with success and good health.

Very sincerely yours,

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EXHIBIT No. 193

APRIL 23, 1931.

SIR BASIL ZAHAROFF,  
Hotel De Paris,  
Monte Carlo, Monaco.

MY DEAR SIR BASIL ZAHAROFF: This letter will introduce the Honorable Mrs. Ernest Lee Jahnce and Miss Adele Townsend Jahnce, of Washington, D.C., and New Orleans, La., the wife and daughter of the Honorable Assistant Secretary of the United States Navy, Ernest Lee Jahnce.

They are very dear friends of mine, charming folks, and I take much delight in suggesting to the ladies and your most excellent self the pleasure of a meeting during their stay abroad.

They will want to see some of Paris and meet some of the nice people, and they will want to visit the exposition during their stay in Europe.

I have written Admiral Andrew T. Long, U.S. Navy retired, and advised him of their expected arrival.

I shall sincerely appreciate, and I can assure you that the Secretary and his family will dwell in a long life of gratitude for any favors you may find it your pleasure and convenience to extend.

With warm personal regards and very best wishes.

Cordially yours,

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EXHIBIT No. 194

[Copy for the Honorable Ernest Lee Jahnce, Assistant Secretary U.S. Navy,  
Washington, D.C.]

ELECTRIC BOAT CO.,  
New London Ship & Engine Works, April 23, 1931.

CONFIDENTIAL AND PERSONAL

Admiral ANDREW T. LONG,  
International Hydrographic Bureau,  
Monte Carlo, Monaco.

BELoved ANDY AND VI: Your good letters continue to flow our way, and we are doing our best to keep you informed of what is going on in this part of the world.

We trust you are both enjoying excellent health and I noted in your letter that you are going to be touring around Europe this summer.

Strictly and absolutely confidential to you, it is now definitely decided, and very definitely, that I am going to Japan via Europe in June. As a matter of fact I neglected sending out for the transportation today but I am going to do so this afternoon. Nobody has been informed of this fact except you and a couple of members of our organization with whom it has been arranged. For business reasons we are keeping it very, very secret. I dislike taking the long route in the hot weather, but there are reasons why I should go to Europe first, and there are further reasons why I should not tell anybody of my intentions.

Business does not seem to improve in the United States. However, we are trying to be cheerful, be optimistic, and be loyal at the same time.

I am having some trouble fighting against any wage reduction. On Tuesday last the board of directors voted to make a very serious reduction, and to put it into effect covering everybody excepting, strange to say, "Yours truly", and I fought that out this morning and saved that. There is a general feeling all over this country to cut wages. My feeble effort will not avail much generally speaking, but it does amount to something in the organization. In other words, about 60,000 shares in one block and possibly another 100,000 in another block. These two blocks and the stock that I can command outside by proxy makes it possible for me to speak up occasionally out of turn. In doing this, I am supporting the hand, in my limited way, of President Herbert Hoover.

Hilary returned to the hospital yesterday afternoon at Philadelphia. I trust after the final treatment and final examination that they in time will discharge him and permit him to enjoy some real food. He has been courageous and a splendid patient. He has taken his medicine like the splendid naval officer he is known to be.

Admiral Hughes is much better. I am glad to tell you this. I visit the Admiral's home very often. In fact, all of the family are well and send their compliments to you.

Admiral Blakeley is cheerful and fine and says he is writing you. Admiral Leahy is leaving about the 29th of May. He is a fine chap and a splendid officer as well as a loyal friend.

Admiral Shag Taylor is leaving for the Asiatic command. Your old friend Admiral Chase is returning to the General Board. Adolphus Andrews is being located probably at Chicago, and your other friend S. M. Robinson is coming to Engineering to become Chief of the Bureau. There is any amount of gossip but that is sufficient for the time.

Now for a very, very important and absolutely secret communication. Mrs. Ernest Lee Jahncke and Miss Adele Townsend Jahncke will arrive in Paris on the *Golden Arrow* the afternoon of May 20th, and I have instructed our European Manager, H. H. Johnstone, 48, Avenue de la Bourdonnais, Paris, France, cable address code word Retsoek, to meet the steamer at Calais, and to accompany these splendid ladies, your friends, to Paris and arrange for their hotel accommodations, likewise to give them such of his time as they may require.

This will play but a very minor part in their plans, and I know or believe that the Assistant Secretary would dwell in a long life of gratitude and appreciation if both you and Vi were in Paris during their visit, or if you and Vi would arrange to have them visit your section of the world, Monaco, during their trip abroad; also if it is convenient to convey this invitation to Sir Basil, whom I am also writing so that he may show them some of the royal reception and signally beautiful considerations and entertainment so usual on his part when par-excellent or very elite people visit him. If you will communicate with Johnstone, whom you have met and know is an ex-United States naval officer, and give expression to your idea as to what they should and should not see, it will be sincerely appreciated by all concerned.

For your information, they will want to visit the Exposition. If there is any change in date of their arrival in Paris I will have you notified by telegraphic communication or by telephone.

One thing that I do not want to see happen is to have them charged tourist rates in hotels, etc., during their stay. Johnstone has been instructed to secure accommodations in some first-class French hotel in Paris where the rates are reasonable and the accommodations first class. He has been told to keep away from the Ritz, Muerice, King George V, and hotels of that type.

If you get this letter in time I would thank you if you would drop me a line acknowledging same.

Secretary Jahncke, as you know, is an old friend of mine, and a very loving friend of yours. He is one of the keenest and one of the finest com-

panions a man can have on this earth, a prince of men among men. He is not aware of this letter being written. However, I am sure he would not disapprove of me writing you because of his great friendship and admiration for both you and Vi.

Glad to tell you we are both well and Mary is here in Washington with me for a short visit.

Hoping to see you personally soon and with all our love and best wishes.

Faithfully yours,

MARY and STERLING.

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EXHIBIT No. 195

Copy for the Honorable Ernest Lee Jahncke.

WASHINGTON, D.C., April 28, 1931.

Sir ROBERT McLEAN,  
% Vickers-Armstrong Co., Ltd.,  
London, England.

ESTEEMED FRIEND, SIR ROBERT: Forgive us not writing you before, but so many things have been happening, and as a matter of fact I have not personally been so well that I have really neglected my personal correspondence.

We both send our affectionate best wishes to both you, Lady McLean, and your lovely daughters.

We have been looking forward to seeing you in the States and want to assure you that a warm welcome awaits you at our home.

It is about time we took an ocean voyage together. I am planning a rather very long voyage, leaving the States in June and we will probably end up at your side some fine morning in London, perhaps begging for a shilling or a pound. In any case we have confidence in our British cousins to believe they will see that we get it.

Now, for the second act, and probably the most important. My most beloved friend, the Honorable Ernest Lee Jahncke, Assistant Secretary of the United States Navy advises me that his beloved wife and daughter; namely, Mrs. Ernest Lee Jahncke and Miss Adele Townsend Jahncke, are sailing on the *George Washington*, United States Lines, about May 6th enroute to London. They will stop at the Carlton Hotel, and should arrive there the 13th or 14th. I wish if it was your convenience and pleasure that you would pay them a call during their stay, which is between the date of arrival and the 20th day of May, when they will proceed to France.

Both Mary and I trust it will be your pleasure and convenience to have your lovely daughter visit them some time during their stay.

After their arrival in London you will read much about them. I cannot write you why I make this statement, however, you will be charmed when you read it, just as you will be supercharmed when you meet them. Any help or assistance that you can give them will be sincerely appreciated by all parties concerned.

We hope you have all been well, and we close this letter with our affection to yourself and all the members of your loving family.

With warm personal regards,

Cordially yours.

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EXHIBIT No. 196

Personal and confidential.

MAY 22, 1931.

Sir BASIL ZAHAROFF,  
Chateau De Balincourt,  
Par Arronville, France.

MY VERY DEAR SIR BASIL: I am in a position today to tell you that I kept my promise to you made some time ago, but, nevertheless, not forgotten. I succeeded in restoring the Company to the old respected position it enjoyed some twenty-five years ago.

We were the low bidder and succeeded in securing the building of the SC5 today. Bids went in May 19th, and I was assured by the Acting Secretary of the Navy today that we would be given the contract. Being low bidder

did not mean what it seems, because the Navy Yard still had the privilege of coming in and offering a price much under ours, which I believe they did. However, the honorable position which we have taken through all of this situation and the helpfulness which we have rendered to the Department in various manners and various ways has borne fruit. Where we had nothing but disrespect we today have great respect.

We received a good reasonable price for our work. Everybody is now rejoicing. Naturally, I have not been to the New York Office because I only received the final word today, but I am told over the telephone that both Mr. Carse and Mr. Sutphen are delighted, and our directors are very, very pleased.

I know this will please you as a stockholder and it is a signal evidence that where honorable, truthful, intelligent methods are adopted, with ability to perform, associated with these efforts, that even though a firm may have suffered through a blighted reputation unjustly, if you please, however, suffered, that they can, by courage and patience become restored with the confidence and support of their former customers, even though these customers be important governments, where prejudices live much longer than they do among individuals or private organizations.

I am delighted to be able to write this information, and beg to assure you that it does seem as if the Company was on the right road.

I thank you for your kind letters, and with reference to the oil matter would say that I was not in any manner, shape, or form seeking any help or assistance. I was wondering whether I could be of any assistance. What I really was hinting at was this big contract that was up to supply the Government in which I believe I could have been helpful, and which the Government gave to the Shell organization. There was no desire on my part to profit. On the contrary, a profit would actually have been refused as far as I was personally concerned, or to anybody with whom I might be in a friendly way connected.

Chase National Bank stock sold at 70 or under today. I secured some. I think. At least I put in a bid through a brokerage house. I know that you are one of the largest holders of Chase National stock in the world, and I believe Chase is one of the finest institutions in the world.

We are going through a very serious reorganization, and we are being drenched with water they are squeezing out of inflated securities of various kinds. This process will continue for the time being and possibly longer than is being estimated by the average problem solver. Everybody seems to have a cure. Nobody seems to have the time or price sufficient to purchase or make use of the medicine prescribed. In truth, there is no more reason for values to be higher now than they were in 1924 because the same country, the same resources and the same finances to a very large extent existed at that time that exists now. Further, the world's depression was not on with the full cyclonic force and was not having the same devastating cost as exists today. Moreover, there was the patriotism that always follows a victory after a great war to the victor nations. It is a form of patriotism which gives courage and invites confidence in the national leaders. It takes the place of depression, and it is best expressed in support and confidence in the men who lead. Today there is a different situation. The effects of the war are largely forgotten. The children of 1917 are grown men, married and have children today. The little they know about war is that their parents enjoyed prosperity and that money was plentiful, and that they were in a position to not only be supplied with the needs of life, but with many unusual luxuries. It was a sort of an era of extravagance, and where there is extravagance there is always inflation, and where there is modesty, stability dwells. The bubble has burst and we must get back to normalcy. Necessity is the mother of invention, and the big men of the Nation must invent new business policies and put them into force in an intelligent, nevertheless drastic manner in order to keep privation and suffering from many, many more homes this coming winter.

This is a Nation made up of many races and has many creeds. It is rather hard to unite a Nation so populated under any one common banner when we are discussing political policies and political economies, because each race or creed has its mother love for the land of its birth, and while they are quite willing to adapt themselves to prosperity in any nation, they object to sacrifices and unemployment in a country which they have simply adapted, and to weld these people together in the manner that President Theodore Roosevelt

once remarked, "In the melting pot all is well when all goes well", but it don't work out so successfully when all seems to be going wrong.

President Hoover and his Cabinet are dealing with a very difficult situation and the big business men of the Nation are not unanimously behind them. Selfishness and prejudices still hold forth. A great accumulation of wealth and centralized interest is not willing to make the surrender they are called upon to voluntarily do. However, I do not wish to have my remarks inferred that wealth has not suffered, because the big cannon-ball stocks are the ones that are apparently hit the worst. United States Steel, Westinghouse, General Electric, First National Bank, Chase National Bank, National City Bank, and institutions of great importance generally speaking.

The poorer classes and the middle classes who have mortgages, and I speak sincerely when I say 75% of them before the crash came. The principle of buying on credit was over-extended, and the dangers quite unappreciated. We drifted from the age of walking or using a street car to the age of horses and carriages, and then motor cars, finally to the age of not walking, not making use of street cars and the keeping of several motor cars, one for the parents and one each for the sons and daughters. It was not the original purchase that did the damage in many cases. It was the upkeep and the extravagances that went with the original purchase. They had to have automobiles, pleasure boats, radios and raiment that was not in keeping with the station or requirements of those who sought these luxuries, and when the crash came they met it in debt, and there was no form of rescue which could restore the previous life they had learned to live. In our grain fields, or grain-raising States this was apparently very, very true. Likewise applying to lands. The farmer ceased to live on the farm. He went to live in the city and employed foremen or superintendents to live on his farm, in some cases selling the land at terrifically inflated values accepting small payments as a down payment, and taking a big mortgage for the balance where he had been required to earn a living and a saving on a very reasonably priced land for himself and his family, the new tenant farmer was required to earn a living for both the original owner and himself, and to carry the burden of a very big unfair mortgage. If this had been in exceptional cases, the result would not have been very severe. However, when it became absolutely general, and when land went from \$50.00 an acre to \$2,000 in a few months, there was no method, modern or otherwise, which could produce sufficient profit to meet these requirements. The bankers were loaded down with paper that later became almost worthless. If not entirely so, and over 5,000 institutions of various standing have gone into bankruptcy within the last two or three years.

This panic was not as startling or as sudden as represented to be. A "Stop, look, and listen" attitude on the part of the Government and the people would have saved much of the sacrifice and nearly all of the suffering. Many of our better thinkers gave these warnings. However, there is an old saying: "It is folly to be wise", and as you know, there is no wisdom in a brain that is occupied by ignorance and greed, and that is really what happened here. The cause we generally know, and the cure is probably also known. It is bitter and I dare say clouded with more suffering and more sacrifices. However, those of us who go through will have had an experience, and to those of us who don't, well what is the difference? Some people say it is an evolution. I believe it is a revolution because we will not go through it without some form of resistance, possibly a passive resistance. I hope so, and where there is resistance, it is not evolution, it is revolution.

I am one of the most conservative people in this world, I can see harm in the use of force. Its dangers are like a two-edged sword. It cuts both sides. I am as patriotic as any many living in this country, and if trouble came I would be found on the national side of the cause. There is not a red Soviet hair in my head nor a drop of Soviet blood in my make-up. However, my loyalty brightens and directs my views towards the possible but not probable danger which we are now facing in this country.

This is a chatty little letter, perhaps rather too long, but it will give you some idea of what is going on in this country at this time.

Trusting you are enjoying better health, and with very great appreciation of your kind expressions from time to time, I am very, very sincerely

Yours very faithfully,

## EXHIBIT No. 197

[Air mail]

JUNE 2, 1931.

MR. LYMAN S. KING,  
*Care of King-Knight Company,  
Balboa Building, San Francisco, Cal.*

DEAR LYMAN: Newspaper reports the Harvard lost or beyond salvage. Mr. Spear and myself have been discussing the matter in a very brief way this morning. It is our desire that you learn as soon as possible what plans are being made, if any, for the building of a new vessel to replace the Harvard and the type of vessel that they will probably design. Our interest is in the Dieselization and electrical equipment. We believe that time is the essence of this matter, and we are in a position to make delivery and as speedily as anybody in the United States. If the Shipping Board is to take part in any financing, we are in a better position than any other organization to help the owners.

Mr. Chandler, of the Los Angeles Times, was an old friend of mine back in 1924. I believe he will still remember me in a favorable way. However, in case he does not, you can bring to his attention the fact that it was I whom President Coolidge and Mr. Butler had on the Pacific coast working on the delegation in 1923-24, and that I am the man that brought about the various meetings with Governor Fred W. Richardson, Speaker Merritt, Mr. Arnold, Mr. Chandler, and others, when we all got together and secured the California delegation for Mr. Coolidge and defeated Hiram Johnson's delegation, and I am the man for whom Mr. Chandler gave the luncheon about the time we were assured of our success. These facts I give you briefly so that in case you want to refer to them you may do so in any conversation you have with Mr. Chandler. I believe the Chandler interests are very important in the Los Angeles Steamship Corporation.

You can talk to George Hatfield, United States district attorney in San Francisco, and he will probably do anything necessary with Ray Benjamin, if and only if Ray Benjamin's influence is necessary. Be very, very careful and most guarded not to permit yourself to become committed or to commit the company in any manner with Hatfield. It might leave him open to sending us a bill for services.

With kind personal regards and very best wishes.

Very sincerely,

P.S.—What is the status of the McCormack ship?

## EXHIBIT No. 198

[Copy]

NOVEMBER 5TH, 1932.

MR. W. H. PUTNAM,  
*Chairman, Republican State Ways and Means Committee,  
Room 49, Allyn House, Hartford, Conn.*

DEAR MR. PUTNAM: Please pardon my delay in replying to yours of Oct. 19th which has been due to my absence. You are correct in thinking that I am very much interested in the election of Senator Bingham as I feel that failure to send him back to the Senate would not only be an enormous loss to the State but to the Nation as a whole. I have been working actively in his behalf and have reason to believe that as a result he will receive some 1,500 votes more than would otherwise have been the case.

I am enclosing my check for \$50 as a contribution to your fund which is additional to other contributions. I am sorry that I cannot make it more but in these days of severely reduced incomes and greatly increased demands, this is the best I can do.

While I was very nervous about the outlook a few months ago, I now feel that we are reasonably safe so far as Connecticut is concerned.

Very truly yours,

(S.) L. Y. SPEAR.

LYS:B.  
Enc.

×



## PART I

The following exhibits were entered in the record during the hearings of Friday, September 21, 1934, immediately preceeding the noon recess:

### EXHIBIT No. 811

ELECTRIC BOAT COMPANY,  
*Groton, Conn., Sept. 20th, 1934.*

MR. STEPHEN RAUSHENBUSH,  
*Chief Investigator of Munitions Committee,  
Room 408, Senate Office Building, Washington, D.C.*

SIR: 1. If my memory serves me correctly, I undertook to furnish additional information to the committee with respect to:

(a) The original license contract with the Sociedad Espanola de Construcion Naval; and

(b) The matter of transportation to Europe procured by us for Mrs. Howe and referred to in the letter from Mr. Carse to me, dated February 28th, 1928.

2. As to (a), I am enclosing you herewith copy of the original contract with the Sociedad Espanola de Construcccion Naval, dated June 18, 1912.

3. As to (b), please be advised as follows: It is a custom in the shipbuilding world for naval vessels to be sponsored at their launching by the wives or daughters of prominent Government officials nominated by the Government. It is also customary for the sponsors and their parties to be guests of the shipbuilder. In accordance with this custom, Mrs. Howe and Senora Leguia (wife of the President of the Peruvian senate) were selected by the Peruvian authorities to sponsor the Peruvian submarines R-3 and R-4, respectively. As the sponsors were guests of the company, their traveling expenses were assumed by us. As it happened, Mrs. Howe preferred to go to Europe after the launching instead of returning directly to Peru. The company, accordingly, secured and paid for the necessary accommodations in lieu of the return passage to Peru. The phrase in Mr. Carse's letter, "the other outlay", refers to the balance of the traveling expense for which we reimbursed Mrs. Howe. Except for this traveling expense, no other outlay was ever contemplated, agreed to, or made.

4. As Senora Leguia was unable to leave Peru in time to sponsor the R-4, she nominated Senora Aubry to act in her place, and, as in the case of the R-3, the traveling expenses involved were defrayed by us.

5. As you will see from the above, there was nothing whatsoever out of the way about the transaction with Mrs. Howe, as everything that was done was openly done in accordance with a long-established practice in the shipbuilding world.

Very truly yours,

L. Y. SPEAR,  
*Vice President.*

### EXHIBIT No. 812

[Copy]

An agreement made in London on the 18th day of June 1912 between the Electric Boat Company, a company constituted according to the laws of the State of New Jersey, in the United States of America, hereinafter called the "American Company" of the one part and La Sociedad Espanola de Construcccion Naval, hereinafter called the "Spanish Company", on the other part.

Whereas the American Company is the owner of certain letters patent, secrets, and designs relating to the manufacture of submarine boats and has in contemplation the perfecting or carrying out of inventions relating to submarine boats or nearly submerged boats, which latter, under normal conditions of navigation, are capable of having the upper part of their hulls awash, but their turrets or conning towers above the water line, all of which boats are hereinafter included in the expression "submerged boats."

Now, it is hereby agreed by and between the said parties hereto as follows:

1st. The American Company hereby grants to the Spanish Company for the term of ten (10) years from the date hereof the exclusive right during the continuance of this license to manufacture submerged boats in Spain in accordance with the said patents, secrets, and designs or any other letters patent now or hereafter belonging to the American Co. or which may either directly

or indirectly come under its control relating to, or connected with submerged boats, all of which are hereinafter referred to as "the American Company's patents" and to sell the same exclusively in Spain for the use of the Spanish Government.

2nd. If the Spanish Company shall, during the continuance of this agreement, manufacture any submerged boats not comprised in and covered by the American Company's patents, and whether manufactured in accordance with any other letters patent or not, then the manufacture and sale of such boats shall in all respects be subject to the terms and conditions contained in this agreement as if the boats so manufactured had been manufactured under the American Company's patents.

If, during the continuance of the agreement, the Spanish Company should, on its own and exclusive initiative, manufacture any submerged boats not comprised in nor covered by the American Company's patents and whether manufactured in accordance, or not, with any other letters patent, then the manufacture and sale of such boats shall in all respects be subject to the terms and conditions contained in this agreement as if the boats so manufactured had been manufactured under the American Company's patents; provided, however, that if the Spanish Government should order the Spanish Company to undertake the manufacture of submerged boats other than those comprised in and covered by the American Company's patents, plans, or specifications, that as to such boats the Spanish Company will undertake to manufacture the same on its own account exclusively and will pay to the American Company three percent (3%) of the total amount of the order in the place and stead of any other payment to the American Company, said three percent (3%) to be paid as provided for for the payment of the five percent (5%) in clause 9 hereof.

3rd. The Spanish Company shall set up any necessary apparatus for the manufacture of submerged boats as and when the same is required.

4th. The American Company undertakes to pay the legal and other expenses in connection with any action which may be brought against the Spanish Company for the infringement of any patents arising out of the construction of submerged boats under the plans and specifications of the American Company, and undertakes to indemnify them against any damages which may be recovered against them in any such action, and in the event of any injunction being obtained which would prevent the continuance of such construction the American Company agrees to pay one-half of the cost incurred in such construction and will be entitled to one-half of the net amount realized by the sale of the material which had entered into such construction.

5th. The American Company shall, at its own expense, supply the Spanish Company with such copies of complete working drawings of submerged boats comprised in or covered by the patents, secrets, and designs held by the American Company as may be necessary for the construction of any boat, and shall also give all information and assistance in their power with respect to the manufacture of any boats referred to in this agreement. If any drawings are required by the American Company to be undertaken by the Spanish Company the same shall be prepared by the Spanish Company at actual cost.

6th. The following items shall be considered as business charges:

(a) Legal charges arising under clause 19 hereinafter and in general all charges in connection with the registration of documents and stamp duties.

(b) Insurance of boats at the most reasonable rates.

(c) Traveling expenses of the personnel of the Spanish Company necessitated by the construction of the boats.

(d) Expenses of trials, including expenses of mother ship and other incidentals.

(e) Expenses of governmental inspecting officers.

(f) Dry-docking expenses.

(g) Transport of boats to destination.

(h) Salary of yard manager appointed under clause 13 hereinafter.

All business charges shall be considered as separate from and in addition to manufacturing charges provided under clause 8 hereinafter. Such business charges shall be paid from time to time in equal parts by the American Company and the Spanish Company as they arise.

7th. Any monies received by the Spanish Company for the sale or use of patents, plans, or like disposal of partial rights shall be divided equally between the parties, it being understood that the prices and conditions in connection with such disposals shall first be mutually agreed upon by the parties.

8th. All monies received during the continuation of this agreement by way of payment for the said boats referred in this agreement shall be applied as follows, namely:

The Spanish Company shall first deduct therefrom the amounts paid the American Company provided in clause 9 hereinafter, and shall next deduct the cost of manufacture, which shall be reckoned and taken to be the actual cost of material and labor for building the hull and the cost of machinery and other apparatus to be installed in the boat, and the cost of such installation and the usual factory charges. The factory charges shall not exceed in any one year eighty percent (80%) of the amount actually paid in wages for manual labor in the construction of the boats by the Spanish Company and in the event of it being ascertained from the accounts kept by the Spanish Company that the percentage applicable to the construction of submerged boats for any year is less than eighty percent (80%) then the percentage to be charged upon the wages shall be at the lower rate as ascertained for the year, it being understood that the factory charges shall be at actual cost. The balance of the said monies shall be divided equally between the parties hereto.

9th. The selling price of the boats shall be fixed by agreement between the parties hereto, either in writing or by cable.

For the purpose of maintaining the American Company's business in Europe, it is agreed that five percent (5%) of the selling price of each boat shall be paid by the Spanish Co. to the American Co., and that these payments will be made pro rata as and when the money is received by the Spanish Co. under the order for such boat or boats.

10th. The Spanish Co. shall immediately advise the American Co. of all inquiries and orders received for submerged boats, together with full details as to the type of the boats and prices.

11th. The Spanish Co. shall keep full and detailed accounts of all receipts and payments in respect of orders for submerged boats, and shall deliver to the representative of the American Co. at the Spanish Co.'s works a weekly statement of the total amount of material supplied and wages paid, and shall also give full access to the books of the Spanish Co., so far as they relate to the construction of submerged boats to an authorized agent of the American Co. at all reasonable hours. Payment to the American Co. shall be made immediately after acceptance of any boat under any such order upon the receipt by the Spanish Co. of the money due under such order. For the purpose of such payment eighty percent (80%) may be added to the cost of actual manual labor for factory charges, but if at the end of the year the accounts of the Spanish Co. should show that the factory charges are less than eighty percent (80%) on the amount actually paid for the manual labor during the course of the year, then one-half the excess of the said eighty percent (80%) over the actual cost shall be paid to the American Co. as soon as ascertained.

12th. The Spanish Co. shall manufacture all the submerged boats of the best workmanship and the best and most suitable material and with all due diligence and despatch, and careful regard to any special condition imposed in each order and to the periods of delivery and other arrangements agreed upon with the Government or other party for whom the order is being executed.

13th. The American Co. shall, at their own expense, for the purpose of superintending the manufacture of submerged boats, provide a resident engineer who shall have full charge of construction; and the American Co. shall also appoint such assistant or assistants for said engineer as in their opinion may be required for the proper execution of the work. The Spanish Co. shall appoint a yard manager who shall carry out the instructions of the resident engineer, and the Spanish Co. shall also furnish reasonable office facilities for the resident engineer and his assistant.

14th. Every boat manufactured by the Spanish Co. under this agreement shall be marked with some correct description or trade-mark and a running number, and shall bear an inscription showing that the Spanish Co. are the builders, and shall also bear the name of the American Co.

15th. Each party hereto shall communicate to the other all patentable inventions and improvements to submerged boats which either of them shall, during the continuance of this agreement, invent or acquire, and shall without any further special remuneration allow the other party to incorporate such inventions and improvements in the boats constructed by it.

Provided always that neither Co. shall be bound to divulge any inventions, improvements, or alterations made either entirely by or with the aid or at the

suggestion of any government and communicated to either of the parties on condition that the same shall not be divulged.

16th. It is further agreed that all patents relating exclusively to submerged boats, whether on inventions or improvements made or acquired by the American Co. or by the Spanish Co. shall be taken out by the American Co. who shall bear the expenses of taking out and keeping up such patents; but nothing in this clause shall be construed to require the American Co. to take out or keep up any patents which in their opinion are not of sufficient value to warrant the expense. In the event that any invention made by or acquired by the Spanish Co. be applicable to submerged boats but not exclusively, then in such event a patent or patents may be taken out and kept up by the Spanish Co. at its own expense and a license thereunder shall be granted to the American Co. for submerged boat purposes from the Spanish Co. Should the Spanish Co. desire at any time to abandon a patent of this kind then before doing so it shall give an opportunity to the American Co. to keep up such patent and thereupon such patent shall be assigned to the American Co. and a license thereunder granted to the Spanish Co.

17th. It being the intention of the parties hereto that the American Co.'s patents shall be admitted to be valid without question so far as regards construction of submerged boats, the Spanish Co. will not at any time during the continuance of this agreement contest the validity of the patents so far as the same may be applicable to such construction as aforesaid, but this clause shall not be construed to prevent the Spanish Co. from contesting any patent of the American Co. which it may use not relating to the construction of submerged boats. The Spanish Co. also agrees during the life of this agreement to refrain from manufacturing submerged boats or selling the same or offering the same for sale either directly or indirectly to or for use in all countries not expressly conceded in this agreement although such countries or any of them may fail to afford patent protection to the said submerged boats either by absence of patent laws or by reason of the failure of the American Co. to have obtained patents therein or through the lapse of its patents.

18th. Except insofar as is otherwise expressly provided by this agreement the capital and property of each of the said parties shall remain entirely separate, independent and distinct and the respective results and profits or their respective enterprises shall remain and be and belong entirely to their respective accounts and for their respective benefits, it being expressly agreed and declared that as regards the submerged boats to be manufactured under this agreement there is and will be no partnership between the said parties hereto, but simply a working arrangement with regard to the manufacture and disposal of submerged boats, and only to the extent expressly provided by this agreement and neither party shall be responsible for the acts or defaults of the other party.

19th. Each of the parties hereto shall grant or execute or apply for, or do, or procure to be granted, executed or applied, for and done all documents, instruments, acts and things requisite for giving full legal validity to this agreement or any of the provisions thereof.

20th. The Spanish Co. will not assign this agreement without the previous consent in writing of the American Co.

21st. It is mutually agreed that if one year should elapse after the official publication of the law for the construction or acquisition of submarines, and the necessary sum should have been voted for the purpose, and the Spanish Co. in the meantime shall not have received any order for the construction or sale of vessels of the American Co. this contract shall become null and void. The term of one year, however, may be extended for an equal period at the option of the Spanish Co. provided the said company shall have made written request of the American Co. for such extension within sixty (60) days after the expiration of said period of one (1) year.

22nd. Should any dispute or difference arise between the parties hereto, under or with regard to this agreement such difference or dispute shall be settled by Spanish arbitrators appointed according to the Spanish law of "Enjuiciamiento Civil."

In witness thereof the respective parties have executed this agreement the day and year above written.

ELECTRIC BOAT COMPANY,

By (Signed) I. C. L. R'35, President.

SOCIEDAD ESPAÑOLA DE CONSTRUCCION NAVAL ET PRESIDENTE.

(Signed) D ZUBIRIA.

[SEAL.]







4 1934

# MUNITIONS INDUSTRY

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## HEARINGS

BEFORE THE

SPECIAL COMMITTEE

INVESTIGATING THE MUNITIONS INDUSTRY

UNITED STATES SENATE

SEVENTY-THIRD CONGRESS

PURSUANT TO

**S. Res. 206**

A RESOLUTION TO MAKE CERTAIN INVESTIGATIONS  
CONCERNING THE MANUFACTURE AND SALE  
OF ARMS AND OTHER WAR MUNITIONS



---

### PART 2

SEPTEMBER 7, 1934

DRIGGS ORDNANCE & ENGINEERING CO.

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Printed for the use of the  
Special Committee Investigating the Munitions Industry



UNITED STATES  
GOVERNMENT PRINTING OFFICE  
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**SPECIAL COMMITTEE INVESTIGATING THE MUNITIONS INDUSTRY**

**GERALD P. NYE**, North Dakota, *Chairman*

**WALTER F. GEORGE**, Georgia

**ARTHUR H. VANDENBERG**, Michigan

**BENNETT CHAMP CLARK**, Missouri

**W. WARREN BARBOUR**, New Jersey

**HOMER T. BONE**, Washington

**JAMES P. POPE**, Idaho

**STEPHEN RAUSHENBUSH**, *Secretary*



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# INVESTIGATION OF MUNITIONS INDUSTRY

FRIDAY, SEPTEMBER 7, 1934

UNITED STATES SENATE,  
SPECIAL COMMITTEE TO INVESTIGATE  
THE MUNITIONS INDUSTRY,  
Washington, D.C.

The hearing was resumed at 10 o'clock a.m. in the Caucus Room, Senate Office Building, pursuant to the taking of recess, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), George, Clark, Bone, Pope, and Vandenberg.

The CHAIRMAN. The committee will be in order.

## TESTIMONY OF LOUIS L. DRIGGS

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Please give the committee your full name, your home and business address, and business connections, Mr. Driggs.

Mr. DRIGGS. Louis L. Driggs, 19 West Forty-fourth Street, New York; my home address is 319 Center Avenue, New Rochelle. I am president of the Driggs Ordnance & Engineering Co.

The CHAIRMAN. Senator Pope, you may take the witness.

Mr. DRIGGS. Senator, may I ask a question?

The CHAIRMAN. Certainly.

Mr. DRIGGS. I submitted a letter the day before yesterday addressed to you with regard to treating in confidence information relating to the Government policy of countries that we have been dealing with.

The CHAIRMAN. I received that letter, Mr. Driggs, and your concern relative to the possibility of revealing what might be secrets of a government or that might in any way compromise a government—let us await until a question arises as to whether that secrecy is being challenged and then we can take it up.

Mr. DRIGGS. The only point I want to make is this, that as respects ourselves, it is of no very great importance; but if these countries feel that they cannot deal in confidence and have their confidence respected, the business will not come to the United States. It will just go to enhance other plants and enlarge plants elsewhere in the world that may be potential enemies of ours. I merely wanted to make that point.

Senator POPE. Who are the directors of your present company, Mr. Driggs?

Mr. DRIGGS. Myself; L. L. Driggs, Jr.

Senator POPE. That is your son?

Mr. DRIGGS. Yes, sir. P. T. Sharpless, of Philadelphia, and at present, through the death of one member and the resignation of another, there are two vacancies.

Senator POPE. Are your stockholders widespread?

Mr. DRIGGS. No.

Senator POPE. Or are they limited in number?

Mr. DRIGGS. Very limited.

Senator POPE. Who are your associates, who do the actual work in connection with your business; are those the men that you have named?

Mr. DRIGGS. Well, Mr. Sharpless is not active in it. He is in business in Philadelphia.

Senator POPE. But the others are?

Mr. DRIGGS. Yes.

Senator POPE. Are there others than directors who are active in your work, as salesmen in the main office?

Mr. DRIGGS. Well, just at present we have no salesmen working out of the New York office. We have agents abroad.

Senator POPE. How long have you been in the business of manufacturing guns, Mr. Driggs?

Mr. DRIGGS. About 40 years.

Senator POPE. Your first company was named the Driggs Ordnance Co., was it not?

Mr. DRIGGS. Yes.

Senator POPE. And was organized about 1888?

Mr. DRIGGS. Yes, sir.

Senator POPE. For what purpose was that organized?

Mr. DRIGGS. It was organized to manufacture the Driggs-Schroeder gun, a gun invented by my brother, Comdr. W. H. Driggs, of the Navy.

Senator POPE. And was that gun adopted by the United States Navy?

Mr. DRIGGS. Yes, sir; it was.

Senator POPE. About when, with reference to the organization of your first company?

Mr. DRIGGS. Why, I would say around 1890; that is, the first guns were ordered for the Navy at that time.

Senator POPE. Your company was reorganized about 1898, was it not, as the Driggs-Seabury Co.?

Mr. DRIGGS. In between we had had a merger with the American interests of the Hotchkiss Co. of France, which company had supplied the earlier rapid-fire guns to our Navy. They were bought abroad. Then when Congress—

Senator CLARK (interposing). Your original guns were rapid-fire guns, Mr. Driggs?

Mr. DRIGGS. I beg your pardon.

Senator CLARK. Your original guns, the guns to manufacture which you organized your company originally, were rapid-fire guns?

Mr. DRIGGS. Yes, sir.

Then Congress passed an act requiring that all ordnance must be of domestic manufacture. Then the Hotchkiss Co. was obliged to come over here and they contracted with Pratt & Whitney to make their guns under contract.

Now, answering your question about the Driggs-Seabury Co., we had quite keen competition for a while with Hotchkiss until there was a merger; but we were not entirely satisfied with the final details, so there was a provision that the Driggs Co. could pull out after a year. That we did and joined interests in New York that had been backing Lieutenant Seabury in some patents he had taken out. Then we formed the Driggs-Seabury Co.

Senator POPE. How long did you do business under the name of the Driggs-Seabury Co.?

Mr. DRIGGS. Oh, for quite a number of years.

Senator POPE. Did you do any foreign business?

Mr. DRIGGS. No. During that time all our business was with this Government except the one test gun we had furnished to England.

Senator POPE. Then in about 1915 you organized the Driggs Ordnance Co.?

Mr. DRIGGS. Yes, sir.

Senator POPE. And that continued during the war and up to about 1924?

Mr. DRIGGS. Yes, sir.

Senator POPE. During that time did you do any foreign business?

Mr. DRIGGS. No.

Senator POPE. All domestic business?

Mr. DRIGGS. All domestic.

Senator POPE. Your present company was organized, then, in 1924?

Mr. DRIGGS. Yes, sir.

Senator POPE. Were Mr. A. J. Miranda and Mr. I. J. Miranda connected with your present organization for a time?

Mr. DRIGGS. Mr. A. J. Miranda—just out of friendship and to have another representative for the Driggs interests on our board, I made him a director about 7 years ago.

Senator POPE. What part of the work did he do; what was his particular business?

Mr. DRIGGS. During that time he had no active part in the business. He and his brother—rather, he was in an automobile concern in New York, as agent for foreign cars and for the du Pont car. Then, owing to the small demand for those cars, there was nothing doing in 1932, and we had some South American business. We took on Mr. Miranda at that time to follow up principally South American sales.

Senator POPE. Which Mr. Miranda?

Mr. DRIGGS. A. J., and his brother acted for him when he was away. They worked it together.

Senator POPE. Were they stockholders in your corporation?

Mr. DRIGGS. I think A. J. in this present corporation owns a small amount of stock. I cannot say how much. It is a small amount.

Senator POPE. But I. J. does not?

Mr. DRIGGS. No.

Senator POPE. What is the size and the kind of guns that you now make?

Mr. DRIGGS. From 37 millimeters, or what we call here the 1-pounder, up to the largest that we have made, which was practically 5-inch, or 4.72; that is, 12 centimeters.

Senator POPE. When did your foreign business first start; when did you first get orders for foreign business?

Mr. DRIGGS. It started about 1925 when we had a trial order from Poland for one of our infantry-accompanying guns. We were indebted to Mr. Vauclain for that, really. We had—well, the only contract we had had with our own government since the war was a designing contract for such guns. They had heard of it over there and made inquiries of Mr. Vauclain.

Senator CLARK. That is Vauclain, of the Baldwin Locomotive Works?

Mr. DRIGGS. Yes, sir. He had a \$7,000,000 order for locomotives in Poland. They made inquiries as to how they could get in touch with the designer of this gun, and the first we knew of it was a letter from the Embassy here saying that they had been directed to us. When that gun was finished, I decided to go over myself. I had spent a great deal of money since the war keeping our company alive, keeping the organization together. I finally concluded that I would either can it or go on, depending upon what I found to be the situation in Europe.

I had supposed that such enormous concerns as Vickers and Schneider, and the large manufacturer in Sweden, Bofors, with the engineering staffs that they had, were probably ahead of us in engineering. And if I found that to be the case I was going to fold up and take my loss and go out of the ordnance business. But I found, to my surprise, that they had not progressed much since the war on new designs; that we had a good opportunity. So then I got encouragement in Poland and decided to go on and try to keep it alive.

Senator POPE. Did you make a trip to Europe in connection with that?

Mr. DRIGGS. Yes. I went over in 1925 and I came back in 1926 with a tentative order.

Senator POPE. Since your first small order with Poland, with what countries have you done business or negotiated?

Mr. DRIGGS. Well, with Denmark and Turkey, Greece, Lithuania, and a number of South American countries; Venezuela, Colombia, Guatemala.

#### COOPERATION OF UNITED STATES GOVERNMENT IN CONNECTION WITH FOREIGN SALES

Senator POPE. In connection with your foreign business—and I include, of course, the South American countries—you have had certain cooperation from the United States Government?

Mr. DRIGGS. Yes.

Senator POPE. And what would you say as to the sort of cooperation that was given to you by the Government in connection with your foreign business, in your efforts to get orders in foreign fields?

Mr. DRIGGS. Well, the War Department informed us—which we knew to be their policy—that they wished to encourage private ordnance manufacture, so as to have a capacity in this country in case of necessity.

Senator CLARK. Do you manufacture all your guns in this country, Mr. Driggs?

Mr. DRIGGS. We have.

Senator CLARK. You do not have any tie-up with any foreign concerns by which you manufacture abroad, or they manufacture abroad according to your design?

Mr. DRIGGS. No. We have no tie-up there.

We, in turn, kept the Department informed of what we were doing and when it came to the negotiation for anti-aircraft orders, the War Department agreed to allow us the use of the designs of what are known as the mobile mount. This present outfit was the outgrowth of—that is, the gun is our own gun, but since the war the Department has designed around it this mobile mount, which makes the whole thing altogether a very fine unit. But we had had a very tough break so far as getting any compensation for the use of our patents during the war was concerned. We did not get any settlement from 1927.

Senator CLARK. That is from the United States Government?

Mr. DRIGGS. Yes. So it was represented to us then that if it was settled out of court and not in the Court of Claims, it would amount to as much to us in the end, through Government cooperation in helping us to get foreign orders, providing they were of sufficient size to build up our capacity again. And on those conditions the Department granted us this help.

Senator POPE. What did that amount to in the way of permitting you to use the designs and plans of the Government?

Mr. DRIGGS. It was an agreement to release to us for use on a big contract—I mean in connection with our Polish contract for anti-aircraft guns—I want to make a point, too, now, that that was all defensive material that we were furnishing, and that Poland was interested in obtaining.

Senator CLARK. That was what?

Mr. DRIGGS. Defensive material.

Senator POPE. What do you mean by that—defensive material?

Mr. DRIGGS. I mean an anti-aircraft gun is per se defensive; to fight off airplane attacks; it is not offensive at all. If there is no airplane attack, you do not use the guns.

Senator CLARK. But the gun can be used just as easily by an offensive army against defensive aircraft as by a defensive army against offensive aircraft, can it not?

Mr. DRIGGS. Well—

Senator CLARK. For instance, when Germany was on the offensive in France, occupying French or Belgium territory, an anti-aircraft gun would be just as useful to them as if they were fighting defensive warfare on their own soil.

Mr. DRIGGS. That is presupposing that the operation had reached that point where the enemy was in possession. But that is not the starting point, when you start with the first attack.

Senator CLARK. But it is just as valuable to an offensive army as to a defensive army, is it not? That is the point that I am making.

Mr. DRIGGS. It would be under those conditions.

The CHAIRMAN. Senator Clark, it ought to be noted here that Mr. Carse, of the Electric Boat Co., contended that the submarine

was a piece of defensive machinery, and that it remained so until Germany stole the Electric Boat Co.'s patents on the submarine. Then it no longer was a defensive weapon.

Senator CLARK. In my experience, I have never heard of any weapon being offered as an offensive weapon.

Mr. DRIGGS. Was he not making the point, Mr. Chairman, that it depended on the size of the boat, whether it was a small boat operating from shore or a boat of much larger size that went abroad looking for trouble?

Senator POPE. I want to call your attention to a letter dated January 24, 1929, written by you to Mr. Florjan Ziemba, which I will offer as "Exhibit No. 199."

(The letter referred to was marked "Exhibit No. 199", and is included in the appendix on p. 521.)

Senator POPE. Who is Mr. Ziemba?

Mr. DRIGGS. He is our agent in Poland.

Senator POPE. How long has he been your agent there?

Mr. DRIGGS. Since 1925.

Senator POPE. Who is he? What is his background?

Mr. DRIGGS. He is an engineer, a graduate of the Principal Technical School at Lemberg.

Senator POPE. How did you get in touch with him? How did his employment come about?

Mr. DRIGGS. Simultaneously with our receiving this inquiry for the type of gun from Poland he wrote us and applied for the agency for our material. I left the matter in abeyance until I got there and investigated, and then made him our agent.

Senator POPE. Had he been connected with other munition companies before then?

Mr. DRIGGS. No, sir.

Senator POPE. Referring to the letter, a copy of which is before you, it appears that you were writing Mr. Ziemba about the details of a du Pont contract with Poland; is that correct?

Mr. DRIGGS. Just allow me to refresh my memory.

Senator POPE. I refer you to the second paragraph, which reads:

While I suppose you have obtained the details of the du Pont contract from the ministry, I would say they are as follows:

Then follow the details of the contract of the du Pont's with Poland.

Mr. DRIGGS. What page is that?

Senator POPE. That is the first page of the letter which is dated January 24, 1929, from you to Mr. Ziemba.

Mr. DRIGGS. Yes. This merely was to illustrate a form of payment, a form of deferred payment that had been used by them; that is all.

Senator POPE. Did you have any interest in that contract?

Mr. DRIGGS. Not at all.

Senator POPE. Will you now turn to the third page of the same letter, where I refer you to this statement:

As you know, the War Department is now cooperating with us 100 percent. They have even changed the policy to a more favorable one to us than when you were here. The Ordnance Department officials informed us a few days



ago that the Department was now more concerned in having our plant get work than Government plants. They are pushing a bill now in Congress, on which I enclose newspaper clipping.

Senator POPE. What was that bill; do you remember?

Mr. DRIGGS. I think it was with regard to giving out educational orders. I am not sure, but that is my recollection; that is, with the idea of having plants in the United States familiar with this character of work, so that they could expand quickly.

Senator POPE. And that you call educational orders?

Mr. DRIGGS. Yes, sir.

Senator POPE (continuing reading):

You will remember the release to us of the latest designs of the anti-aircraft guns to be furnished Poland is conditional upon our having orders of satisfactory size for production in our plant here. The Government feels that the compensation for making public what has heretofore been secret is in the building up of our facilities so they will be available in time of necessity.

Mr. DRIGGS. Yes, sir.

Senator POPE. So that your understanding was that that was the policy of the Government with reference to you at this time?

Mr. DRIGGS. Yes, sir.

Senator CLARK. Do I understand, Mr. Driggs, that the War Department agreed to release to you and through you to a foreign country in the sale of your guns to a foreign country, the plans of a gun that had heretofore been held secret by the War Department?

Mr. DRIGGS. Merely in this way Senator: That these designs had been developed here—

Senator CLARK. They were developed by you or by the War Department?

Mr. DRIGGS. Both. It was customary to have an exhibition every fall down at Aberdeen of new material and have members of the Army Ordnance Association, which is made up largely of civilians interested in the industry, present. It was realized that these guns were really not secret at all; there had been thousands of people at these meetings that had seen the guns, and the attachés of foreign governments had seen them and reported on them. You cannot keep a thing of that sort, after it is once out and the public view it, secret. So it did not really mean anything.

Senator POPE. What did you understand by the statement here that the Government had recently changed its policy in that respect?

Mr. DRIGGS. I merely meant with regard to giving more encouragement than had been the custom since the war to private firms; because the Government had absorbed practically all the manufacture. After the war we had no business whatever. There was not anything given out.

Senator POPE. In what way was more encouragement given?

Mr. DRIGGS. I mean to say with regard to this policy of educational orders.

Senator POPE. They gave out more on their secret designs and plans than they had theretofore?

Mr. DRIGGS. No, no; I do not mean that. I mean that if a new type of infantry gun was developed—we will say that it was proposed to give a plant an order for a certain number of those, a limited order, so that they would have the tools on hand and be

prepared to make those in case of war; to give another concern an order for some shell projectors, so that they will be tooled up and able to make that stuff in case of war.

Senator POPE. For use in other countries you mean?

Mr. DRIGGS. No; for this Government. In other words, these were a sort of training order for our own people. That was the whole object of it.

Senator POPE. I call your attention to a letter received by you—

Senator CLARK (interposing). Senator, will you permit an interruption before you go on with that? I shall like to ask Mr. Driggs another question. Mr. Driggs, you spoke a moment ago of the military attachés of foreign missions and embassies being present at these exhibits at Aberdeen. Do you know whether these attachés of foreign governments are active in securing information about the secret plans of guns for their government?

Mr. DRIGGS. As far as they can see; in that way, just as our own attachés abroad attend their maneuvers, the maneuvers the different countries have. They sort of exchange information. And incidentally this has been very good for American material, because we have lost nothing by it in this way; we have lost nothing through any secrets getting abroad that were not known. But they have sent very favorable reports to the effect that the antiaircraft guns here were far ahead of those in Europe.

Senator POPE. I will now refer to a letter from Townsend Whelen to yourself, dated February 18, 1927, which I will offer in evidence as "Exhibit No. 200."

(The letter referred to was marked "Exhibit No. 200", and is included in the appendix on p. 523.)

Senator POPE. The only part of that letter I wanted to refer to is the last sentence, which reads as follows:

In fact, we are in full sympathy with the work and with the building up of munitions work, both in your own company and in other companies in this country, and we will be very glad to cooperate with you to the fullest extent possible if you will simply let us know what you wish.

That was the attitude of the Government, as you understood it?

Mr. DRIGGS. Yes, sir.

Senator POPE. I next refer to a letter dated April 7, 1928, from yourself, addressed to Herbert F. L. Allen, which I offer in evidence as "Exhibit No. 201."

(The letter referred to was marked "Exhibit No. 201", and is included in the appendix on p. 523.)

Senator POPE. Who was Herbert F. L. Allen, to whom this letter, "Exhibit No. 201", was addressed?

Mr. DRIGGS. He was our agent at that time in Turkey.

Senator POPE. Who was he; what was his background?

Mr. DRIGGS. Well, he had begun as a stenographer away back in the nineties in our office here in Washington; then he had been a newspaper correspondent for a number of years; and shortly before the war he was with the American—British Manufacturing Co. After that he went out to Turkey for us.

Senator POPE. Is he still your agent?

Mr. DRIGGS. No.

**Senator POPE.** The only reference to this letter I desire to make is with reference to the last two paragraphs on page 1 of the letter. I read as follows:

We have had lately good cooperation from our own Government. It is for the purpose, however, of bringing these orders to this country and furnishing work for our plants and to be used as such, but not to be broadcast and merely serve the purpose of furnishing information to competitors. We have already been allowed to go quite far with regard to the data of our guns.

We have furnished the Turkish Government with the muzzle velocity, maximum ceiling, and maximum range, and also the weights of the ammunition, powder charge, rapidity of fire, and other data. On top of this, we have now notified you that we can furnish the new flashless powder, which is very valuable in night firing.

In other words, you had furnished them all of the material with reference to these guns.

**Mr. DRIGGS.** Those are very general specifications, as you realize, and nothing on which they could build guns or duplicate them. That reference to the flashless powder the Department has nothing to do with. That was the result of our communication with du Pont.

**Senator POPE.** That came from du Pont?

**Mr. DRIGGS.** Yes.

**Senator POPE.** Now, I refer to a letter dated July 9, 1931, from you to Mr. H. J. Leisenheimer, vice president in charge of export sales, of the Cleveland Tractor Co., which letter I offer in evidence as "Exhibit No. 202."

(The letter referred to was marked "Exhibit No. 202", and is included in the appendix on p. 524.)

**Senator POPE.** I wish to call your attention to the fourth paragraph of this letter, "Exhibit No. 202", which reads as follows:

Before we could show the new type of mobile mount (to carry our guns) which our Government had in the meantime developed, it was necessary to obtain an agreement from the War Department to release the designs to us for use in filling a foreign contract. This we obtained and, in the fall of 1928, the commission arrived here, having previously seen the latest developments at the various European ordnance plants. Upon returning, the commission reported that the American material was at least 5 years in advance of that in Europe.

Then at the bottom of the first page of this letter appears the following:

This material, which is purely for defensive purposes, is not only approved by the League of Nations, but its acquisition required by the League, consists of 348 units (guns and mounts).

What did you mean by that statement, where did you get the information upon which you based it?

**Mr. DRIGGS.** I don't recall now, Senator.

**Senator POPE.** Was it from any order or any pronouncement of the League?

**Mr. DRIGGS.** Yes; we had it, and it practically amounted to an order on the League, but just the source I got it from, I cannot now recall.

**Senator POPE.** Do you have a copy of that order now, or could you locate one?

**Mr. DRIGGS.** It is not an order we had, it is merely that such an order was placed, that was required by the League. We did not have it, and I would have been very glad if we had.

Senator POPE. You understood, then, that the League was recommending increases in armaments in some instances?

Mr. DRIGGS. In some instances where it was to put a country in a position to put up resistance to encroachment or attack, and they considered it was in the interest of peace to have a country able to protect itself.

Senator VANDENBERG. May I ask, Mr. Driggs, does this indicate that whenever America develops some defense, or what you would term a "defense", that almost inevitably it becomes available for world-wide use?

Mr. DRIGGS. Not at all, Senator. This does not relate to American guns at all. That paragraph there does not relate to American guns, but merely that the League decided certain countries were deficient in certain material for their own protection to resist invasion and, therefore, required them to acquire that much. It has no relation to American material at all.

Senator VANDENBERG. Here is an instance where you obtained from the War Department the release of designs for use in filling a foreign contract. What contract was it—what country was it?

Mr. DRIGGS. At the time we had that agreement for the release the primary thing pending was Poland, but it did not apply solely to them. It indicated a policy on the part of the Department that provided we got orders of sufficient magnitude to meet their approval as building up our capacity again that had languished since the war, that we should use the drawings of the mobile mount.

Senator VANDENBERG. The mobile mount is supposed to be an improvement on some previous ordnance?

Mr. DRIGGS. Yes, it is; but it is not ordnance. It is a part of the gun, or a part of the unit. The unit with the gun on the mount is the whole unit, and this is a part of that affair. They recognized that, and also recognized that we had not been properly compensated for the use of our patents during the war, so they agreed to let us use this part so that we could fill the order.

Senator VANDENBERG. As I understand, it is an improvement, and the War Department permitted this improvement to become foreign property and an element of foreign defense. Is that correct?

Mr. DRIGGS. Yes.

Senator VANDENBERG. Is that general practice?

Mr. DRIGGS. Why, yes; it is general practice with something that they could copy anyway. There is nothing endangered by it, and it is different from them coming over here and copying a locomotive.

Senator VANDENBERG. They seem to pretend to guard these processes of production against observers who might take advantage of the information they obtain in some instances, according to the testimony previously submitted; yet in other instances, apparently for the sake of contributing to American business, the War Department is willing to rob itself of the inherent advantage of an improved agency of defense. That seems to be what I get out of your statement?

Mr. DRIGGS. No, sir; what they did was to allow us to use these designs or these drawings, provided it contributed to our own national defense capacity, provided it built up the capacity in this country, as a measure of national defense, and not merely for the

sake of American business. Incidentally, it would bring business here that otherwise would go abroad.

Senator CLARK. As a matter of fact it was giving American guns to a foreign country which they did not have, was it not, Mr. Driggs?

Mr. DRIGGS. I would not say that, Senator. There were certain portions of the design that were secret and were not released. But what anybody could see we were allowed to use. We could have gotten out our own drawings and filled the orders ourselves; there was nothing to stop us at all.

Senator CLARK. Then why was it necessary for the United States Government to release them, Mr. Driggs?

Mr. DRIGGS. Because they might consider that instead of our making the drawings ourselves, it would facilitate the work to use those same prints.

Senator CLARK. It is possible for the Government to keep the type of guns they are using secret, is it not?

Mr. DRIGGS. No, sir.

Senator CLARK. Was it not true that nobody knew the Germans had those 42-centimeter guns—wasn't it a surprise to the French when they ran into those 42-centimeter guns?

Mr. DRIGGS. I do not know how it was.

Senator CLARK. It was universally stated at the time though I have no personal knowledge of it, that the Belgians and the French knew nothing whatever of the fact that the Germans had in their possession the 42-centimeter guns, and it was a complete surprise to the Allies?

Mr. DRIGGS. I do not know how correct that is, but I do know from what I have learned abroad in the last few years that everything Germany is doing today is generally well known to the other countries, no matter how much they try to keep it secret.

Senator POPE. Now, Mr. Driggs, I call your attention to the next paragraph at the top of the second page of this letter, "Exhibit No. 202", which reads as follows:

The contract is to be divided into two orders, for 174 guns each, the Government agreeing that, if the appropriations are not provided for the second lot of this same type, they will give us the equivalent value in other sizes.

I have returned for the purpose of completing our manufacturing and financing arrangements, and the Polish Government is ready to sign the contract as soon as I can return to Poland and work out the details of the Polish part of the manufacture.

Now, how much of this was to be manufactured in Poland?

Mr. DRIGGS. This letter is just one of those that come under the letter I put in heretofore.

Senator POPE. Did you state that a part of these guns would be made in Poland?

Mr. DRIGGS. Is it not possible for me to give the information on this letter to the committee in executive session?

Senator POPE. That is a matter for the committee to decide, but it seems to me that question could be asked. It has been answered repeatedly by others, that is the same short question.

Mr. DRIGGS. That may be, but we might as well hold up now, if we cannot keep in confidence information given us in confidence.

The CHAIRMAN. Senator Pope, you are more conversant than any of the rest of the committee with the ridiculous letter; do you feel it is in any way a compromise of our attitude?

Senator VANDENBERG. What is the question the witness declined to answer?

Senator POPE. What part of this proposed order was to be manufactured in Poland. I can see no reason not to answer that.

The CHAIRMAN. I see no objection.

Senator CLARK. It seems to me it goes to the very gist of the practice of the United States Government in giving military secrets out for the purpose of expanding the business capacity of the United States. If we cannot find out how much of the business, when the secrets are divulged, goes to the plants in the United States and how much goes to the foreign plants, the whole inquiry should be terminated.

Senator POPE. I think you can properly answer the question so far as our Government is concerned. What part of this order was to be made in Poland?

Mr. DRIGGS. My recollection is that the proposition was that we build—leaving us to select the plant ourselves—100 here and 200 over there, bringing over the raw material from here. But nothing came of it.

Senator POPE. Those to be built in Poland had nothing to do with the capacity of your plant to manufacture these guns?

Mr. DRIGGS. No; but 100 guns to be built here is considered a very good order. Later our order was cut down to 70 guns, and I came back and asked the Department if that met their conditions; and they said yes, that was a very good order.

Senator POPE. And the Department agreed to the manufacture of these others in Poland?

Mr. DRIGGS. The question did not come up.

Senator POPE. Did you not advise the Department of that?

Mr. DRIGGS. I believe we did. I believe we advised them of all of the details, but no request was necessary. You can realize, when they have a hundred guns, that if they wanted to duplicate them over there, there are no patents, and there is nothing to stop them.

Senator POPE. Now, referring to the third and fourth paragraph on page 2 of this "Exhibit No. 202", you state that this order will amount to \$5,000,000, and then you give the profit in the fourth paragraph that would be received by you under such an order. You say:

Under this plan the profits per gun would be \$10,000, of which our share would be one-half, plus half of the profits on the present business which the Government guarantees this plant.

If you were to receive one-half of the profit, who received the other?

Mr. DRIGGS. The plant over there.

Senator POPE. That is for the part that was manufactured over there?

Mr. DRIGGS. That is the armament manufactured there; yes. You understand, Senator, this was a proposition made but never carried into effect.

Senator POPE. In the next paragraph I find the following:

An alternative plan is to license the Polish plant to build our guns upon a royalty basis. Under this, our profit would be from \$1,500 to \$1,800 per gun,

plus the charge for engineering and supervision. This should bring our total profit on the first order for 174 units to about \$1,200,000.

So that if all of the guns were manufactured in Poland, which was an alternative plan proposed, you would receive this amount of profit?

Mr. DRIGGS. Yes.

Senator POPE. And that was considered by you?

Mr. DRIGGS. No; it was not considered. It was a proposition made, but we were not interested in it.

Senator POPE. Now, on September 5, 1931, there appears a letter written by you to your son, I take it, which letter is offered as "Exhibit No. 203."

(The letter referred to was marked "Exhibit No. 203", and is included in the appendix on p. 526.)

Senator POPE. There appears in this letter, "Exhibit No. 203", on the second page, in the next to the last paragraph, the following:

There may be a number of things that only you can handle.

It may be necessary, for closer estimates, for you to examine the drawings of the mobile outfit. These have already been released for this purpose to the Sperry U.S. Pipe crowd, and Barnes agrees with me that the Department could not refuse them to us should we demand them. However, I do not want to run the risk of any delay or controversy at this time, which would delay my sailing.

Did you obtain the drawings for what you called the mobile outfit?

Mr. DRIGGS. My recollection is this related purely to an attachment known as the fuze setter. That is a part of the outfit attached to it, for setting the time fuze.

Senator POPE. Now, on the last page, under subdivision (2), it is stated:

Have just closed an agency agreement with the Auto Ordnance Co. for the sale of Thompson submachine guns in Poland, Esthonia, Latvia, Lithuania, Turkey, Bulgaria, Norway, Sweden, and Denmark.

You still have your agency agreement?

Mr. DRIGGS. No; we gave it up with regard to all of the countries. In fact, we only had it a short time before we found there was no field over there.

Senator POPE. I call your attention to a letter dated January 21, 1932, which I offer in evidence as "Exhibit No. 204."

(The letter referred to was marked "Exhibit No. 204", and is included in the appendix on p. 527.)

Senator POPE. In this letter, "Exhibit No. 204", I call your attention to the last paragraph on the first page, as follows:

Except for the support of your Department, we have for several years carried on this fight entirely single-handed. We have not only the opposition of our competitors to overcome, but also the political pressure which their governments bring on their behalf. This has made our negotiations long drawn out and very costly.

What did you mean by that statement, "political pressure"?

Mr. DRIGGS. I meant that the ambassadors and ministers of the countries in which these plants belonged bring pressure on behalf of their plants for the business.

Senator POPE. In what way do they bring that pressure?

Mr. DRIGGS. Well, by demanding the business, by activity in insisting on it and other things, and bringing up various reasons why the

business should be placed there. These other plants have the strong backing of their government because it is a part of the governmental policy to have a large private capacity.

For instance, it used to be so—I don't know if it is now—that in England it was not a question of what percentage of the business went to Vickers, but it was a question of how much went to the Woolwich Arsenal after Vickers and Armstrong had been taken care of. In France it is the same thing, that those plants have strong pressure brought to bear to make them prosperous so that they have a big capacity of work at all times.

Senator POPE. That is what you meant by political pressure in the above statement?

Mr. DRIGGS. I am speaking of the ambassadors and the ministers of the countries bringing what pressure they can to have those orders placed in their country.

Senator POPE. Now, referring to a letter dated February 22, 1929, to H. F. L. Allen, I offer that letter in evidence as "Exhibit No. 205."

(The letter referred to was marked "Exhibit No. 205", and is included in the appendix on p. 528.)

Senator POPE. This letter appears to have been written to Mr. Allen of the American Embassy at Angora, Turkey. I believe you stated he was your agent in Turkey?

Mr. DRIGGS. Yes, sir.

Senator POPE. At the middle of the last paragraph on page 1 I make reference to a statement as follows:

It is upon the latest developments in this material, which are now released to us with the purpose of supplying guns to Turkey, that our Government has spent \$2,000,000.00 this is official and not our estimate. I cannot conceive Turkey throwing away the tremendous benefit which would put her anti-aircraft material ahead of any other European country.

That was your understanding of the matter, that the Government had spent \$2,000,000 on these designs and plans you were having the use of?

Mr. DRIGGS. Yes; and manufacturing. It does not mean any secret development; it means they have been drawn and a good many manufactured, but it is all settled in an engineering way and there is nothing secret about it.

Senator POPE. Now, I call your attention to a letter dated May 8, 1928, addressed to you and written by C. B. Robbins, Assistant Secretary of War, and I offer it in evidence as "Exhibit No. 206."

(The letter referred to was marked "Exhibit No. 206", and is included in the appendix on p. 530.)

Senator POPE. This letter, "Exhibit No. 206", begins as follows:

Reference is made to your letter dated Washington, D.C., March 14, 1928, in which you request authority to utilize the latest United States Army designs of anti-aircraft material in your manufacture of anti-aircraft material for sale to European countries.

The Driggs breech and semiautomatic mechanisms have been standard equipment of U.S. Army antiaircraft guns for a number of years. These mechanisms are very satisfactory, and are utilized in the latest 3" and 105 mm anti-aircraft guns developed by the U.S. Army.

It is the desire of the War Department to encourage the manufacture of munitions in the United States by commercial manufacturers. The War Department would be willing to release to your company the designs of our latest anti-aircraft material with the exceptions of certain secret portions, provided you had a contract with a foreign government for a production quantity of



anti-aircraft material which you would agree to manufacture in the United States. You can readily appreciate that an order from a foreign source for only two or three of these new antiaircraft materials would only serve to disclose to the foreign power the latest United States developments in anti-aircraft artillery, and would not develop any munitions manufacturing capacity in your plant. The size of the order will, therefore, have to receive the approval of the War Department before any design information is released to your company.

Design information on the following components pertaining to the latest United States antiaircraft material both of the 3" and of the 105 mm types will be released to your company.

Then on the top of the next page, it reads as follows:

The anti-aircraft director (Wilson type) being developed by the U.S. Army is classed as secret, and no manufacturing details of this instrument can be released to your company.

Considerable data and information regarding the efficiency and performance of the new types of U.S. anti-aircraft material have been published. The article on anti-aircraft progress, by Major G. M. Barnes, Ordnance Department, published in the March-April 1927 issue of "Army Ordnance" is a very excellent résumé of the present status of anti-aircraft development in the United States, and should serve as very good sales literature in convincing foreign governments of the efficiency of U.S. Army anti-aircraft artillery material. Developments since the publication of this résumé about a year ago have been in the nature of refinements, all of which would be included in the design information furnished to your company.

In supplying design information to your company, it should be understood that the War Department assume no responsibility for the use of any patents, and that your company must assume full responsibility and liability for any patent features which you might make use of in the manufacture of this anti-aircraft material. It is also manifest that the U.S. War Department can assume no responsibility for the correct functioning of any anti-aircraft material built by your company and sold to a foreign power, as the United States would have no supervision or jurisdiction over the manufacture, inspection, proof, or test of these materials.

The War Department hopes that your company may be successful in obtaining an order for the manufacture of a considerable number of these new anti-aircraft materials of the latest U.S. Army design.

Very truly yours,

(Signed) C. B. ROBBINS,  
*The Assistant Secretary of War.*

Now, of course, the War Department determines and decides what portions of these designs are secret, I suppose?

Mr. DRIGGS. They state in the letter in that list, the items.

Senator POPE. Do you know of any definite policy that they follow in determining what is secret and what is not secret, or does it depend upon the individual that happens to be in the War Department at the time?

Mr. DRIGGS. No; this relates to certain features of the recoil system, which was supposed to be secret at the time of the war, and was imported to our Government from France as secret, in the manufacture of the 75-millimeter field guns in this country from the French guns.

Senator CLARK. That was an essential feature of the 75's?

Mr. DRIGGS. Yes, sir.

Senator CLARK. Supposed to make them superior in the event of war?

Mr. DRIGGS. Yes, sir; because they used compressed air in the spring instead of the recoil system, to put it briefly, but they ceased to be a secret the moment the Germans captured the first 75's, but

the condition had been that on the release of these designs to our War Department of those, they had to pass it on.

Senator VANDENBERG. Before we leave this letter, I am still interested in the third paragraph on page 1, where the War Department indicates certain things which you are not permitted to make public, yet, nevertheless, the information which they allow you to make public is shown, provided there is enough business in it, and it is described by the War Department itself as serving to disclose to the foreign power the latest United States developments, in anti-aircraft artillery. So that even that part which is disclosed, apparently, is considered by the War Department to be illuminating, at least to the foreign country. Is not that a fair interpretation of the Secretary's letter?

Mr. DRIGGS. No; not entirely, Senator. Bear in mind that a large part of this was our own design anyway, these guns, and that question is on all fours with the other. It is a facility to them, of course, to give them up-to-date material, better than they can get abroad. It is also realized that after they got even one or two guns, that they can duplicate them. That is why there could be no objection to our making guns abroad later, because after we had furnished 100 here, they would know all about them.

That is, all of these attachés have seen them and thousands of people have seen them at the proving ground, but it is to give them something better than they can get abroad. It was not proposed by us or the department to give them that advantage, or to copy, without proper compensation to us and the Government.

Senator VANDENBERG. This design which is being discussed here is a Government design, is it not? That is, I am referring to the letter of May 8, 1928. You are asking for the release of a Government design, are you not, the latest United States Army design of anti-aircraft material?

Mr. DRIGGS. May I illustrate something to you [exhibiting pamphlet]? There is the outfit on the mobile mount. This part is the mobile mount [indicating]. The part which does the shooting. This was ours. When we delivered to the Navy Department, they adopted it first, and it is on the Navy mount [exhibiting picture]. These are more or less engineering developments, very fine, very good for efficiency, and so forth, and can be transported at high speeds over bad roads, because it is mounted on ball bearings and balloon tires. But the first gun here was adopted by the Navy before the Army.

Senator CLARK. That makes it an excellent offensive weapon, when it can be transported at high speed over bad roads, Mr. Driggs?

Mr. DRIGGS. Not necessarily. Suppose a battery of guns were here, and there was going to be an attack in Baltimore, you would rush the guns to Baltimore, would you not?

Senator CLARK. Suppose you were invading Maryland from this side of the line with one of those anti-aircraft guns to follow up the troops to shoot at the airplanes. In that event it would be an excellent offensive weapon, would it not? It depends on what you want to use it for, does it not?

Mr. DRIGGS. It depends on whether you consider it before the major operation or afterward.

Senator CLARK. Suppose the major operation is a declaration of war by Virginia against Maryland—they were using them in the manner described; then that would be an excellent weapon to repel the attack of the Maryland aircraft, would it not; and it all comes back to the question of what you want to use the gun for, whether it is an offensive weapon or a defensive weapon?

Mr. DRIGGS. You must determine upon that question, and the question was before the League as to what are offensive weapons and what are defensive weapons. You must draw the line somewhere and go by the initial purpose of the design, and the League has decided, which is officially on record over there, that anti-aircraft guns are defensive weapons.

Senator CLARK. But they can be used as offensive weapons, can they not?

Mr. DRIGGS. A revolver in the hands of a police officer is a defensive weapon, and in the hands of a gangster is an offensive weapon.

Senator VANDENBERG. I want to get back to that letter of May 8, 1928, for a moment. How can I read the third paragraph of that letter to mean anything except that the War Department is willing to permit you "to disclose to a foreign power the latest United States developments in anti-aircraft artillery", provided "it will develop munitions manufacturing capacity" in an American plant?

Is not that a fair construction of that statement of policy?

Mr. DRIGGS. But you are putting the wrong interpretation on it, Senator.

Senator VANDENBERG. I do not want to. I am concerned to find out the correct interpretation.

Mr. DRIGGS. By disclosure is meant such information that they would get by having the guns in their possession. It does not mean giving away some secret information.

Senator VANDENBERG. It is manifestly to their advantage to have it.

Mr. DRIGGS. Exactly; and the advantage to us is having the increased capacity here. One offsets the other.

Senator VANDENBERG. And the policy of the Department has been to give a foreign power a military advantage in return for a commercial advantage to the United States?

Mr. DRIGGS. It all depends upon the country. If it is a country which is promoting peace, where its lack of resistance might result in war, it is a very great contribution to peace, I consider.

Senator VANDENBERG. That is all.

#### CONNECTIONS WITH UNITED STATES NAVAL OFFICIALS

Senator POPE. Mr. Driggs, I refer you now to a letter dated November 19, 1932, or to a report under that date, which appears to have been written from Lt. Comdr. James H. Strong to the consul general of Colombia in New York City. I will offer that for identification as "Exhibit No. 207."

Senator POPE. Who is Lt. Comdr. James H. Strong?

Mr. DRIGGS. He was a naval officer at that time attached to the Philadelphia aircraft factory.

Senator POPE. In the service of the United States?

Mr. DRIGGS. Yes, sir.

Senator POPE. What position at that time did he occupy, if you know, with Colombia, with the Republic of Colombia?

Mr. DRIGGS. I do not know definitely, except that I understood from him that he was allowed by the Department to act as adviser to them in practical matters connected with aviation.

Senator POPE. And he occupied that position at that time?

Mr. DRIGGS. Yes; while not interfering with his other duties.

Senator POPE. How long have you known Lieutenant Commander Strong?

Mr. DRIGGS. Only a few months before this time, perhaps September or October 1932.

Senator POPE. When did you first see the report made by Lieutenant Commander Strong to the Consul General of Colombia?

Mr. DRIGGS. When it was prepared.

Senator POPE. You assisted him in preparing the report?

Mr. DRIGGS. Yes.

Senator POPE. Where was it prepared?

Mr. DRIGGS. It was prepared in New York.

Senator POPE. What was your office location at that time in New York?

Mr. DRIGGS. Where it is now.

Senator POPE. What is that?

Mr. DRIGGS. 19 West Forty-fourth Street.

Senator POPE. This was prepared at 19 West Forty-fourth Street in your office?

Mr. DRIGGS. Yes, sir.

Senator POPE. Now, in that report, which has been marked for identification as "Exhibit No. 207"—

(Exhibit No. 207 has been stricken from the record upon instructions from the chairman of the committee.)

Mr. DRIGGS. Senator, I had no interest in these matters here, I mean to say with regard to their scheme of defense, other than to protect their interests and secrets.

Senator POPE. Referring to this report, you will note that the subject is "Recommendations for the defense of the ports of Buena Ventura and Tumaco, Colombia." And in the first paragraph of the report it states that:

As a result of careful study and analysis of the various problems connected with the defense of the above-mentioned ports, the following pertinent points are submitted for consideration of the Colombian Government—

Mr. DRIGGS. Senator, pardon me. But do you think that that is a matter which, in view of Colombia's position objecting to this, that they could consider it was a violation of diplomatic courtesy?

Senator POPE. I would not think so. It is a part of the investigation.

Mr. DRIGGS. All right.

Senator POPE. In the second paragraph the report reads:

(This quotation has been stricken from the record upon instructions from the chairman of the committee.)

You were, of course, familiar with that at the time it was written and assisted in that.

I will call your attention to the top of page 2 to this sentence in the report:

Thus it will be possible for the shore batteries to keep the cruisers of Peru at a distance where shell fire from them will be ineffective.

And after going ahead and setting out in detail the defense that should be made there appears, at the bottom of page 3 of the report, or near the bottom, this statement:

The Driggs Ordnance & Engineering Company, who had prepared and worked out the necessary details for the guns and fire-control system, and the estimate for this project, have given whole-hearted support in the endeavor to furnish to Colombia a system of defense which will consist of the most modern equipment and which will guarantee ample protection from any attack which may be launched by Peru.

You, of course, were familiar with that at the time it was put into this report?

Mr. DRIGGS. Yes, sir.

Senator POPE. How long had you been conferring with Lieutenant Commander Strong with reference to this matter before this report was made in your office?

Mr. DRIGGS. I do not know. Probably a week or 10 days.

Senator POPE. You discussed this whole matter before you and he made up the report, of course?

Mr. DRIGGS. Yes; because we had to have a basis for our estimates.

Senator POPE. Did you discuss this matter with him in his office at any time while he was an officer of the United States Government?

Mr. DRIGGS. In his office? No, sir.

Senator POPE. Now, going on to the next paragraph of the report, it reads:

(This quotation has been stricken from the record upon instructions from the chairman of the committee.)

And so forth, describing the situation of Peru.

Now, at the same time that this report was prepared there was prepared another letter, was there not, from you to Mr. German Olano, consul general of Colombia?

Mr. DRIGGS. Yes.

Senator POPE. Did Mr. Strong help you to prepare that letter? Were they prepared together or at the same time? This is dated November 19, 1932, the same date as the report which has been marked "Exhibit No. 207."

Mr. DRIGGS. This is all very confidential stuff, Senator, and I was requested by the consul general to confer with Commander Strong on it.

Senator POPE. You were requested by Mr. Olano to confer with Commander Strong?

Mr. DRIGGS. Yes, sir.

Senator POPE. When was that request made?

Mr. DRIGGS. About the time that the consulate received the instructions from their Government.

Senator POPE. The letter that I have last referred to will be marked for identification as "Exhibit No. 208."

(Exhibit No. 208 has been stricken from the record upon instructions from the chairman of the committee.)

Senator POPE. Who first mentioned this matter to you—Commander Strong or Mr. Olano?

Mr. DRIGGS. I think the consul did. That is my recollection.

Senator CLARK. May I ask, was Commander Strong on the active list at that time?

Mr. DRIGGS. Yes.

Senator CLARK. Of the United States Navy?

Mr. DRIGGS. Yes, sir. He was advising under authority of the Department, I believe. That is my understanding.

Senator POPE. The Department permitted him to advise Colombia in the way that he was advising them?

Mr. DRIGGS. Yes.

Senator POPE. That is the way you understand it?

Mr. DRIGGS. Yes, sir. I do not know how specific it was, but it was general advice on airplane matters, because they had no experts.

Senator POPE. Did Commander Strong tell you how much the Colombian Government was paying him for his services in that respect?

Mr. DRIGGS. No, sir; I never knew.

Senator POPE. Referring to the letter of November 19, 1932, "Exhibit No. 208", which was your letter written on the same date as the report of Commander Strong, you say:

Pursuant to our conference with Commander Strong, and in accordance therewith, we are pleased to quote you on the material required for the adequate protection and defense of the two zones that you have mentioned. From Commander Strong's report you will understand that this material has been determined upon after most careful consideration of all possible contingencies, bearing always in mind the desired advantage of overmatching the material of the probable enemy.

Of course, "the probable enemy" was Peru, as mentioned in the report, I take it.

Now in that letter you set out at very considerable length and in detail the main batteries that are desirable, the ammunition, the anti-aircraft defenses, fire control for anti-aircraft batteries, and convey that or send that to Mr. Olano, Consul General of Colombia.

Now for this service rendered to you by Commander Strong, what arrangements did you have for compensating him?

Mr. DRIGGS. He did not render any service to us.

Senator POPE. You feel that in making this report in your office, and you following it up immediately with a letter the same day, with his assistance, was of no service to you?

Mr. DRIGGS. It required collaboration between ourselves and him, at the request of the consul, and there was no other place for this work, unless I left my office and went down to the consulate or some place like that.

Senator POPE. This letter to which we refer was signed by Mr. A. J. Miranda, Jr. He was, of course, at that time in your employ?

Mr. DRIGGS. Yes, sir.

Senator POPE. I will ask you the question again: What compensation, if any, did you pay Lieutenant Commander Strong for his services in this regard?

Mr. DRIGGS. None whatever.

Senator POPE. Do you know whether or not Mr. Miranda paid him anything for his services?

Mr. DRIGGS. No, sir.

Senator POPE. You mean he did not or you do not know whether he did or not?

Mr. DRIGGS. I do not know anything about it.

Senator POPE. Now, I would call your attention to a report by Lt. Comdr. James H. Strong to the Consul General of Colombia, dated December 2, 1932, which will be marked for identification as "Exhibit No. 209."

(Exhibit No. 209 has been stricken from the record upon instructions from the chairman of the committee.)

Senator POPE. I call your attention to this report "Exhibit No. 209." You will note the subject of that report is "Recommendations for the defense of Cartagena, Puerto Colombia, and Barranquilla, Colombia", and I would call your attention particularly to the second paragraph of the report and recommendation, which says:

(This quotation has been stricken from the record upon instructions from the chairman of the committee.)

Then the following paragraph reads:

(This quotation has been stricken from the record upon instructions from the chairman of the committee.)

Did you join in this report from Commander Strong?

Mr. DRIGGS. I do not recall definitely.

Senator POPE. You do not recall the second report and recommendation?

Mr. DRIGGS. I know there was a second report made.

Senator POPE. Was it made in the same way as the first?

Mr. DRIGGS. That I do not remember.

Senator POPE. Now, in the very last part of that report, the last two paragraphs, it reads as follows:

The Driggs Ordnance & Engineering Co., who are furnishing the quotations for the material involved, have given whole-hearted support in the working out of these recommendations for the defense of the strategic points in the Atlantic.

The defense, as outlined, supplemented by the use of at least two large patrol planes, will provide adequate defense against all present possible sources of attack.

You knew of that part of the recommendations made by Lieutenant Commander Strong?

Mr. DRIGGS. No; I did not. To the best of my recollection, the plan for defending these ports was worked out like the other one was.

Senator POPE. Yes.

Mr. DRIGGS. But as to this last recommendation of his, and this stuff stated there, I do not remember.

Senator POPE. When was that brought to your attention? When was this report, which was found in your files, or a copy of it, first brought to your attention?

Mr. DRIGGS. As I say, my recollection is that it was before me at the time, but I do not recall—I mean the preparation of the report, and I had no hand in the writing of the letter.

Senator POPE. Now, I would call your attention to a letter from the Driggs Ordnance & Engineering Co. to Mr. German Olano, Consul General of Colombia, written on December 3, 1932, which will be marked for identification as "Exhibit No. 210."

(Exhibit No. 210 has been stricken from the record upon instructions from the chairman of the committee.)

Senator POPE. Mr. Driggs, I would call your particular attention to the first paragraph of that letter, "Exhibit No. 210", which reads as follows:

(This quotation has been stricken from the record upon instructions from the chairman of the committee.)

That, of course, was prepared by you and Commander Strong at the same time the report was prepared, as in the other case?

Mr. DRIGGS. I think so.

Senator POPE. There follows a very detailed statement as to the guns and as to the fire control for anti-aircraft batteries.

Mr. DRIGGS. Yes, sir.

Senator POPE. About that time, Mr. Driggs, you furnished Colombia with some sort of war vessel, did you not?

Mr. DRIGGS. Yes.

Senator POPE. The *Flying Fox*?

Mr. DRIGGS. The *Flying Fox*.

Senator POPE. Tell us briefly of that transaction, your furnishing the *Flying Fox* to Colombia.

Mr. DRIGGS. Well, they were wanting, needing vessels, and I was familiar with the *Flying Fox*, and I used to know her owner, and I knew she was designed and built by Yarrow from torpedo-boat plans, and she was a fast turbine vessel, and therefore well adapted to be a fast gunboat.

Senator POPE. Where did you get that boat?

Mr. DRIGGS. In New York, from William B. Leeds. He was the owner then. So I had plans prepared showing her as a gunboat, with a battery of four of our 3-inch guns and 37-millimeter gun. Then when I got all prepared, we submitted to Mr. Olano the matter, and he put it up to his Government, and they ordered it.

Senator POPE. Where was the boat armed? Where were the guns put on her?

Mr. DRIGGS. They were put on over at Brooklyn.

Senator POPE. Who did the work on that?

Mr. DRIGGS. The United Dry Dock for us—that is, the mounting of the guns. We built the guns ourselves.

Senator POPE. Was the boat on Colombian registry at that time or not?

Mr. DRIGGS. No.

Senator POPE. Now, we will mark as "Exhibit No. 211" a letter which we have here under date of September 8, 1927, addressed to the Driggs Ordnance & Engineering Co. from S. Kohno, of Mitsui & Co., Ltd.

(The letter referred to was marked "Exhibit No. 211" and is included in the appendix on p. 531.)

Senator POPE. Are you acquainted, Mr. Driggs, with the firm of Mitsui & Co., of Japan, with branch offices in various ports of the world and one in New York?

Mr. DRIGGS. Very slightly. I met them, I think, two or three times a number of years ago.

Senator POPE. And have you had some negotiations with them?

Mr. DRIGGS. We did at that time.

Senator POPE. Now, I call your attention to the letter from Mitsui & Co. to you under date of September 8, 1927, which has been placed in the record as "Exhibit No. 211", and I would call your par-



ticular attention to the first paragraph thereof, which reads as follows:

Regarding the 37-millimeter antiaircraft gun and 47-millimeter semiautomatic gun, we beg to confirm the conversation had with your Mr. Driggs yesterday in your office, that you would willingly quote us your best export prices f.o.b. New York for each of the above guns. You will also let us have five copies of rough sketches of 37-millimeter antiaircraft gun under your design, the same as those which you showed us yesterday.

As you are well aware from the conversation had with Col. S. Oyaizu, he is very much interested in the above guns and desires to send full information about the same to the Japanese Government, recommending your goods as the best in this line. Under the circumstances, we are now doing our best to obtain their order for our mutual benefit.

We shall be much obliged if you will give this matter your special attention and send us all your documents, as requested by us, as quickly as possible, along with a description of your company's history and all your references, as we have to send all this information to our Tokyo office as well as the Japanese Government.

In the meantime, we would ask you not to quote to others in case you receive any inquiries from our competitors for this business, but if this is impossible, please quote them higher prices than for us, after you have been in touch with us.

Thanking you for your kind cooperation, we are,

Yours very truly,

MITSUI & Co., LTD.

Now, did you furnish them the full information and the documents which were requested in this letter?

Mr. DRIGGS. My recollection is that we did not. What reply we made to this, if any, I do not now remember, but I do know that I became convinced that their government was on "a fishing expedition", and might obtain a few guns and then proceed to copy them, and we decided to let the negotiations lapse.

Another thing to which I want to call your attention, Senator, is that we do not refer here to our 33-inch anti-aircraft gun anyway.

Senator POPE. But you are not sure whether you furnished the information or not?

Mr. DRIGGS. If we furnished the information, it was nothing more than a rough sketch or general description of the 37-millimeter. It is my recollection we did not furnish even that, but I am not positive of it. Anyway, I determined not to carry on the negotiations any further, and that ended it.

Senator POPE. Did you observe their request with reference to quoting prices to competitors?

Mr. DRIGGS. We quoted nobody else.

Senator POPE. Are you acquainted with Mr. W. D. Shearer?

Mr. DRIGGS. Yes, sir.

Senator POPE. How long have you known him?

Mr. DRIGGS. Well, I suppose 3 years.

Senator POPE. Do you recall his request for quotations on September 10, 1931, for 20,000 Mauser rifles and quotations on other materials about that same time?

Mr. DRIGGS. Yes, sir.

Senator POPE. Whom did he represent at that time?

Mr. DRIGGS. I do not know. It just came to us out of a clear sky from him, saying that it was for China.

Senator POPE. He said it was for China?

Mr. DRIGGS. Yes.

Senator POPE. I should like to offer this letter of September 7, 1931, as "Exhibit No. 212."

(The letter referred to was marked "Exhibit No. 212" and is included in the appendix on p. 532.)

Merely referring to this letter, in paragraph 3 he writes:

We have an inquiry, received through W. D. Shearer, for rifles, machine guns, and T.N.T. for China. The rifles and the 150 3-inch field guns, on which we have also quoted, can be obtained from Poland. (Machine guns can be obtained from Soley.)

Who was Soley?

Mr. DRIGGS. Soley is a man in England that is a sort of an outlet agent for surplus British material.

Senator POPE. What did you do when you received this inquiry from Shearer?

Mr. DRIGGS. I do not know. Very likely we got quotations from Soley, or we had them—I do not know. He publishes a list of stuff, which he sends out, and we had such a list in the office.

Senator POPE. You had dealings with Soley & Co., of London, then?

Mr. DRIGGS. No transactions; we had correspondence.

Senator POPE. I call your attention to a letter of March 8, 1929, which I will ask to have marked "Exhibit No. 213."

(The letter referred to was marked "Exhibit No. 213" and is included in the appendix on p. 533.)

Senator POPE. This letter is from the Soley Armament, Ltd., of London, to the Driggs Ordnance Co. In that letter there is mentioned a very large number of guns of various kinds.

For instance, in paragraph 1 they say:

1. Lee Enfield, made by Remingtons 1917, unused, quantity 100,000 or more. Lewis 3,000, ammunition 25 millions, particulars battery posted today.
2. Ammunition quantity should read 125 millions instead of 25 million.

They give a very large list of guns. Did you understand that those were guns that they had on hand and available?

Mr. DRIGGS. Yes; surplus war stuff.

Senator POPE. Surplus war stuff?

Mr. DRIGGS. Yes.

Senator POPE. I call your attention to the postscript in the letter which says:

We have marked this letter "confidential", as we do not wish it to be generally known that such large stocks of rifles and machine guns exist, and as a matter of fact they are much larger than stated here.

What was your understanding of their purpose in not giving the facts with reference to the number of guns that they had on hand?

Mr. DRIGGS. I cannot surmise unless it might have been part of the policy of the British Government. He was completely in their confidence and he released this stuff as he sold it. He might have thought it was well not to have it known that there were so many rifles available. I cannot guess his purpose.

The CHAIRMAN. With Senator Pope's consent to the interruption, the Chair offers for the record two letters received this morning from Sterling J. Joyner addressed to the committee. The first letter reads:

Though ill, I desire to emphatically state that any desire on my part to see Mr. Fort a member of any committee was positively private and absolutely unknown to Mr. Fort, and in justice to Mr. Fort this statement must be made.

Any desire that I may have had was by no request, and entirely without any knowledge on the part of Mr. Fort. My spirit was that he was, indeed, a splendid man, and for that reason I was hopeful that he would be honored.

I am quite unknown to Mr. Fort. I never asked any meetings or favors and never expected any.

Respectfully yours,

STERLING J. JOYNER.

If you so desire, this statement may be released to the newspapers.

The second letter reads:

Referring to publicity in this morning's papers: Believing a frank statement is necessary, the Honorable Joseph W. Martin, Jr., M.C., did not need me, or any other man of my humble class to assist him, and I never asked Mr. Martin to do me any political favor with regard to any business connected with submarines, or the like, or anything else for that matter.

I am very, very sorry if my enthusiasm has caused Mr. Martin any annoyance. I send this message as a justice to Mr. Martin in all haste.

Respectfully yours,

STERLING J. JOYNER.

If you so desire, this statement may be released to the newspapers.

Senator VANDENBERG. Mr. Chairman, I would like to make this observation in connection with these letters from Mr. Joyner.

The CHAIRMAN. Senator Vandenberg.

Senator VANDENBERG. Yesterday's testimony was of tremendous utility in respect to our own munitions quest. It seems to me that this is another utility. Here is one of these high-powered Washington lobbyists giving a totally different reason to the public than he gave to his own employers respecting his attitudes and activities. I suggest that it is one more demonstration to the business men of America that these lobbyists claim large influence with Congress which they do not even remotely possess. It is a racket from which both Congress and the country suffer. If we may take the profit out of lobbying in Washington, as well as out of war, we shall have done a double service.

The CHAIRMAN. And when one racket plays upon the other there is double need for removal.

Senator VANDENBERG. Yes.

The CHAIRMAN. Senator Pope, will you continue your examination?

Senator POPE. Who is the firm of Urueta & Samper, Mr. Driggs?

Mr. DRIGGS. I am not sure about their former connection. But it is a firm down in Bogota, Colombia.

Senator POPE. Do you know anything about their background or what their business is?

Mr. DRIGGS. One of them was a former official. They are supposed to be influential and have good connections there to get Government contracts.

Senator POPE. Who suggested Urueta & Samper to you as being desirable agents in Colombia?

Mr. DRIGGS. I do not recall.

Senator POPE. I should like to have this letter dated November 4, 1932, marked "Exhibit No. 214."

(The letter referred to was marked "Exhibit No. 214", and is included in the appendix on p. 533.)

Senator POPE. In the first paragraph of the letter written by you or your firm to Urueta & Samper you will note this language [reading]:

Our mutual friend, Mr. Owen Shannon, of the Curtiss-Wright Export Corporation, has been kind enough to give us your name and recommend your firm to look after our negotiations in Bogota with the Government of Colombia.

Does that refresh your mind?

Mr. DRIGGS. Yes, sir.

Senator POPE. Do you know the relationship of the Curtiss-Wright Export Corporation, or rather Mr. Shannon, of that corporation, to Urueta & Samper?

Mr. DRIGGS. No. Mr. Shannon is a friend of Mr. I. J. Miranda, and it was in that way that this firm was named.

Senator POPE. I call your attention to the last two full paragraphs on the second page of this letter. Those paragraphs read as follows [reading]:

In view of the publicity attendant to the international situation between Colombia and Peru, the Colombian consulate here has been deluged with proposals for all kinds of war material, mostly second-hand, obsolete material offered by brokers. To safeguard the interests of the Colombia Government and save the time of the consulate and of the War Ministry in Bogota, the United States Government has "loaned" to the Colombian consulate one of its naval officers to act as advisor on the merit of the material offered.

Do you know why that word "loaned" was put in quotation marks and just what that means?

Mr. DRIGGS. No, sir. It was his own personal idea.

Senator POPE. Continuing with this letter [reading]:

The officer in question is Commander James Strong, U.S.N. Inasmuch as our guns have been the standard used by the Army and Navy for more than forty years, and their efficiency has been amply demonstrated in past wars (particularly in the World War), Commander Strong is thoroughly acquainted with our equipment, and not only has he approved our proposals but strongly recommended the acquisition of our material as being the finest obtainable. Consul General Olano has conveyed that recommendation to the President.

That refers to the same reports and same contacts with Strong that you have testified to before.

Mr. DRIGGS. Yes, sir.

Senator POPE. And then there follows a long list of guns and materials.

Senator VANDENBERG. May I interrupt at this point to make an inquiry, Senator?

Senator POPE. Surely.

Senator VANDENBERG. I should like to inquire whether Commander Strong was in service in the Navy at the time he was rendering these services to you, Mr. Driggs?

Mr. DRIGGS. Yes, sir; at that time he was.

Senator VANDENBERG. Is he doing this on his own responsibility, or is he doing it on assignment from the Navy Department?

Mr. DRIGGS. I do not think it was an assignment, exactly. I think it was just permission to act as technical adviser for them. That was my understanding.

Senator VANDENBERG. Do you think the Navy Department is acquainted at this time with the fact that Commander Strong's recommendation is being used in a sales-promotion campaign?

Mr. DRIGGS. I do not know.

Senator VANDENBERG. You would not think that that would come within the type of license that the Department would grant to one of its officers in line, would you?

Mr. DRIGGS. It might be quite proper to pass on the quality of the material that we are getting, as he was advising them as to what that stuff—

Senator VANDENBERG. Do I understand that Commander Strong received no compensation whatever for all of these services?

Mr. DRIGGS. Not from us.

Senator VANDENBERG. And you do not know of any that he received from anybody else?

Mr. DRIGGS. Other than the Colombian Government.

Senator VANDENBERG. You think the Colombian Government is compensating Commander Strong?

Mr. DRIGGS. I suppose so.

Senator VANDENBERG. The Colombian Government is compensating an officer of the United States Navy who is in active service?

Mr. DRIGGS. Hold on—I withdraw that. I have no right to say, because I do not know.

Senator VANDENBERG. But that is your assumption, that he is being compensated by the Colombian Government.

Mr. DRIGGS. He is now. He has resigned, so I do not know just where to separate the dates. I cannot state anything about it.

Senator VANDENBERG. When he resigned he is prohibited by statute from selling services to any American munitions maker, is he not?

Mr. DRIGGS. I did not know that.

Senator VANDENBERG. That is a fact. But apparently he is not prohibited from selling them to some foreign country.

Senator POPE. When did Commander Strong resign his position with the United States Government?

Mr. DRIGGS. I do not know, exactly. While I was in Europe, I think,

Senator POPE. Well, about when—the first of this year?

Mr. DRIGGS. Oh, no. I have been away practically a year. I got back Christmas time. It was before that.

Senator POPE. You think he resigned before that sometime.

Mr. DRIGGS. Yes.

Senator POPE. In 1933?

Mr. DRIGGS. Yes.

Senator VANDENBERG. I would like to clear up one point in the record, Senator, if you will permit me. In the event that Commander Strong is now on the pay roll of the Colombian Government, what would be the capacity in which he serves the Colombian Government?

Mr. DRIGGS. Some capacity in connection with their air service.

Senator POPE. I am given the date February 8, 1934, as the date when Commander Strong resigned his position with the United States Government. Do you know anything about the circumstances of his resignation?

Mr. DRIGGS. None at all.

Senator POPE. You do not know why he resigned?

Mr. DRIGGS. No.

Senator POPE. Whether upon request or not?

Mr. DRIGGS. No, sir.

Senator POPE. I call your attention to a letter written by your firm to Urueta & Samper, your agents in Colombia. The date I am told is November 25, 1932. I will offer this letter as "Exhibit No. 215."

(The letter referred to was marked "Exhibit No. 215" and is included in the appendix on p. 534.)

Senator POPE. Do you know anything about that letter, and do you know when it was written?

Mr. DRIGGS. No; I am not familiar with that.

Senator POPE. I call your attention particularly to the paragraph on the first page [reading]:

Now, we have another matter pending before your Government, of great importance and of extremely confidential nature, i.e.

Your Government finds it absolutely indispensable to fortify the Pacific ports of Buenaventura and Tumaco, and has requested the consul here to have Commander Strong make a thorough analysis of the situation and offer his recommendations. Because of our experience, the consul and Commander Strong have requested our cooperation.

Assisted by hydrographical charts which we have procured from the United States Navy Department we have been able to formulate an excellent plan of defense. To apprise you thoroughly on this matter, we enclose copy of the reports submitted by us and by Commander Strong on this subject. The reports have gone forward from the consul to the president.

This matter is of prime importance to your Government and we are confident that a more thorough and intelligent report and plan of defense will not be mapped out, either there, by your general staff or in Europe, if such request should have been made.

Does that call the letter particularly to your attention?

Mr. DRIGGS. No. I am familiar with what was taking place at the time, but not with that letter.

Senator POPE. And you furnished to your agents in Colombia the hydrographic charts which you procured from the United States Navy Department?

Mr. DRIGGS. Well, that is a kind of poetic license, I think, to put it that way, because you can just go down town in New York, as you can in most ports, and buy these charts. They are issued by the Hydrographic Office. It is nothing that is by favor of the Navy Department. We do not have to come to Washington for it.

Senator POPE. The next paragraph reads:

Our proposal will run about two million of dollars but will assure the safety of your country's gateway from the Pacific and of its proposed Pacific naval and aerial base at Tumaco, and its defense will be of the latest.

Please post yourselves thoroughly with the detailed information which we send you herewith in strict confidence. Make your inquiries very discreetly as this is a matter that has been treated only by the President with the Consul. Your comments will be welcome. We will keep you posted on developments.

Senator VANDENBERG. Senator, will you permit a short question?

Senator POPE. Surely.

Senator VANDENBERG. Am I in error, Mr. Driggs, in my understanding that this Commander Strong is now the commander of the Colombian air forces; that he undertook to recruit his forces in the United States; and that the State Department issued a general statement expressing their refusal to sanction any such operation? Is not this the same Commander Strong?

Mr. DRIGGS. Yes.

Senator POPE. Did you make any sales as the result of these letters and quotations based upon Commander Strong's report?

Mr. DRIGGS. No, sir.

Senator POPE. You made no sales?

Mr. DRIGGS. No, sir.

#### RELATIONS WITH TURKEY

Senator POPE. I call your attention to a letter dated November 30, 1927, which I will offer as "Exhibit No. 216."

(The letter referred to was marked "Exhibit No. 216", and is included in the appendix on p. 535.)

Senator POPE. That appears to be a letter from Mr. Herbert Allen to you. Who is Mr. Herbert Allen?

Mr. DRIGGS. He was our agent out there; that is, an agent.

Senator POPE. And when was he employed by you?

Mr. DRIGGS. Shortly previous to this date; sometime in 1927 I think he went out there.

Senator POPE. Who was he, what was his business?

Mr. DRIGGS. As I explained to you before, he had been with us years before in the old original Driggs Ordnance Co. beginning as a stenographer; and then later he was with the American & British Manufacturing Co. up to the time of the war; and then after that he went out to Turkey for us.

Senator POPE. Who is Mr. Roehr who is mentioned in this letter?

Mr. DRIGGS. I do not recall.

Senator POPE. Was he not your agent in Turkey?

Mr. DRIGGS. Not that I know of. We had Allen working with the firm that Emmen Bey was connected with. But whether Roehr was one of them I do not now recall.

Senator POPE. Let us read a portion of that paragraph which was written by Mr. Allen to you.

I must divide my operations in sections. For weeks I occupied myself to unravel the most difficult and mysterious of intrigues knowing the oriental mind I wanted. It was impossible to work in America in this fashion. The character on the stake were Heinekin, Roehr, Chorinsky, Hitzigroth, Captain Rudshi, and Kemal Ochri. Heinekin and Chorinsky tried to get me to Berlin. In Peru, Hitzigroth tried to represent Roehr who was so sick that when "Jawus" urged your coming here, he was so sick that at times in delirium he knew not his wife. Chorinsky was trying to get rifle contracts from Turkey; Roehr's operations for Jonkers smelled to heaven.

What do you know about Roehr's operations for Jonkers?

Mr. DRIGGS. Nothing at all. I suppose he refers to the Jonkers plane.

Senator POPE. What was that?

Mr. DRIGGS. That is the German plane and then since the war they were made in Holland, I believe. It had nothing to do with us.

Senator POPE. You do not know what he had reference to there that smelled to heaven?

Mr. DRIGGS. No.

Senator POPE. On the next page there is this language:

I sent for Noury Pasha and discovered that he had definitely taken appointment with Vickers, because of Heinekin's failure to work with him, but it

is a question if he had not already made this arrangement when he wrote you his letter of about June 15. He is capable of doing this to get the dope of competitors. I sent for Ochri Bey (Kemmel Ochri) and he suavely and smoothly deprecated all others. He was surprised when I asked him if he has been the principal in the Jonkers airplane deal, which smells to heaven and which makes the Turks so sore.

Does that refresh your mind as to what that incident was?

Mr. DRIGGS. No; I do not think we ever got any more details than that about Roehr's operations.

Senator POPE. There are some very interesting suggestions here. In the former quotation you referred to doing business in the American fashion and intimated that he could not do business in the American fashion over there. What do you know about that situation? He also referred to intrigue, mysterious intrigue. What do you know about that? What about this competition that you have to meet over there, what sort of competition was it?

Mr. DRIGGS. There is all kinds of competition. A lot of this about intrigues is moonshine. It is greatly exaggerated. If you listen to these people, you will have a swarm of them all telling you what they can do, making promises of how they are next to the powers that be and that they can get you orders, and you can be easily misled if you are not careful and promise a commission to this man or that man for helping you when he really cannot do anything at all.

The CHAIRMAN. Is that confined to your experiences abroad, Mr. Driggs, or is that also true here in Washington as well?

Mr. DRIGGS. I think it is true in a good many others industries besides the munitions industry.

The CHAIRMAN. I have not any doubt of it. But is that true in Washington as well as abroad?

Mr. DRIGGS. You mean negotiations with our Government?

The CHAIRMAN. Are you encountering these experiences which you have just mentioned, in Washington as well as abroad?

Mr. DRIGGS. Oh, no; we have always dealt here directly with the officer placing the contract.

The CHAIRMAN. You do not encounter those who represent themselves as being people who can help you here in Washington?

Mr. DRIGGS. No; we have had at times people come around and tell us that, but we have had enough experience ourselves, so that we do not pay any attention to that sort of thing.

Senator POPE. Do you know who Noury is?

Mr. DRIGGS. That means Noury Pasha. He is the one they referred to in the other place when they say he is taking a position with Vickers. That is a sort of an oriental custom; not only there, but in eastern Europe, in the same company you will find one director who represents one company and another director representing a competitor. They see nothing wrong in that, two people who are friends and co-directors representing rival interests.

Senator POPE. In the fourth paragraph of this exhibit on the third page, I should like to refer you to this language—

Senator CLARK. May I ask a question right at this point, Senator Pope?

Senator POPE. Of course.

Senator CLARK. Mr. Driggs, do you mean by that last statement, "representing rival interests" that, for instance, on the same muni-



tions board of directors, there will be one director representing Vickers we will say and another one representing Krupp and possibly another one representing Schneider?

Mr. DRIGGS. Yes, sir.

Senator CLARK. And then they go in cahoots on some other company so that whoever gets the contract, they will all be protected?

Mr. DRIGGS. Yes; I suppose so. When I ran into that I saw that they thought nothing of it, saw no impropriety in it.

Senator CLARK. As a matter of fact, there is a certain amount of community of interest between them, is there not?

Mr. DRIGGS. Naturally.

Senator POPE. In line with that:

Finally Noury proposed to Kemal to work for us secretly and double-cross Vickers. This Kemal and I have not agreed to.

That is simply the custom that you have referred to?

Mr. DRIGGS. Yes.

Senator POPE. I now call your attention to a letter written September 14, 1926, by you to I. C. Munthe Kauffmann, and which I offer in evidence as "Exhibit No. 217."

(The letter referred to was marked "Exhibit No. 217", and is included in the appendix on p. 537.)

Senator POPE. Mr. Driggs, who is I. C. Munthe Kauffmann, of Copenhagen, Denmark, to whom this letter, "Exhibit No. 217", was addressed?

Mr. DRIGGS. He was a former officer in the Danish service though he was a minor one, I think only a lieutenant, and he had been out for a good many years. At that time he was acting as agent for us in Denmark.

Senator POPE. I call your attention to the fourth paragraph in that letter offered as "Exhibit No. 217", where you say:

Until now, the European firms have had such a monopoly through political influence or otherwise, of the ordnance business in Europe and in the Near East, that American firms have been unable to break it.

Just what did you have in mind at the time you wrote that letter stating the European firms have had such a monopoly?

Mr. DRIGGS. Well, I meant through having the active support, and not only support but also intervention of their own Governments. They have back of them, as I stated before, political pressure from their legations and embassies. Then another favorite way has been, for instance, to send a military or naval mission to a country under the guise of advising it on the tactics of its army. This mission would immediately proceed to can all the material they had and recommend they should have English material or French material according to what the country the mission was from.

Senator POPE. I now look at the next paragraph which reads as follows:

I found during my recent visit to Europe that the guns being built there are not up to date and the prices are higher than ours. I believe that an energetic campaign on your part will get us considerable business.

Is that your experience, that the prices of their guns are higher than the prices of our guns?

Mr. DRIGGS. Yes, sir; they lose some of their advantage in lower wages, through the lack of modern methods of manufacture, and

another thing is they have not had competition from here before, and they have not had to sharpen their pencils.

Senator POPE. So that the matter of filling orders by you from guns made in these foreign countries is not a matter of price as much as it is a matter of what you can receive for the guns, but it is a matter of what?

Mr. DRIGGS. It is a matter of quality and design. As I said a while ago, when I went over there on a sort of exploring expedition in 1925 and investigated the engineering material with respect to the other countries I found to my surprise these countries are behind and that our country was ahead, that they had laid on their oars in bringing out new types, and in certain other matters like that, for instance like the anti-aircraft gun. In that we had approached the matter from a different standpoint, and we had thought a good many years ago that the anti-aircraft gun must be a gun with rapidity of fire and maximum velocity, while they had taken up the idea of adapting the field gun for anti-aircraft, which was a wrong conception.

Senator POPE. Then any effort you might make to have guns made in these foreign countries was not based on the matter of the price, but for other reasons.

Mr. DRIGGS. You mean made over there?

Senator POPE. Yes.

Mr. DRIGGS. Well, there is only one instance where we considered that, and that was in connection with Poland, and the sole reason there was they insisted on being self-contained in time of war when their borders were closed.

Senator POPE. I call your attention to a letter of date June 13, 1927, written by F. Ziemba, who was your Polish agent, to you which I offer as "Exhibit No. 218."

(The letter referred to was marked "Exhibit No. 218", and is included in the appendix on p. 538.)

Senator POPE. Now, the first paragraph of that letter, "Exhibit No. 218", makes this statement:

I have taken into the serious consideration your suggestion of cooperating with Mr. Pisarek and I was going to make him a concrete proposal.

Who was Mr. Pisarek?

Mr. DRIGGS. He is a young man who was educated here, a graduate of Georgetown College. He was secretary to the president of the National Economic Bank, which is the Government Bank of Poland, and he was loaned to me to act as secretary and interpreter for me, because I did not speak Polish and he speaks English perfectly.

It was wholly secretarial work, but he wanted to be taken in and have a part of the commission, and Ziemba was protesting against it, because he only gets 5 percent.

Senator POPE. The letter proceeds as follows:

However, after investigating the expenses that will be connected with the securing of orders I have found out that it is impossible for me to yield anything from my 5% commission. The number of people that have to be "influenced" is larger than I expected, and in order to conduct any effective work the expenses will take the larger bulk of my commission and I shall be satisfied if at the close of the deal I would be left with net 2% for myself.

What is your experience with reference to that, Mr. Driggs, the money that was needed to influence certain people down there?

Mr. DRIGGS. It did not mean any money was used to influence people. It has been my experience it is not necessary to pay 1 cent to anybody to influence them. If there was any suggestion like that, they would go out of the window.

Senator POPE. What does this mean?

Mr. DRIGGS. Entertainment and such. We have provided Ziemba with no funds for that. It is also for traveling going to the proving grounds and transportation and such things as that.

Senator POPE. So in Poland you found that was the only sort of influence that was used?

Mr. DRIGGS. Yes, sir.

Senator POPE. That was very different from other countries you dealt with, wasn't it?

Mr. DRIGGS. No; not at all.

Senator POPE. How about Turkey?

Mr. DRIGGS. Turkey is very clean now.

Senator POPE. How was it then?

Mr. DRIGGS. Well, the Kemal Pasha has settled that.

Senator POPE. What was the usual commission you paid to a salesman over there?

Mr. DRIGGS. I do not know what other companies have paid, but we generally have paid a commission of 5 to 10 percent; some cases 5 percent and some cases 10 percent.

Senator POPE. Now I call your attention to a letter written January 22, 1929, from Mr. Allen to yourself, which I offer as "Exhibit No. 219."

(The letter referred to was marked "Exhibit No. 219" and is included in the appendix on p. 538.)

Senator POPE. In this letter, "Exhibit No. 219", I particularly call attention to the last long paragraph on the second page of the letter, and taking the last four lines of that long paragraph, it says this:

The Vickers crowd are the dirtiest opponents here. They have almost an entire embassy in number working for them and use women of doubtful character freely.

What do you know about that?

Mr. DRIGGS. Nothing more than he says there.

Senator POPE. Now, this letter is written from Turkey; do you think conditions have changed there recently?

Mr. DRIGGS. I do not know whether they have or not. I do not know whether their employment has ceased. I was speaking about the methods of commission on the contracts.

Senator POPE. Now, I call your attention to the second paragraph on the next page of that letter, as follows:

Just as an indication of what these European competitors will do. About two weeks ago, the Caterpillar tractor man, demonstrating to the military here was called upon to drive his sixty with a large 8-inch Russian howitzer to the general-staff headquarters, which is on a large hill on the outskirts of Angora. His competitors were also required to make the trip, because Fevzi Pasha, the great chief of staff, was going to review the maneuvers. The Caterpillar driver soon discovered that someone had removed the plug from his radiator and had

lost a lot of water. He remembered tightening that plug himself and so it could not have come loose. That same morning several of his special tools had disappeared. All this with a tractor required to be guarded by soldiers at the military garage.

Do you know anything more about that, Mr. Driggs?

Mr. DRIGGS. No; except that they had pretty tough competitors.

Senator POPE. Competition is pretty keen?

Mr. DRIGGS. Yes; competition is keen.

Senator POPE. I call your attention to a letter dated January 22, 1929, from Mr. Allen to yourself which I offer as "Exhibit No. 220." (The letter referred to was marked "Exhibit No. 220", and is included in the appendix on p. 539.)

Senator POPE. Beginning at the first, this letter reads as follows:

I have scotched a snake. He is a certain man named Pasano, connected with the Paris office of the Electric Boat Co., of the United States.

Senator CLARK. That was the marquis.

Senator POPE. Do you know Pasano?

Mr. DRIGGS. No; I do not know him.

Senator POPE. Did you find out about the matter he asked you about?

Mr. DRIGGS. No; I was unable to find out.

Senator POPE. Did you make any inquiry of the Electric Boat Co. about that?

Mr. DRIGGS. No; I don't recall whether I did or not.

Senator CLARK. Did you ever have any dealings with a man named Joyner?

Mr. DRIGGS. Some; yes.

Senator CLARK. Were you here yesterday when there was a letter read where he advised everybody not to have any dealings with your company?

Mr. DRIGGS. No; I was not.

Senator CLARK. That was put in evidence, being a letter to Mr. Spear in connection with the Turkish business, and he said that your firm had been mentioned as the builder of some armament that would be supplied and went on to say that he had had some dealings with you and very frankly recommended against you being brought into the Turkish matter.

Mr. DRIGGS. Judging from our experience the shoe is on the other foot. I felt great sympathy for the Electric Boat Co. when I heard those letters being read, because you cannot protect yourself against a man writing such letters.

#### FOREIGN AGENTS

Senator POPE. Now I refer to you a letter written January 19, 1927 by Steffen & Heyman to your company which I offer in evidence as "Exhibit No. 221."

(The letter referred to was marked "Exhibit No. 221", and is included in the appendix on p. 540.)

Senator POPE. Who are Steffen & Heyman?

Mr. DRIGGS. They were two people in Berlin.

Senator POPE. Are they your agents?

Mr. DRIGGS. They are not our agents; no. In the first place, we did not care to have any of our material in Berlin, and it was repre-

sented to me that we were not dealing with the German Government, but that they were with Bofors in Sweden, and while I do not want to make this statement positive, yet they are reputed to be controlled by Krupp. Sometime after this I visited Berlin myself and saw these people and decided not to employ them at all.

Senator POPE. The only thing in this letter of interest is found in the last paragraph on the first page, about the middle of the paragraph. After stating they had made an investigation of the situation they say:

The result of which is that Berlin (besides Paris) has today become the center of Europe as regards the trade in fire arms.

What do you know about that, Mr. Driggs?

Mr. DRIGGS. I think it is a very great exaggeration. There is a firm which is in that section what Soley is in England, called Benny Spiro, that handles second-hand material, that has an adequate warehouse in Hamburg, and makes sales in South America and the Far East. He has another house in Shanghai, I think, and I think that reference is to this concern.

Senator POPE. I call your attention to another letter of date January 19, 1929, from H. E. Osann to Mr. David A. Buckley, Jr., which I offer in evidence as "Exhibit No. 222."

(The letter referred to was marked "Exhibit No. 222", and is included in the appendix on p. 541.)

Senator POPE. Who was David A. Buckley, Jr.?

Mr. DRIGGS. Our attorney in New York.

Senator POPE. Who is Osann?

Mr. DRIGGS. Osann is a former officer in the Army—that is, during the war he was in the American occupation force at Coblenz, and got to know the Germans very well. He had been practicing there, and came over here, and was in a way associated with Buckley for a while, with regard to business in Europe. When he went back I asked him to investigate these people. That is my recollection of it.

Senator POPE. The only thing in this letter that may be of interest is found in the third paragraph of the letter as I have it here. In the first place there is a statement by Mr. Osann that prices are higher in Germany than in the United States, and then in the paragraph below the middle of the page he states:

I will not bother you with details, but can resume the result by stating that Bofors is Krupp and Krupp is i. G. Dyeworks.

Is that what you referred to a while ago?

Mr. DRIGGS. Yes. I had that same information from other sources.

Senator BONE. Mr. Driggs, a moment ago you made reference to a private arms outfit in Germany the name of which I did not get at the moment, comparable with Soley in England?

Mr. DRIGGS. It is not a manufacturer; it is Benny Spiro.

Senator BONE. That would be a Greek, possibly?

Mr. DRIGGS. No; it is Jewish.

Senator BONE. You say that outfit is a private dealer in arms, I take that to be small arms?

Mr. DRIGGS. It is like Bannerman in New York.

Senator BONE. Are they as large as Soley?

Mr. DRIGGS. Oh, yes; larger.

Senator BONE. Can you tell the committee why it is, if you know, that a private concern is permitted to maintain such a vast stock of firearms when Germany, herself, is not permitted to, under the Versailles Treaty; was that aspect entirely overlooked in the treaty?

Mr. DRIGGS. It must have been.

Senator BONE. Then, we have a picture in Germany of a concern like Bannerman in this country and Soley in England, maintaining a vast supply of war supplies of all kinds.

Mr. DRIGGS. I would not say very vast.

Senator BONE. If they are anything like Soley they must have vast supplies, because we have information here to the effect that Soley could supply a good-sized nation with arms.

Mr. DRIGGS. He happens to have a large quantity of rifles on hand. My information is that Spiro has much less in that regard, but more larger ordnance.

Senator BONE. Have you ever heard any complaint from any other nations who were engaged in war with Germany, against this supply in Germany?

Mr. DRIGGS. No; but they all know it.

Senator BONE. It would seem to indicate where it is a private concern engaged in these operations for profit and none are making very much objection to the institution. Would you say that is a fair assumption?

Mr. DRIGGS. Yes; and, of course, most of this material, you must remember, is not up-to-date, and the larger countries would not want most of it as a part of their equipment except in a great emergency.

Senator BONE. Of course, a man can be killed with a Mauser rifle or a Krag rifle just as well as by a Springfield, and it would not make any difference if he had the choice of being killed by one of those or by a modern Springfield.

Mr. DRIGGS. No.

Senator VANDENBERG. I would like to ask one further question to clear up one point in connection with this Colombian order which Commander Strong was attempting to get. In your company's letter to the Consul General, New York, after making quotations and itemizing the material then follows this:

"terms: The unusual, already known to you."

That is all that is said in the statement respecting terms.

Mr. DRIGGS. It means, "usual."

Senator VANDENBERG. It says "unusual" and I was wondering whether this involved any extra compensation of any nature.

Mr. DRIGGS. No, sir; the general rule is that 35 or 40 percent with the order and the balance——

Senator VANDENBERG. You think this word "unusual" is a typographical error?

Mr. DRIGGS. It is.

Senator VANDENBERG. There were no special commissions paid to anybody or contemplated?

Mr. DRIGGS. No, sir.

Senator CLARK. Mr. Driggs, the Sperry Co. was one of your principal competitors in the manufacture of arms.

Mr. DRIGGS. No, sir.

Senator CLARK. What did they supply?

Mr. DRIGGS. They supplied the fire control, particularly for anti-aircraft guns. You know these new antiaircraft guns do not have sights on the guns and the people working the gun do not see the target. That is off to one side and it is that equipment that Sperry supplies.

Senator CLARK. They are not competitors of yours?

Mr. DRIGGS. No, sir.

Senator POPE. Now, Mr. Driggs, there is being handed you a copy of this cablegram found in your file recently and this document says "Copy of Translation of Cable received by us, dated Warsaw, January 20, 1932", which I offer in evidence as "Exhibit No. 223."

(The document referred to was marked "Exhibit No. 223" and is included in the appendix on p. 544.)

Senator POPE. This translation of the cablegram reads as follows:

King of Great Britain summoned our Ambassador in London and intervened in 3-inch or 75-mm 50-cal. gun on New Mobile Mount letter Dec. 15th, 1928, contract. Chief stands high pressure but great difficulty hold situation. You must hasten summoning commission to America. Anxiously await your telegram promised for today.

Are you familiar with that?

Mr. DRIGGS. I am very familiar with that, and it is one of the things I do not think ought to be made public and I want to protest against it.

Senator POPE. Who sent that cablegram?

Mr. DRIGGS. Our agent.

Senator POPE. What was his name?

Mr. DRIGGS. His name is Ziemba.

Senator POPE. To whom was it sent?

Mr. DRIGGS. Just to the office.

Senator POPE. I have noticed in the file there are several telegrams that were not signed.

Mr. DRIGGS. We do not do that generally ourselves, just to cut the expense of cabling down.

Senator POPE. You have to pay for the signature as well.

Mr. DRIGGS. Yes.

Senator POPE. You received that cablegram, did you not?

Mr. DRIGGS. Yes.

Senator POPE. Whom did that refer to by "Chief stands high pressure?"

Mr. DRIGGS. It means the Chief of Ordnance.

Senator POPE. What contract does he refer to as in December 15, 1928, contract.

Mr. DRIGGS. Our contract that was pending and agreed upon before I left Warsaw.

Senator POPE. It was with reference to this contract which you had already executed then that the King of Great Britain summoned the Ambassador.

Mr. DRIGGS. That is the Polish Ambassador. You see it was not officially executed. There was an exchange of letters between ourselves, that is the company and the chief, to the effect that we were now in complete agreement and that the formal contract would be signed at Washington when the documents were attached and at that time it would be necessary to have the specifications drawn up and the general drawings so that the commission that came over

could see they were in order and attached to the contract, and on my return I was to show this agreement by letter to the War Department and get their assent to the readings of the drawings indicating that we had complied with their requirements. This was a letter to be sent to the Commission ahead of the time before we were ready.

Senator POPE. What did you understand was the purpose of the King in summoning the Ambassador there?

Mr. DRIGGS. That is just a part of the same gesture that the British royalty has been indulging in lately in using the Prince of Wales down in Argentina; he is their best salesman they say, and creates good will and it is a gesture of the royal family interesting itself in British business.

Senator CLARK. That is kind of an offset to the gesture of our War Department giving them plans of guns as a selling argument.

Mr. DRIGGS. Yes, but it was much more effective.

Senator CLARK. They got a little higher in England than in this country?

Mr. DRIGGS. Yes.

Senator CLARK. Do you know whether the royal family owns stock in Vickers?

Mr. DRIGGS. I do not think so.

Senator CLARK. Is that the understanding in Europe?

Mr. DRIGGS. I do not think so.

Senator CLARK. I wondered if it was a matter of knowledge that the royal family had stock in Vickers.

Mr. DRIGGS. I never heard of it.

Senator CLARK. I wondered if the King was playing his own game, or just playing salesman.

Mr. DRIGGS. I think he was just helping get them out of the depression.

Senator CLARK. Who was your chief competitor in this matter?

Mr. DRIGGS. I think the principal one was Vickers.

Senator CLARK. Did you get any further information as to this conference ordered by the King and referring to Vickers?

Mr. DRIGGS. I never did.

Senator POPE. Did this commission come to America after that?

Mr. DRIGGS. Oh, yes.

Senator POPE. And you conferred with them?

Mr. DRIGGS. Yes, sir.

Senator POPE. Did they visit your place of business?

Mr. DRIGGS. Yes, sir.

Senator POPE. And you showed them your equipment and demonstrated to them your ability to fulfill an order?

Mr. DRIGGS. Yes.

#### USE OF U. S. NAVAL VESSELS TO PROMOTE SALES TO TURKEY

Senator POPE. Now, then, I call your attention to a letter dated April 10, 1928. That letter was apparently written to you by Mr. Herbert F. L. Allen, your agent.

Mr. DRIGGS. Yes, sir.

(The letter referred to was marked "Exhibit No. 224" and is included in the appendix on p. 544.)



Senator POPE. I would call your attention particularly to the third page of that letter, Mr. Driggs. I think you have an excerpt containing the same thing. That reads:

\* \* \* To offset that I am working on a plan, with the Embassy's cooperation, to have the cruiser *Detroit*, now in the Mediterranean, come here to show our guns on board to the Military Commission or to have the Commission visit the ship in Italian waters. To accomplish this, the Turkish Government must invite the ship to come here through the Foreign Dept., and immediately this is done Ambassador Grew will cable the State Dept., asking that the visit of the *Detroit* be arranged. The Turkish War Department has asked their Foreign Minister to make the invitation and it may come out tomorrow. Meanwhile Ervin Bey, the head of the A. T. & T. Co., left today for Angora, and I may go tomorrow instead of going to Greece. In fact, the action of the Technical Dept. will probably come to a head before the first of May and if in our favor the discussion of the financial matters should be concluded by June 1st. The typewritten offers enclosed are literal translation from the Turk which accounts for the phrasing used.

You received that letter?

Mr. DRIGGS. Yes, sir.

Senator POPE. What did you do upon receipt of that letter with reference to his suggestion to you to get the Government to send the destroyer over there to show your guns?

Mr. DRIGGS. I came down here to Washington and I found that at the time the destroyer was already at Leghorn, on her way back, and therefore it was too late. I found out that a call at Constantinople was on the itinerary of the *Raleigh*, and I asked the Chief of Ordnance if she could not stop in there and let this Commission see our guns.

Senator POPE. I call your attention to a cable dated May 4, 1928, this previous letter, "Exhibit No. 224", having been dated April 10, 1928. This was a cable sent apparently by you to Herbert Allen, your agent in Turkey.

Mr. DRIGGS. Yes, sir.

(The cablegram referred to was marked "Exhibit No. 225" and is included in the appendix on p. 545.)

Senator POPE. That cablegram reads:

When invitation received *Detroit* at Leghorn en route France if nearer department would have ordered Constantinople. Due Ville France 10th May Cherbourg 16 to 28. Department anxious to cooperate. Will delay departure Ville France until 12th May if notified by 7th May. Try to arrange examination France. Telegraph promptly.

That was the information which you obtained from the Navy Department?

Mr. DRIGGS. Yes, sir.

Senator POPE. Now, I would call your attention to a cablegram under date of May 5, 1928, apparently sent by you to Mr. Pisarek, which I will ask to have marked "Exhibit No. 226."

(The cablegram referred to was marked "Exhibit No. 226" and is included in the appendix on p. 545.)

Senator POPE. That cablegram from you to Pisarek reads as follows:

U.S.S. "Detroit" carrying our guns at Cherbourg from 16th May to about 28th May; Navy Department will telegraph instructions, show guns Polish commission. Try to arrange visit of commission or representative.

It is signed "Driggs."

Now, I would call your attention to a letter of February 13, 1929, written by you to the Chief of Bureau of Ordnance, Navy Department, Washington, D.C. That, which will be "Exhibit No. 227."

(The letter referred to was marked "Exhibit No. 227" and was read in full by Senator Pope as follows):

FEBRUARY 13TH, 1929.

CHIEF OF BUREAU OF ORDNANCE,

*Navy Department, Washington, D.C.*

DEAR SIR: As you know, we have had for some time a contract under negotiation in Turkey for 49 anti-aircraft guns. The quantity has now been increased to 64.

The Turkish Government sent a military commission to see the guns of our European competitors, and to avoid the expense of coming here expected to see the guns on the "Detroit."

As you will remember, they extended an invitation to have the "Detroit" visit Constantinople. Their red tape consumed so much time that when the invitation reached Washington the "Detroit" was at Leghorn on her way home. The commission reported, however, based on the data furnished and the reports of performance received from this country, that our gun was superior, and we have been promised the contract subject to reaching an agreement on the specifications.

We are now informed that the ministry, to avoid the criticisms of giving a contract without having actually seen our gun, would like to see the guns on the "Raleigh", which the Bureau of Operations states will be at Constantinople on March 27th. If the Bureau will assist us by having instructions sent to the commanding officer to show our 3" anti-aircraft guns on the "Raleigh", we would greatly appreciate it.

Very truly yours,

DRIGGS ORDNANCE & ENGINEERING CO., INC.,  
\_\_\_\_\_, President.

LLD:MS

Mr. DRIGGS. I want to make a correction of something you asked about a while ago, if our chief competitor was Vickers. I want to amend that; that it was the Schneider & Vickers.

Senator POPE. Schneider & Vickers?

Mr. DRIGGS. Yes, sir; principally Schneider.

Senator POPE. Now I would call your attention to a letter written by William D. Leahy, rear admiral, United States Navy, Chief of the Bureau of Ordnance, to you, under date of February 18, 1929, which will be "Exhibit No. 228."

(The letter referred to was marked "Exhibit No. 228", and was read in full by Senator Pope as follows):

FEB. 18, 1929.

EF70 (1) (A5).

GENTLEMEN: With further reference to my letter of February 16th regarding the inspection of 5-inch AA guns on board the "Raleigh" by the Turkish Government, I am pleased to inform you that the Chief of Naval Operations has written the Commander Naval Forces Europe, as follows:

"The Navy Department has been requested by the Driggs Ordnance and Engineering Co., Inc., New York, N.Y., to grant permission for a military commission of the Turkish Government to inspect the 3-inch anti-aircraft guns of the 'Raleigh' during her visit at Constantinople from March 27 to April 4, 1929. The Driggs company is negotiating with the Turkish Government a contract for certain anti-aircraft guns and desires the inspection to be made in this connection.

"The inspection requested by the Driggs company is satisfactory to the Bureau of Ordnance and is approved by the Navy Department."

Very truly yours,

WILLIAM D. LEAHY.

*Rear Admiral, U.S. Navy.*

*Chief of the Bureau of Ordnance.*

DRIGGS ORDNANCE AND ENGINEERING CO., INC.,

*19 West 44th Street, New York City.*

MES.

Senator POPE. You received that letter, Mr. Driggs?

Mr. DRIGGS. Yes.

Senator POPE. Now I will call your attention to a letter of February—

Mr. DRIGGS. May I make an explanation regarding this letter?

Senator POPE. Yes.

Mr. DRIGGS. I want to say that that was not regarded as anything extraordinary that visitors about the ship see our gun, and it only helped overcome some of the handicaps we were under as compared with our competitors in having them see our material. These competitors always have some guns going through for their own government, or for other governments, and it is an inexpensive matter for them to take one of them and ship it down to some other place in Europe.

Senator POPE. The Government pays all expenses of that sort?

Mr. DRIGGS. The purchasing government?

Senator POPE. No; the United States Government, when they send a ship out to demonstrate the guns?

Mr. DRIGGS. They did not incur any extra expense, it is my understanding. She was to call at Constantinople anyway, and the request merely was that they would show our guns to this commission and let them come aboard.

Senator POPE. At any rate, you incurred no expense in connection with that incident?

Mr. DRIGGS. No; we incurred no expense. But, as I say, for us to have a commission come over here would be very expensive, and we do not have guns going through our plants which they can see, and the foreign companies do.

Senator POPE. I would call your attention to a letter written by you to the Chief of Bureau of Ordnance, Navy Department, Washington, D.C., which is very brief. That will be marked "Exhibit No. 229."

(The letter referred to was marked "Exhibit No. 229", and was read in full by Senator Pope as follows):

DRIGGS ORDNANCE & ENGINEERING CO., INC.,  
19 West 44 Street, New York, N.Y., February 19th, 1929.

Ref. EF70 (1) (A5).

CHIEF OF BUREAU OF ORDNANCE,  
Navy Department, Washington, D.C.

DEAR SIR: We acknowledge receipt of Department's letters of the 17th and 18th inst. quoting the instructions sent by the Chief of Naval Operations for the commander of Naval Forces in Europe.

We thank the Bureau very much for its action and believe it will be of great assistance to us.

Very truly yours,

DRIGGS ORDNANCE & ENGINEERING CO., INC.,  
(S.) L. L. DRIGGS, President.

LLD: MS.

Senator POPE. That letter was written by you?

Mr. DRIGGS. Yes, sir.

Senator POPE. I offer the log, or a portion of the log, of the steamship *Raleigh* of December 31, 1929, page 199. This will be "Exhibit No. 230."

(The document referred to was marked "Exhibit No. 230", and was read in full by Senator Pope, as follows):

Log book U.S.S. *Raleigh*. 7 1 1929—Dec. 31. 1929. Page 199.

TUESDAY, 26 March 1929.

12 to 16.

At 1506 let go port anchor. At 1508 Lt. Col. J. D. Elliott, and Mr. E. L. Ives, first secretary of the American Embassy, came on board. At 1547 Lieut. Col. J. D. Elliott and Mr. Ives, left ship.  
Page 205.

THURSDAY, 28 March 1929.

08 to 12.

Anchored as before. At 1012 Turkish officials came board to inspect 3" AA battery.

C. L. C. ATKESON,  
*Lieutenant, U.S. Navy.*

12 to 16.

Anchored as before. At 1207 Turkish officials left the ship.

FRANCIS W. MCCANN,  
*Ensign, U.S. Navy.*

(Left Constantinople Thursday April 4.)

Personnel as given at beginning of March log book. United States Naval Forces, Europe:

John H. Dayton, vice admiral, Com. U.S.Nav. for Europe.

John R. Beardall, commander, Sen. aide; Act. Chief of Staff.

Pal L. Meadows, lieutenant, flag lieutenant.

U.S.S. *Raleigh*: William K. Riddle, captain, commanding. Alfred H. Balsley, lieut.-commander, gunnery. Augustus C. Long, ensign, asst. fire control-eng. In.

Senator BONE. The "U.S.S. *Raleigh*" was an American cruiser?  
Mr. DRIGGS. Yes, sir.

Senator POPE. Now, I would call your attention to a letter written on February 19, 1929, by you to Mr. Allen, your agent in Turkey, which will be marked "Exhibit No. 231."

Mr. DRIGGS. Yes, sir.

(The letter referred to was marked "Exhibit No. 231", and was read in full by Senator Pope as follows):

Subject: Visit of the *Raleigh* to Constantinople.

FEBRUARY 19TH, 1929.

Mr. H. F. L. ALLEN,

*C/o American Embassy, Angora, Turkey.*

DEAR HERBERT: I enclose photostatic copy in triplicate of the Navy Department's letter of the 18th, approving our request for the inspection of our 3" antiaircraft guns on board the "*Raleigh*" by the Turkish Government.

I believe this letter is all that is required for a complete inspection of the guns, including the dismounting and assembling of the breach mechanism. They probably have some dummy rounds on board for drill purposes which will show the automatic functioning of the mechanism. You should ask that this be demonstrated. In other words, the Department expresses a wish to assist us in every way possible.

The Commission will probably not be shown the fire-control system. Unlike the Army method, this is not an isolated system for each battery of four guns, but applies to the whole battery of the ship. It is very complicated, consisting of something like 40,000 parts and costs in the neighborhood of \$200,000 an outfit. The Navy guards the secrets of this system very carefully. We will send you a description of the case III computer and equipment accompanying it.

Very sincerely,

\_\_\_\_\_  
*President.*

LLDA:MS

P.S.—We are enclosing two additional copies of letter from the Chief of Bureau of Ordnance of the Navy, which I would suggest your handing to the commanding officer of the "*Raleigh*" as soon as you see him so that he will take pains to let the Turks know that the guns shown are ours, and as they were made in the Navy Yard our name is not on them.

Senator POPE. The next letter I desire to offer is dated February 20, 1929, being a letter to Mr. H. F. L. Allen from you, Mr. Driggs.

quoting the letter from Mr. C. B. Robbins, The Assistant Secretary of War, which will be marked "Exhibit No. 232."

(The letter referred to was marked "Exhibit No. 232", and is included in the appendix on p. 545.)

Senator POPE. The first and the last paragraphs of this letter, "Exhibit No. 232", are the only ones which interest us, because the letter from Assistant Secretary Robbins is already in the record. Those paragraphs read as follows:

In order to answer statements that the American Government would not allow us to manufacture the latest antiaircraft material for a foreign power, you can state, as we have previously informed you, that the War Department has agreed to release these latest designs for filling orders for foreign powers when the orders are of sufficient size to give adequate work to our plant.

Then in the final paragraphs of the letter it states:

The above is for the confidential information of the Turkish Government. We must be careful that our competitors do not make it the basis of misrepresentation of the American Government's position on the reduction-of-armaments question.

As you will see, this permission is conditional upon the size of the order, which, of course, is met by an order of the size contemplated by Turkey at the present time.

If you have not already done so, you should drive home the fact that this proves we are offering the Turkish Government the world's latest and best designs in antiaircraft material; upon the development of which the U.S. Government has spent over \$2,000,000.00.

You felt that this letter, calling attention to the fact that the United States Government has spent \$2,000,000 in developing these designs, would be very valuable to you as sales talk, of course?

Mr. DRIGGS. Yes, sir.

Senator BONE. Mr. Driggs, I am curious about one matter which I think possibly we overlooked, and my interest arises out of the fact that the world seems to be largely unaware of the existence of these huge private stores of munitions held by various kinds of "hucksters" around the world, including Soley in England and Bannerman in this country.

Mr. DRIGGS. Bannerman has hardly anything left.

Senator BONE. They appear to be able to sell these vast quantities of arms without much restriction. Did Vickers get this order where the King interested himself in it? Do you recall?

Mr. DRIGGS. Oh, no.

Senator BONE. Who got that particular order?

Mr. DRIGGS. Nobody has got it yet.

Senator BONE. Then apparently his efforts were being made but nobody got an order out of that particular incident, is that right?

Mr. DRIGGS. The situation is this, Senator: I went over last year—in February a year ago—to close the contract, and just as it was approaching signature we went off the gold standard, and that upset our negotiations completely, because they did not know there whether they could remain on the gold standard or not, and they wanted to see about the business they could get by barter, and they would be able to purchase material—not the same, but howitzers, large howitzers, from Skoda. They had been able to buy ships in Italy and pay in coal, and it was that that upset our negotiations, and they could not see why we could not.

Senator CLARK. How is that?

Mr. DRIGGS. They adopted the system of barter, Senator—the exchange of products for the material they wanted to buy—and the proposition was put up that if we could take compensation in Polish exports they would go through with the matter. I explored the situation with regard to coal, beer bottles, hops, and so forth. They were able to buy howitzers from Skoda and pay in coal, and are having two ships built in Italy, and are paying in coal; and although they made concessions in throwing off the freight from the port, the continual dropping of the dollar—the dollar kept dropping—was such that you could not import any of that coal. So that we were trying to see if anything could be worked out in the way of compensating exports.

Senator CLARK. This is the same order on which you were advised the King intervened?

Mr. DRIGGS. Yes, sir.

Senator CLARK. And so far neither yourself nor the King has gotten the order up to date?

Mr. DRIGGS. Not up to date.

Senator VANDENBERG. Mr. Driggs, I would like to refer to this letter of February 20, 1929, "Exhibit No. 232", in which you are speaking about the anti-aircraft development upon which the United States Government has spent over \$2,000,000, and which the War Department is ordering be put to the use of the Turkish people, provided sufficient orders are placed with American manufacturers.

I notice this sentence contained therein:

We must be careful that our competitors do not make it the basis of misrepresentation of the American Government's position on the reduction-of-armament question.

That is a very challenging sentence. How is it possible to avoid a clear anomaly when the American Government is assisting the American manufacturers in the international sale of arms and the King is assisting British manufacturers in the international sale of arms? Does it not make a paradox out of all governmental purposes to control armaments?

Mr. DRIGGS. Not at all, sir.

Senator VANDENBERG. Why not?

Mr. DRIGGS. It should be controlled. We are not objecting to it being controlled. It has nothing to do with the limitation of armaments, either. It is merely taking this position: there are only about six producing countries.

Senator VANDENBERG. What are those six?

Mr. DRIGGS. The United States, England, France, Italy, Poland, to some extent—

Senator VANDENBERG. Japan?

Mr. DRIGGS. And Japan.

Senator CLARK. Czechoslovakia?

Mr. DRIGGS. I do not mean Japan. I meant Spain and Czechoslovakia.

Senator CLARK. The armament works in Czechoslovakia are controlled by Schneider, are they not?

Mr. DRIGGS. They are owned by Schneider. There are something like 36 or 37 other nations which do not manufacture within their

borders for their requirements, and even to have guns to fire salutes, with the sunrise and sundown gun, they have to go to these firms to buy these materials, and they will do that, whatever action you take here. If we take the action of putting American manufacturers out of the business, that merely throws the remaining international business into the hands of the other manufacturers, and we will chiefly benefit countries that may be our potential enemies like—I won't mention the names.

Senator VANDENBERG. I think that is probably so as an abstraction.

Mr. DRIGGS. The proposition is just this: Since this material is used, and say there is a limitation of armaments—I am not opposed to limitation of armaments and it ought to be—but, such as there is, the share which belongs to this country ought to come here. It is our manufacturing plants being sacrificed and the other countries being benefited. That is the purpose, I take it.

Senator VANDENBERG. You say it ought to be controlled. How would you control it?

Mr. DRIGGS. I would require complete reports to be made to our own Government, confidential, of course, because otherwise they would get into the hands of our competitors; also orders at destination of all material, and that a shipping license be required.

The CHAIRMAN. Is not that required now?

Mr. DRIGGS. No, sir.

The CHAIRMAN. In no respect?

Senator VANDENBERG. It is in some zones, is it not?

Mr. DRIGGS. I think not.

The CHAIRMAN. Is it not required as relates to shipments of munitions to South America?

Mr. DRIGGS. Only with respect to Paraguay and Bolivia there is an embargo on. There is an old embargo which has never been lifted with regard to Nicaragua, but that was to shut off everything going to the rebels.

The CHAIRMAN. Is there anything which requires you to speak the truth with respect to what shipments are made to other countries? Are you not rather left free to label your shipments other than what the shipments actually are?

Mr. DRIGGS. You could do that in any event.

The CHAIRMAN. In reporting to the Commerce Department, can you not report instead of guns that maybe it was pencils that were shipped, or agricultural implements?

Mr. DRIGGS. Yes; but why do that? Why should we do it when we do not have to disguise it at all?

The CHAIRMAN. The reason I ask is this: The statistics of the Commerce Department are in a miserable mess as regards exports. It is quite impossible to get a correct picture covering exports of American munitions.

Mr. DRIGGS. I know that.

The CHAIRMAN. Was the thought which you were trying to convey to the committee, that there should be a tightening up of those requirements?

Mr. DRIGGS. Yes, sir.

Senator VANDENBERG. The mere filing of reports does not show anything unless there is an international policy behind it. What

control is there, if you merely send your entire correspondence file to the governmental control? What is controlled by that?

Mr. DRIGGS. For instance, we should not ship to a country or a crowd or to a faction that are going to go over on to a friendly state, with which the United States is at peace.

Senator CLARK. That has frequently been done, has it not?

Mr. DRIGGS. Yes, sir; but we are not guilty of it.

Senator CLARK. I am not accusing you of being guilty of it. You know, having been in the armament business, that that has been a common practice, for instance, for munition manufacturers to sell to prospective revolutionists for the purpose of getting up a revolution?

Mr. DRIGGS. I know, and they sell to both sides.

Senator CLARK. Yes, sir; and they undertake to check a revolution and sell to one side or the other.

Mr. DRIGGS. That has been done.

The CHAIRMAN. Why should we be alarmed with respect to revolutionists because some foreign manufacturer should be getting all the business, prolonging those revolutions?

Mr. DRIGGS. Not with regard to revolutions, Senator, but the peace-time capacity of the full Government plant is totally inadequate for war-time need, and you must have a rapid expansion. Now, if there is no private manufacturer here, then when war breaks out, you put the Government plants on three shifts and you go on to your maximum capacity.

Senator VANDENBERG. Mr. Driggs, you would not have any control, would you, until competition is taken out of the international trade in arms?

Mr. DRIGGS. Why should we take competition out?

Senator VANDENBERG. So long as this everlasting battle for business proceeds all over the world, how can there be any control?

Mr. DRIGGS. There can be this: For instance, now in England a license must be obtained for every shipment. If it was going to a place which might be a potential enemy of Great Britain, they would not grant the license, I suppose, and that should be done here. I do not think material should be sold to a country that is a potential enemy of the United States, or likely to be.

The CHAIRMAN. Senator Vandenberg, had you been here Tuesday and Wednesday you might have found out that Vickers and the Electric Boat Co. found it possible to divide up the territory.

Senator VANDENBERG. Yes; I saw that. The limit of control which you are speaking of is a control of reports and licenses?

Mr. DRIGGS. Yes, sir. In other words, that the Government have full information as to where it goes. That of course is of importance and the destination must be shown and have the purpose of it too.

Senator VANDENBERG. Would it be feasible in any degree for the American Government, for instance, to maintain a monopoly upon its own developments, by way of national defense, instead of spreading them all around the world?

Mr. DRIGGS. Not unless, if a patent was very good, it would be purchased by the Government, but as long as the Government does



not do it, and with the patent laws as they are here and abroad, what is to prevent a manufacturer doing just as the Electric Boat Co. did, for instance, to license people abroad to manufacture?

The CHAIRMAN. Mr. Driggs. It is 1 o'clock. We will ask you to return at 2 o'clock for a renewal of the examination, to which time the committee will stand in recess.

(Thereupon the committee took a recess until 2 o'clock p.m.)

#### AFTERNOON SESSION

The committee resumed pursuant to the recess, at 2 o'clock, p.m., Hon. Gerald P. Nye (chairman) presiding.

The CHAIRMAN. The committee will be in order. Senator Pope, you may proceed with the witness.

Senator POPE. I think I called your attention, Mr. Driggs, to a letter of April 9, 1929, written to Mr. W. R. Palmer, treasurer of the Smedley Co., New Haven, Conn., by yourself. I will offer that letter as "Exhibit No. 233."

(The letter referred to was marked "Exhibit No. 233", and is included in the appendix on p. 546.)

Senator POPE. I call your attention to the paragraph in the letter which reads as follows:

With reference to the visit of the *Raleigh* to Constantinople the Turkish Government sent a commission from Angora made up of officers from the War Ministry and also a naval officer, as there is now a good prospect of our obtaining some naval guns also.

With reference to this Turkish commission, what do you know about that and what did they do?

Mr. DRIGGS. I do not know any more than the information that is in this letter and others from Allen that you had about the commission being sent from Angora to Constantinople.

Senator POPE. The commission came over here?

Mr. DRIGGS. Oh, no; not here.

Senator POPE. It was not the Turkish commission?

Mr. DRIGGS. No, sir.

Senator POPE. You stated this morning that this practice was not unusual, to send a United States boat to demonstrate guns?

Mr. DRIGGS. I did not mean particularly guns. I think I used the word extraordinary, did I not, instead of unusual? I think I said there was nothing extraordinary about it.

Senator POPE. Do you know of any other instances where it was done?

Mr. DRIGGS. Not where a ship has gone in and given a demonstration on the guns. But I mean to say where the Department has given some assistance in other ways.

Senator POPE. What other ways did you have in mind?

Mr. DRIGGS. For instance, the reports by people in the naval mission down in Peru, and cases of that sort, where there has been some cooperation from both the State Department and the Navy Department in the past in various instances. I do not recall now specific acts, but I mean where there has been an effort to help American firms get an order for naval material.

Senator POPE. I call your attention to the last paragraph in this letter of April 9, which refers to another letter. This language reads:

With reference to his last letter. This refers to the desire of the Polish Government that we either establish a plant in Poland or supervise the manufacture of guns in an existing plant similar to such an arrangement as I had with Starachowice when I came back from Poland. This is something that, of course, can't be settled by correspondence. Now that the business is assured in Poland, the only point to determine is what proportion of the work we shall produce here, and what proportion in Poland. The financing ought to be wound up quickly now so that I can get over to Poland and deal on the spot.

As the result of all these efforts and of the visit of the *Raleigh*, did you get the contract for furnishing these guns?

Mr. DRIGGS. You understand, Senator, that the *Raleigh* incidents had to do with Turkey solely?

Senator POPE. Oh, yes. Did you get the Turkish contract?

Mr. DRIGGS. No; we did not.

Senator POPE. Did you get the Polish contract which we discussed early in the hearing?

Mr. DRIGGS. You may remember that I said that the final negotiations were upset last year by our going off the gold standard and they have had to be completely revamped. They are not entirely settled yet. That is the situation there.

Senator POPE. Now, I call your attention to a letter dated April 22, 1929, which I will offer as "Exhibit No. 234."

(The letter referred to was marked "Exhibit No. 234" and is included in the appendix on p. 547.)

Senator POPE. This letter is written to David A. Buckley, Esq., New York City, by Mr. Osann, and I direct your attention particularly to the last paragraph on the third page of the letter. The paragraph reads:

In spite of the poor representation of Driggs and the doubt regarding his capability of discharging his obligation when the contract is signed, Emin Bey appears to be confident that the contract is to go to Driggs. They have information from the States and the visit of the *Raleigh* confirmed it, that the United States Government is supporting Driggs in this affair.

Then I direct your attention further on in the letter to the paragraph (c) as follows:

(c) The American authorities at Constantinople. They are thoroughly disgusted. They lost no time informing me of Allen's critical financial situation. They were frank in expressing their opinion of Driggs, who seems to them to be endangering any future effort on the part of American exporters to Turkey for years to come. They made inquiries of their own in Washington. The information obtained does not seem to give in every respect with the claims made by Allen in behalf of Driggs, but they found out that Driggs is supported by the U.S. Government, or by some prominent officials thereof; they did not hesitate to advance the information to the Turks that the York plant may be Government-owned and leased to Driggs; they opined when asked where the skilled workmen were to come from for this job that they may be military or naval arsenal employees, let out to Driggs for the purpose. The visit of the *Raleigh* set their minds at peace and they are convinced that Uncle Sam is the real party behind this business and that he was only unlucky in choosing Driggs as his agent and Allen as the latter's representative.

(d) Vickers-Armstrong and Schneider-Skoda, the competitors, both are represented by Turks, assisted by technical experts sent from France and England, respectively. The Vickers representative has especially strong relations in Turkish Government circles. He is well posted relative to Driggs' standing in the U.S. and is probably the party who put the doubt as to the exist-

ence of Driggs' factory in the mind of Emin Bey and through him in the mind of the American authorities. The arrival of the *Raleigh* destroyed the best sales argument of the competition, i.e., that nobody had ever seen the Driggs gun, while they, Schneider and Vickers, had working models. Their models remained models, while the *Raleigh* proved that the Driggs gun is in actual use.

So you realized that this visit of the *Raleigh* was a very important factor, did you not?

Mr. DRIGGS. Yes.

Senator POPE. In your behalf?

Senator CLARK. You had the same advantage through the visit of the *Raleigh* over these fellows that had only working models that a peddler would have who could reach into his pack and pull out the actual article over a fellow who was trying to sell that kind of thing by mail through a picture, is that right?

Mr. DRIGGS. Yes. Before that, there had been a commission from Turkey that had visited the plants both in England and in France. I would like to say this in explanation of why we did not get that order, that I never found out until about 2 years—while I was in Poland—of what actually happened down there.

It used to be a custom in Turkey that the favored contractor would put in a low bid and when he was offered the contract he declined to sign it. So, after negotiations it was awarded to him at a high figure, at the price that he really wanted to get. That has been cut out in Turkey now by Kemal Pasha and a law passed requiring that with the bid there be a bidding bond amounting to 7½ percent of the contract which required you, within 15 days from the awarding of the contract, to sign a contract at the price you quoted and put up a performance fund of 15 percent.

After this had occurred and we understood the order was awarded, we heard nothing for a long while. Then we got a cable from Allen that he had been compelled to sign a contract. Now, he had no authority to sign a contract. Upon an explanation being asked, he said that the agents of the different companies had all been obliged to sign contracts so that they could take it when they want it. This was for the reason that the appropriation was expiring, I think on the 1st of July or the 5th of July, and they wanted to get it under this appropriation before it lapsed.

Then we were called upon immediately to furnish a bidding bond of \$240,000 before we had ever seen the contract. So we cabled for the contract but we were told that there was not time. I tried to have the contract sent to the Turkish Embassy here and the matter held up until we could see it, because it had to be laid before the bonding company in order to get the bond. We could not get that and they said there was not time, so we had to lose out on it.

While I was in Warsaw 3 years ago, the European field man for the Caterpillar Tractor Co., McDonald, came up through there. He was on his way home and he came up there to meet me and tell me what had actually happened down there. He told me that Allen had made promises of commissions to different people that were to help him and to make up for that, or for these commissions, he had added to the price. And in not believing that we would consent to that, he kept us in the dark for about 3 months after the contract had been awarded, when we knew nothing about it.

There would have been ample time to send the contract to us, but he was afraid that we would turn it down so he waited until he got us in this position where he said that we had to sign the contract and we must function in 15 days.

Senator CLARK. Who got that business finally?

Mr. DRIGGS. Vickers.

Senator CLARK. Who was Allen? That may have been gone through before I came in. Is he an American?

Mr. DRIGGS. Oh, yes. He had been our employee once, a great many years ago, when our office was in Washington. He was a young fellow here that came in as a stenographer, and then about war time he was with the American-British Manufacturing Co., of Bridgeport.

Senator POPE. Mr. Chairman, I would like at this time to introduce as an exhibit a photograph that will be known as "Exhibit No. 235."

(The photograph referred to was marked "Exhibit No. 235", and is included in the appendix on p. 548.)

Senator POPE. You are acquainted with Mr. Allen?

Mr. DRIGGS. Yes.

Senator POPE. Have you seen the steamship *Raleigh*?

Mr. DRIGGS. I have.

Senator POPE. Would you recognize it?

Mr. DRIGGS. I do not know whether I would, by the picture.

Senator POPE. I hand you this photograph and ask you to examine that. There seems to be two different pictures on this. One on the left hand side—the one that I have here—apparently shows a steamship. That is the steamship *Raleigh*, according to the information that we have.

Do you recognize Mr. Allen on the picture?

Mr. DRIGGS. Yes.

Senator POPE. Your representative?

Mr. DRIGGS. Yes.

Senator POPE. Do you also recognize your gun?

Mr. DRIGGS. Yes. He is standing alongside of it.

Senator POPE. And then over on the other side in the other part of the picture, do you recognize Mr. Allen in the back?

Mr. DRIGGS. Oh, yes; way back.

The CHAIRMAN. Who is Mr. Allen?

Mr. DRIGGS. He was our agent out there.

Senator POPE. Your salesman?

Mr. DRIGGS. Yes.

Senator POPE. Do you recognize any of the other officers or persons in the picture?

Mr. DRIGGS. No, sir. I never saw them.

The CHAIRMAN. Did you ever see this picture before?

Mr. DRIGGS. Yes; I have seen the picture.

The CHAIRMAN. Where have you seen the picture before?

Mr. DRIGGS. I do not remember. Was it in our files?

The CHAIRMAN. No. Was it ever published?

Mr. DRIGGS. I do not know.

The CHAIRMAN. Where had you seen the picture before?

Mr. DRIGGS. I would not swear I have, but I thought I had.

The CHAIRMAN. Mr. Allen probably sent it to you, did he not?

Mr. DRIGGS. I thought probably, although I do not know. I suppose he did. I thought I had seen it in our files.

The CHAIRMAN. This was not taken from your files.

Mr. DRIGGS. It was not?

The CHAIRMAN. No.

Senator POPE. Do you know where the picture was taken? Did Mr. Allen write to you?

Mr. DRIGGS. Where it was taken?

Senator POPE. Yes.

Mr. DRIGGS. I suppose at Constantinople. I know he did send a picture. Whether it is the identical one, it would be hard to swear.

The CHAIRMAN. Look at the picture again. Do you recognize any of the faces upon that picture. Do you recognize the face of what is evidently a naval officer, an officer of the American Navy?

Mr. DRIGGS. No, sir.

The CHAIRMAN. You do not recognize any other faces on the picture?

Mr. DRIGGS. No.

The CHAIRMAN. There are, however, in this group many men dressed in uniform, evidently of the Turkish Government, of the Turkish Navy?

Mr. DRIGGS. I do not know, I suppose these two prominent ones here [indicating on photograph] are those, but I do not know.

The CHAIRMAN. That is certainly not the uniform of the American Navy?

Mr. DRIGGS. I am not familiar with the Turkish uniform.

The CHAIRMAN. You are sure it is not the uniform of the American Navy?

Mr. DRIGGS. Yes; of course.

The CHAIRMAN. There appear to be a number of civilians in this picture, too. Do you know who they might be?

Mr. DRIGGS. No. The only one that looks at all familiar is the right-hand one who looks like Emmen Bey.

The CHAIRMAN. Emmen Bey?

Mr. DRIGGS. Yes.

The CHAIRMAN. What is his official capacity?

Mr. DRIGGS. He has no official capacity now. He is at the head of the automobile tire and tractor company down there. They represent Dodge and they were representing us when I sent Allen down there. Allen worked with them.

Senator POPE. Do you have any idea who the man is just in front of Emmen Bey with the stiff hat on?

Mr. DRIGGS. No.

The CHAIRMAN. Mr. Driggs, is the possibility of pictures like this a common thing?

Mr. DRIGGS. I do not know that there is anything uncommon about it. These foreign commissions are always having their pictures taken. Not only commissions, but it is sort of customary when these people go around visiting to take a lot of pictures. I know it has been so on two occasions of the Polish commissions being here. They went around to the different arsenals and navy yards and everywhere we would go they would insist on lining us up, lining every-

body up and taking a picture. Then, when they left, they gave me an album showing the itinerary of the trip, the history of the trip.

The CHAIRMAN. In this particular case where a picture is being taken of a group of men on board an American naval vessel, and in the group are Turkish officers and evidently officers of the American Navy, officers of this particular ship, the *Raleigh* and salesmen of your company—

Mr. DRIGGS (interposing). I do not know. I am not sure. The only one that looks at all familiar to me is the one at the right hand end.

The CHAIRMAN. It has all the earmarks of being, and I cannot call the picture anything other than a very positive demonstration of the use of the United States Navy as a salesman's sample case. Is not that about what it is?

Mr. DRIGGS. I think that is pretty broad.

The CHAIRMAN. They were demonstrating these new guns on board her?

Mr. DRIGGS. They were not new guns. Those guns had been in the Navy since before the war; about the time of the war.

Senator POPE. Have you gotten any orders from the Turkish Government since that time?

Mr. DRIGGS. No, sir.

Senator POPE. Have you had your representatives or salesmen down there at work since then?

Mr. DRIGGS. I did not for a while. We have now again.

Senator POPE. Is Mr. Allen still your salesman?

Mr. DRIGGS. No, sir.

The CHAIRMAN. Mr. Driggs, have you seen any account of the charge, along as early as June, that an American battleship or cruiser had been made, as the term was used at that time, a show case?

Mr. DRIGGS. No, sir.

The CHAIRMAN. You had not seen anything of it?

Mr. DRIGGS. No, sir.

The CHAIRMAN. You had not heard that charge until now?

Mr. DRIGGS. No, sir.

The CHAIRMAN. You saw no denial in the press in June coming from the Navy Department that there was no foundation for any such charge? Did you see that?

Mr. DRIGGS. No; I did not. You remember the case, Senator, I suppose, when the *Idaho* and the *Mississippi* were sold to Greece?

The CHAIRMAN. Something of it.

Senator BONE. When was that?

Mr. DRIGGS. A good many years ago.

Senator BONE. Are they still the property of the Greek Government?

Mr. DRIGGS. So far as I know they are.

The CHAIRMAN. Do you know anything about what the price was that was paid for those?

Mr. DRIGGS. I do not remember. I knew at the time, but I do not remember now.

Senator POPE. How many companies in the United States are selling guns of the general type that you sell—ordnance?

Mr. DRIGGS. There have been only ourselves until last November, when the American Armament Co. started up.

Senator POPE. What would you say as to manufacturing concerns, other than armament makers, manufacturing guns or parts of guns in the United States? Are there not other manufacturing concerns?

Mr. DRIGGS. Do you mean making our size of gun?

Senator POPE. No; any size of gun.

Mr. DRIGGS. None; other than the small arms, I mean.

Senator POPE. There are a considerable number manufacturing small arms?

Mr. DRIGGS. Well, there are only practically Winchester and Remington and at the present time they are producing sporting goods; and Colt making the machine gun and automatic pistols and revolvers.

Senator CLARK. Mr. Driggs, who makes the Thompson machine gun?

Mr. DRIGGS. The Colt Co. manufactures them for the Thompson Co., but that is not being manufactured now. They have got a big stock on hand.

Senator CLARK. How is that?

Mr. DRIGGS. That is not being manufactured at the present time. They have a big stock on hand that they are liquidating.

Senator POPE. You do not manufacture any machine guns?

Mr. DRIGGS. No, sir.

Senator POPE. Do you know, Mr. Driggs, something of the Government's practice here of selling obsolete machine guns and other guns? Do you know anything about that?

Mr. DRIGGS. I know that there has been surplus stock sold, but that is all.

Senator POPE. It is very interesting now that there are in existence a great many machine guns and some of them in the hands of gangsters and others. Have you any information, or will you express an opinion as to how those get into the hands of those people?

Mr. DRIGGS. By hijacking legitimate shippers.

Senator POPE. How do they do that?

Mr. DRIGGS. Just as the hijackers have hijacked the bootleggers, intercepting shiploads of liquor and stealing it from the bootleggers.

Senator BONE. Where would those shipments of automatic machine guns be going?

Mr. DRIGGS. Going to the cities—the police departments of the cities.

Senator POPE. Do you know of any instance of that kind?

Mr. DRIGGS. I can't recall now any particular instance, but I remember reading of it and that it was going on then.

Senator POPE. Do you know of any instance of legitimate sales to concerns where they may have disposed of them to gangsters and others?

Mr. DRIGGS. No; I never heard of it.

Senator BONE. Mr. Driggs, there are one or two questions I would like to ask about this war material I referred to a few minutes ago. Can you tell us whether or not the United States Government upon occasions has sold surplus supplies of munitions it had on hand—guns, for instance, or rifles or ammunition?

Mr. DRIGGS. No; I know nothing about those sales personally.

Senator BONE. Have you been advised sales of that kind have been made by this Government of its surplus material to private concerns? To make it more specific what the Government refers to as obsolete material—maybe that will identify it a little better?

Mr. DRIGGS. I have been informed that there was a lot of something like 800,000 to a million rifles that were surplus because they were not the standard type we later adopted, that were sold. But, the reality of those sales I have not been able to verify, although I have tried to do it.

Senator BONE. That is a tremendous number of guns to be sold, and I wondered where they would be disposed of.

Mr. DRIGGS. I do not know of my own knowledge they were actually sold.

Senator BONE. What was done with them, how were they disposed of, if they were not sold?

Mr. DRIGGS. They may not have been disposed of. The Government may still own them. It has been one of the mysteries.

Senator BONE. Can you advise us whether there are manufacturing plants in this country that are outwardly and honestly, because I am not trying to infer anything by this question, that are outwardly and honestly engaged in some kind of nonwar manufacture, that are manufacturing certain war material on this side, such as fuzes or cartridge cases. For instance, there may be an electrical manufacturing company making electrical apparatus which on the side manufacture cartridge cases, fuzes, and the like?

Mr. DRIGGS. Are you referring to—

Senator BONE (interposing). I am not referring to any one firm, but I am asking if it is a fact that there are in this country manufacturing concerns whose chief output has nothing to do with war, but who as a side issue are not only capable of, but do manufacture such things as cartridge cases?

Mr. DRIGGS. I would not put it in that way.

Senator BONE. Put it in your own way.

Mr. DRIGGS. I will put the fact to you, that is the best way.

Senator BONE. Yes; just do that.

Mr. DRIGGS. There is a concern in Boston, A. & J. M. Anderson Co. part of whose business has been the manufacture of certain electrical equipment, and during the war they made cartridge cases for the Government. We used to, many years ago, make our own cartridge cases, but of late years there has not been enough continuous work to justify a plant just for the making of cartridge cases, so I went to the Anderson Co. and asked them could they on their equipment make cartridge cases for us. They said they could, and I made an agreement with them that they would manufacture cases exclusively for us, although they have since violated that somewhat by making for someone else; but they were not selling ammunition themselves.

Senator BONE. Do you know of any regulation or law in this country that in any wise restricts or regulates the sale of large quantities of guns, for instance, such as we have mentioned, or that requires a report to be made to any recognized authority?

Mr. DRIGGS. No, sir; I do not.

Senator BONE. So that if I were able to buy a large number of guns from the United States Government that were considered



obsolete, that might with a little work in an armory or a factory be made serviceable, there is nothing in our present laws that would require me to report to any agency of this Government any sale I might make of those arms?

Mr. DRIGGS. I do not believe there is that I know of.

Senator BONE. Are there any statistics available anywhere covering transactions of that character.

Mr. DRIGGS. The Department of Commerce has certain statistics representing shipments, I suppose made out from manifests in most cases of small arms and small-arm ammunition, but so far as I know there are no reports made of the manufacture or showing the destination of orders.

Senator BONE. Those data are rather meager, are they not?

Mr. DRIGGS. Yes.

Senator BONE. They are hardly intelligible to one unless he has access to outside sources of information?

Mr. DRIGGS. They are unintelligible to me.

Senator BONE. You are an expert in that line and you say they are unintelligible to you?

Mr. DRIGGS. I cannot tell whether they are rifles or larger guns.

Senator BONE. There would be no way in which anyone having any interest in that situation, whether a public official or a private citizen could tell what was going on in that field?

Mr. DRIGGS. No.

Senator BONE. Do you know Lieutenant Commander Strong, one of the men who was assigned to Colombia—I think that was discussed this morning?

Mr. DRIGGS. Yes, we discussed that this morning.

Senator BONE. And at the same time he was in Colombia there was a naval mission there?

Mr. DRIGGS. I want to make this point at this time, that in that trouble down there we were not dealing with both sides. I know that is the frequent charge made against people manufacturing arms, and I do not want to say munitions business, because there is a sort of stigma on that. I think there should be more of a matter of ethics in that business as to dealing with both sides, but it is not at this time.

Senator BONE. I know it should be but is not. I am correct in that?

Mr. DRIGGS. Yes.

The CHAIRMAN. Mr. Driggs, in your line of work you are up against a very severe competition.

Mr. DRIGGS. Abroad?

The CHAIRMAN. Abroad and at home.

Mr. DRIGGS. Yes, sir.

The CHAIRMAN. You have considerable competition right at home?

Mr. DRIGGS. There was not until lately. We had no competition out of American concerns from the time of the war until last November.

The CHAIRMAN. Has the competition sprung up rather rapidly since that time?

Mr. DRIGGS. Yes; quite rapidly.

The CHAIRMAN. What has been the general nature of the competition; has it been rather unscrupulous in its methods of getting business?

Mr. DRIGGS. It would strike me somewhat that way.

The CHAIRMAN. Has General Johnson provided a code for your industry yet?

Mr. DRIGGS. Not that I know of; no.

The CHAIRMAN. I think, Mr. Driggs, from conversations we have had with those who have been at work with you upon subject, that you have some very worth-while thoughts in connection with the control or regulation of this industry. Is there anything you would like to say along that line, as to what might be done to improve our own lot?

Mr. DRIGGS. Well, I will make the suggestions I did this morning with regard to there being complete reports made of the concerns.

The CHAIRMAN. We won't need to go over that ground again, because that is a part of the record now.

Mr. DRIGGS. I think such reports ought to be confidential with the Government or the Department to which it is made so that our competitors naturally do not get it, and so that one country abroad does not get what the other is doing, because they have no right to disclose that.

I would like to call your attention to this point, Senator, since you brought it up, and that is with respect to the part that private initiative plays in our national defense. I am not casting any aspersions whatever on the Government in its work, but it is a fact that many of the major improvements this country has had the benefit of, or that amounted to anything, emanating from America, have been due to private initiative.

Senator CLARK. Everybody else has had the benefit of them as well as the United States, who were willing to pay for them.

Mr. DRIGGS. I think, just taking one instance where the United States has benefited very largely, and I refer to something that goes back much further than anything we have discussed, and that is, for instance, at the time of the Revolution I understand that General Washington asked the du Ponts then to make powder for the Continental Army, and that covered a vital part of the success. But, coming down to recent times, there was an invention of the Colt revolver which was turned down by the Department with the phrase so often used that it was not suitable for military purposes, and as a result of which Colt went into bankruptcy until the Mexican War came on, when this revolver was demanded and from that time on Colt prospered.

Then there was Maxim who invented the Maxim gun. He got no encouragement here, but was turned down, and he went to Europe, and his going there was the basis of the Vickers Co. of England.

After that Hotchkiss who got no more encouragement here than Maxim did, and he then went to England where he got very little more encouragement, and from there he went to France, after the war, at a time when they wanted anything new that would help them recoup, and they offered him a big bonus if he would locate a factory there, as a result of which when we went into the field for guns, they were imported from France, when they should have been

made here. But, the Government had not seen fit to encourage it when Hotchkiss made the offer.

The CHAIRMAN. We had a case here yesterday or day before yesterday of a man named Davison developing a new gun. He had no success in selling this perfected instrument to the American Navy or to the Army, but a retired officer of the Army, General Summerall to be specific, advised him that the way to build a market with the United States Government, was to sell his product abroad and get it introduced over there first.

Mr. DRIGGS. Very much like a prima donna.

The CHAIRMAN. Yes; quite so. Now, how much of this development of which you speak, of the devices that have been improved and the perfections which have been offered by so-called "private industries"—how much of that has been offered by men who had retired from the Army or the Navy and been absorbed by private industry? Haven't those contributed largely to the development of the more modern machines?

Mr. DRIGGS. Most of them were never in the Army, I think. I believe that was the case with Colt in the beginning, and I know it was with Hotchkiss and Maxim. In our own case my brother was with the Navy in the beginning and he resigned to go in the ordnance company.

Senator CLARK. Take Thompson, he invented the deadliest machine gun in the world, the Thompson machine gun.

Mr. DRIGGS. No: I would not say it is the deadliest.

Senator CLARK. Anyhow he invented a machine gun that is very deadly, and he did it while he was Assistant Chief of Ordnance of the United States Army, and as soon as he perfected it, he resigned and set up a private business. Is that not correct?

Mr. DRIGGS. I thought it was the other way around. I thought that it was after he resigned from the Army. Anyway, that gun is hardly in this category we are discussing, because it is for a special purpose.

Senator CLARK. I realize it is not a heavy weapon, but it is a deadly small machine gun.

Mr. DRIGGS. Yes.

Senator CLARK. And the machine gun which the Germans used during the war was a Maxim gun?

Mr. DRIGGS. They used a variation of the Maxim gun.

Senator CLARK. They refer to it as a Maxim gun in the German Army.

Mr. DRIGGS. Yes.

Senator CLARK. So that even after Maxim left this country and began to manufacture guns in England, the Maxim contribution to arms was used by Germany in the World War.

Mr. DRIGGS. Yes, it was.

Senator BONE. It was an employee of the United States Government who developed and made possible the instruments that are used in blind flying. That is a fact, isn't it?

Mr. DRIGGS. I do not know.

Senator BONE. That is a fact. He was a Government employee and there would be no blind flying if a Federal employee had not invented it. Would you call that the exercise of private initiative?

The inspiration of a man to build something does not have to be based on employment by a corporation, does it?

Mr. DRIGGS. I am merely pointing out that in private initiative the idea of achievement plays a great part.

Senator BONE. You are thinking of the profit in it?

Mr. DRIGGS. No, sir; that is the point I want to make. If the artist paints a picture or the sculptor makes a statue, naturally he expects to get paid, but at the same time to make money is not the incentive.

Senator BONE. It is not the desire to make money that brings out the God-given thing that is in him.

Mr. DRIGGS. It is not the idea of reward, it is the idea of achievement.

Senator BONE. It is not the idea of the Government giving him anything for it.

Mr. DRIGGS. This Government does not do that, but foreign governments do.

The CHAIRMAN. Let us assume our Government was to do so drastic a thing as to establish what would amount to a governmental monopoly, let us say, in the matter of shipbuilding or gun making or such instruments that enter into the preparation of war and enter into the waging of war, and assuming we had no private industry in those lines, is it not likely that there would be developed within the governmental institutions the same desire to experiment and to achieve and to improve that exists in private industry now?

Mr. DRIGGS. I was attempting to show a moment ago that the desire to achieve among the individuals where they are working independently is a very potent factor in progress. But quite another thing to my mind as an objection to the governmental monopoly in manufacturing and improving is that the capacity in time of peace is totally inadequate to the war requirements, consequently if there is no trained personnel or machine-tool equipment in existence, if a war starts, after you put your Government plant on a three-shift basis you have your maximum output. Then you have more than a year before private plants can organize sufficiently to make this material, before they can get their equipment and trained personnel.

Senator BONE. During that time would it not be possible for the United States to prepare. If it would take 1 year for a private plant to get the production, why should not the Government do so within that time?

Mr. DRIGGS. I just mentioned that, because that is what the English Government and the French Government are doing today. If their private plants are taken care of in the way of capacity, then as to the equipment and training in the existence, instead of being one plant, you have 4 or 5 plants you could quickly expand.

Senator BONE. The Government has large arsenals that are capable of producing a great deal more materials than they are producing now, and those plants are being expanded now to cover the whole field. I do not believe you or anyone else would suggest that the Government could not manufacture this stuff.

Mr. DRIGGS. No, of course; but I think the foreign policy is the wisest, because they are capable of quicker expansion over there.

Senator BONE. Now, getting back to where we were, it now appears that a man by the name of Sir Basil Zaharoff a character of mystery,

a man who has not made a record for any individual achievement worthy of note, who became a duke in Spain and the King of England for some unexplainable reason made him a Knight of the Garter——

Senator CLARK. I find Mr. Carse is wrong about that. He is a Knight of the Bath, whatever the difference may be.

The CHAIRMAN. Is this the same Zaharoff who up to this week was rather a great mystery in Europe?

Senator BONE. Yes; and he is also the holder of some high honor at the hands of the French Government, I believe the Legion of Honor, and I am astonished that the United States did not give him some honor.

The CHAIRMAN. We had testimony that in 1919 the President accorded some honor to him.

Senator BONE. Now here are hundreds of obscure inventors who fill nameless graves with no reward to them, when these honors I have referred to are reserved for the gentleman who has made mass murder the pastime of the world.

Mr. DRIGGS. Don't you think, Senator, it is a question of prostituting a good thing. You can make an improper use of any weapon, or any medicine or electricity or anything else.

Senator BONE. The whole picture we are having presented to us in this inquiry is that the men who have contributed, not to the arts or science, not to mechanical achievements, but to the sordid business of mass murder are the men who have profited most out of this whole business.

Mr. DRIGGS. Did you think the man who invented the superior gun contributed to mass murder.

Senator BONE. Yes; the machine gun did contribute to mass murder.

The CHAIRMAN. Most assuredly they do when they sell to one country and then sell the same product to another country, because the first country has armed itself with that particular weapon, and that is the pretty general picture.

Mr. DRIGGS. I do not think it should be done, but it has been done, and I agree with you entirely that it should not be done. But, where do you draw the line between something that is fine for national defense and may win a war for your country, and mass murder?

The CHAIRMAN. That depends entirely on what you term an adequate national defense. Does national defense mean that people should go to all corners of the earth to wage war?

Mr. DRIGGS. No; but do you think by having the peace-loving Governments like the United States for instance, England and the aggressive nations that won't let anything stop them being strong, makes for peace. I am just taking the practical position about it.

The CHAIRMAN. What is your line of division as between the peace-loving and the war-loving people?

Mr. DRIGGS. I mean a Government like ours that is trying to limit arms, that is trying to prevent war and at the same time recognizing that for a good many hundred years there is going to be war. There are nations that will act as Germany has and others may act, and you cannot stop them.

The CHAIRMAN. Perhaps this has no place here, but do you agree that a country such as ours can lead all of the world in the matter of expenditures in the preparation for war, and shall really be as peace loving as most of us would like to believe our country to be?

Mr. DRIGGS. I mean the figures are misleading, because the pay of our Army and the cost of supplies are so much higher than they are abroad. A ton of coal or the monthly pay of a seaman or an officer are so much higher that those things bring the figures away up. We have a very small army while the foreign countries have much larger armies than we do.

Senator CLARK. If we spend nearly twice as much money as any country on military preparations and armament and still have an army that is seventeenth in numerical strength, then if we should go on the same basis of the other nations you would be absolutely bankrupt.

Mr. DRIGGS. As other nations what?

Senator CLARK. I say spending now twice as much as any nation and being far down in numerical strength, if we attempt to compete with them, it would cost so much money it would absolutely bankrupt the United States.

Mr. DRIGGS. Perhaps it might, but we don't have to do it.

Senator BONE. You say we don't have to do it.

Mr. DRIGGS. Yes; our position makes us immune.

Senator BONE. Then why is there so much insistence from certain quarters about national defense if we do not have to do it.

Mr. DRIGGS. I say our position makes the position of our standing army much more favorable than others have. The same, however, does not apply to the Navy.

Senator BONE. We are spending 75 cents out of every dollar of our income because of war.

Mr. DRIGGS. That is true, but there is a very large pension list.

Senator BONE. The financial problem remains, regardless of the effect of the thing.

The CHAIRMAN. What is wrong with the pension list if those men gave their services, their limbs, and their lives, while some of those manufacturing instruments of war are making millions upon millions while the war is in progress. The thicker the blood flows, the bigger the profit.

Mr. DRIGGS. Senator, I have not seen anybody in this country make those millions.

The CHAIRMAN. You have not heard of the profits made during the war?

Mr. DRIGGS. Have you figured it out, or have you any report on the percentage of profit on the orders. For instance there were tremendous orders placed for steel with us and in this war we built up industrial organization and mass production. Now, if you take everything that contributed to the munitions like steel, bronze, brass, and such things, you will have a huge amount, of course, but that was all necessary for winning the war.

Senator CLARK. You have heard of du Pont's profit increasing during the war from an average of nonwar years of about 6 million to about 60 millions during the war?

Mr. DRIGGS. Yes; but what was the percentage of the expenditure and on the total orders.

Senator CLARK. That was the amount of their profit.

Mr. DRIGGS. There was a tremendous volume turned out, bear that in mind.

Senator CLARK. Yes; that is true, of course.

Senator VANDENBERG. While I would like to observe I think the committee is in unity in endeavoring to demonetize war, they might not be a unit in demonetizing preparedness perhaps, so I think we had better stick to the proceedings.

The CHAIRMAN. Mr. Driggs, have you anything to suggest to control the industry?

Mr. DRIGGS. No, sir.

The CHAIRMAN. Do you believe a program that would limit the profits that could be enjoyed in time of war would be of benefit?

Mr. DRIGGS. I don't think that could be done without great abuse. I think it ought to be regulated at the time. For instance, as a result of our lack of preparation, in our hurry to get ready and furnish material, during the war the cost-plus system was introduced, which proved to be the most costly thing that could have been done. If there had been a proper program for preparedness, a lot of the cost-plus contracts would never have been made.

Senator CLARK. Then the cost would have been spread over a period of years instead of just a few years. If you had been preparing for war for 20 years, you would have spread the cost over that period instead of the short period of our late war.

Mr. DRIGGS. No; it is a question of profit. A 10-percent profit is small, but when there is no limit in the amount of men you will employ you would spend a lot more, and that is a different thing. One manufacturer may make 20 percent, and not be as efficient on a cost-plus basis as another manufacturer who would make only 10 percent.

The CHAIRMAN. Mr. Driggs, had you spoken of the Lewis gun?

Mr. DRIGGS. No, sir. I did not.

The CHAIRMAN. What do you know about the Lewis gun?

Mr. DRIGGS. I know something about it.

The CHAIRMAN. What do you know about it?

Mr. DRIGGS. It was a machine gun developed by Col. I. N. Lewis of the Army, and was a very valuable gun particularly for aircraft.

The CHAIRMAN. Are there further questions of Mr. Driggs?

Senator VANDENBERG. I would like to ask Mr. Driggs this question. The War Policies Commission of 3 years ago recommended as a formula for controlling war profits and dedicating them to the common defense, the abstract formula that from the time America entered war, 95 percent of all profits, either of a corporation or an individual, in excess of the average earnings of the individual or the corporation for 3 previous years, should be covered into the Treasury. Is that impracticable?

Mr. DRIGGS. I should think it would be.

Senator VANDENBERG. Why?

Mr. DRIGGS. Because there would be very great inequality as between one plant and another, for instance, as to what their earnings had been for the 3 previous years. For instance, if you take it now, during the depression, with most plants closed, or practically so, certainly their earnings through 3 years would not amount to

anything. Whether any formula could be worked out or not, I am not prepared to say. I think that that ought to be regulated in some way, but I do not see how you can lay down a sort of blanket arrangement like that for a whole industry.

Senator VANDENBERG. You would not have any quarrel with the general objective that, in the event of war, there should be no special profits for anybody in connection with it, if it be possible to create a practical formula to that end?

Mr. DRIGGS. In general, I would not; no, sir. I feel that way with regard to our own Government, anyway.

Senator VANDENBERG. That is what I mean.

Mr. DRIGGS. That is what we practice, too. We took these orders for 3-inch guns and 1-pound guns at practically cost. I did it deliberately so that we would not make much profit.

The CHAIRMAN. Mr. Driggs, had you planned to remain in town over the week end?

Mr. DRIGGS. No, sir; I did not.

The CHAIRMAN. The committee would like to have you remain this afternoon at least until we have concluded this afternoon's hearing, before the committee finally excuses you.

Mr. DRIGGS. All right, certainly.

The CHAIRMAN. There may be further questions which we will want to ask you.

Senator GEORGE. Mr. Driggs, do you grant any licenses to use your patents?

Mr. DRIGGS. Have we?

Senator GEORGE. Yes, sir.

Mr. DRIGGS. Not outside the Government.

Senator GEORGE. Not outside the Government?

Mr. DRIGGS. Not outside the Government. We did to the United States Navy.

Senator GEORGE. No foreign governments?

Mr. DRIGGS. No, sir.

Senator GEORGE. None whatever?

Mr. DRIGGS. No, sir.

The CHAIRMAN. Have you ever been asked for rights to produce your products in other countries?

Mr. DRIGGS. Yes.

The CHAIRMAN. Who sought that right?

Mr. DRIGGS. It was part of the negotiations with regard to Poland, for one thing, and we have some pending with another country now at the present time.

The CHAIRMAN. If there are no further questions for the moment, Mr. Driggs, you will be excused.

Mr. DRIGGS. All right, sir.

(Witness excused temporarily.)

This concludes the record of the Driggs Ordnance and Engineering Co. The committee at this point took up the case of the American Armament Corporation, which is printed in part III.



## APPENDIX

### EXHIBITS

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EXHIBIT No. 199

JANUARY 24, 1929.

MR. FLOREJAN ZIEMBA,  
*Wapólna 60, Warsaw, Poland.*

MY DEAR ZIEMBA: I enclose confirmation of radiogram sent you the 21st.

While I suppose you have obtained the details of the du Pont contract from the ministry, I would say they are as follows: The contract was for 1,000 tons of powder and provided for payment in treasury notes. The notes bear 6 percent interest and were taken at 93. The discount and interest were added to each note. This made the total about \$2,400,000. The conditions were as follows:

"The payment for the gross value of the contract is to be made in twelve irrevocable treasury notes payable every four months beginning at a stipulated date. These irrevocable notes are in the form of treasury bonds which read as follows:

"The Polish Republic promises to pay on the (date) to E. I. du Pont de Nemours and Company, Incorporated, Wilmington, Delaware, U.S.A., the sum of (amount).

"The payment of the above sum will be made against the return of the present bond to the wickets of the National City Bank of New York, New York City, New York."

These notes are to bear interest at the rate of 6 percent per annum, which amount would be added to the note and naturally payable with each part payment. In accordance with the arrangements and proportionate with the amount involved in the contract, the Republic of Poland would present a given number of the notes upon the signing of the contract, further notes to be presented following part shipments or completion of the entire contract.

Upon the date a given note comes due, the same if presented to the National City Bank of New York for payment. The Republic of Poland having deposited the necessary funds to cover, payment is received, notes surrendered to the bank and ultimately returned to the Republic of Poland by the bank for cancellation.

The contract was negotiated in August 1927. Upon signing the contract, notes 1 to 6 were handed the du Pont Company. After 50 percent of the powder was delivered, notes 7, 8, and 9 were received. After final delivery, notes 10, 11, and 12 will be given du Pont.

Note 1 Received upon signing contract—without int., due Apr. 15, 1928.

Note 2 Received upon signing contract—int. from Apr. 1, 1928, due Aug. 15, 1928.

Note 3 Received upon signing contract—int. from Apr. 1, 1928, due Dec. 15, 1928.

Note 4 Received upon signing contract—int. from Apr. 1, 1928, due Apr. 15, 1929.

Note 5 Received upon signing contract—int. from Apr. 1, 1928, due Aug. 15, 1929.

Note 6 Received upon signing contract—int. from Apr. 1, 1928, due Dec. 15, 1929.

Note 7 After 50% contract delivered—int. from Apr. 1, 1928, due Apr. 15, 1930.

Note 8 After 50% contract delivered—int. from Apr. 1, 1928, due Aug. 15, 1930.

Note 9 After 50% contract delivered—int. from Apr. 1, 1928, due Dec. 15, 1930.

Note 10 After final delivery—int. from Apr. 1, 1928, due Apr. 15, 1931.  
 Note 11 After final delivery—int. from Apr. 1, 1928, due Aug. 15, 1931.  
 Note 12 After final delivery—int. from Apr. 1, 1928, due \_\_\_\_\_.

Regarding the Ministry's proposal that we direct that manufacturing of guns at Ostrowiskie, we would be willing to undertake this under the same arrangement that we had with Starachowice or some other fair and equitable plan. You can assure the Ministry that we will gladly give our fullest co-operation toward the manufacturing of the guns they wish made in Poland of the latest designs and under the most efficient methods, not only in the production of our own designs but such others as the Government desires manufactured.

Of course, we assume that we are to have a good-sized contract for manufacturing in our plant here together with the necessary tools for the production in Poland. You will remember that when this matter was discussed with me at the War Ministry, I stated that instead of beginning manufacture in Poland after an order had been filled here, that if the Government wished, we would begin practically simultaneously in the two countries; that is—as soon as the tools were finished and installed in Poland.

It is naturally understood that the credit we would extend under the du Pont plan would be for the work done here.

As you know, the War Department is now cooperating with us 100 percent. They have even changed the policy to a more favorable one to us than when you were here. The Ordnance Department officials informed us a few days ago that the Department was now more concerned in having our plant get work than Government plants. They are pushing a bill now in Congress, on which I enclose newspaper clipping. You will remember the release to us of the latest designs of the antiaircraft guns to be furnished Poland is conditional upon our having orders of satisfactory size for production in our plant here. The Government feels that the compensation for making public what has heretofore been secret is in the building up of our facilities so they will be available in time of necessity.

We are not prevented from building the same guns in Poland provided we have a substantial portion of the business here.

A point of advantage for the Polish Government, if we are in charge of the manufacture there, is that we will be able to keep the material itself and the production methods up to the latest developments.

The arrangement we had with Starachowice on the work produced in Poland was:

- 1) 6% of the contract price.
- 2)  $\frac{1}{3}$  of the saving over the cost or estimated cost of the guns produced in America. Under this arrangement  $\frac{1}{3}$  of the saving went to the Government,  $\frac{1}{3}$  to Starachowice, and  $\frac{1}{3}$  to ourselves.
- 3) A payment of \$20,000 yearly for general reimbursement for journeys and living expenses of Mr. L. L. Driggs or Mr. L. L. Driggs, Jr., or their nominee, and a permanent engineering assistant.

The original plan for a loan, in our contract with Starachowice, provided for the issue of bonds of the National Economic Bank guaranteed by the Polish Government.

The Chase Securities people tell me that the bank has put out several such issues that have been offered here, and this makes them undesirable. One issue sold by F. J. Lisman is quoted at \$85.90, maturing in 1945. It was therefore suggested that if payment is to be made through a loan, it had better be done by increasing the amount of the pending railroad loan to include the requirements for our material. This can go through. The whole should be known as a "railroad loan" so that there need be no talk of borrowing for war material. I don't know how long it will be before such a loan goes through. On the other hand, I find the handling of the du Pont notes has been very satisfactory and that seems the best method to pursue.

Sincerely yours,

LLD:MS

P.S.—The statement in the clipping from the New York Times that even gun the Department had was obsolete is, of course, a misquotation of the reporter. There are so far only a few of the very latest guns on hand, the being the antiaircraft guns. Practically all the field and siege guns are obsolete. There are a few new-type guns, but the main supply on which the Government would have to rely for the first fifteen months of a war are obsolete.

## EXHIBIT No. 200

(To insure prompt attention in replying refer to 00 No. 381/7511, attention of —.)

Communications should be accompanied by carbon copy and addressed to—

WAR DEPARTMENT,  
OFFICE OF THE CHIEF OF ORDNANCE,  
Washington, February 18, 1927.

Mr. L. L. DRIGGS,  
*Driggs Ordnance & Engineering Co.,  
19 West 44th Street, New York City.*

DEAR Mr. DRIGGS: We have been informed that you have applied to the New York district office for certain information relative to ordnance work which you are undertaking for other nations. It is the desire of the Ordnance Department that this work be encouraged in every way possible, but it was not intended that you should use the letter which was signed by General Ruggles some time ago to give you access to Ordnance drawings and information outside of the Ordnance Office. In other words, we would very much prefer that if you wish any further information you apply direct to this office, where we can consider the matter and be best able to judge as to what can and what cannot be released. General Ruggles desires me to inform you that it is not intended to handicap your work in any way. In fact, we are in full sympathy with the work and with the building up of munitions work, both in your own company and in other companies in this country, and we will be very glad to cooperate with you to the fullest extent possible if you will simply let us know what you wish.

Very sincerely,

(Sgd.) TOWNSEND WHELEN,  
Lt. Col., Ord. Dept., U.S.A.

## EXHIBIT No. 201

APRIL 7, 1928.

Technical information wanted by Turkey.

Mr. HERBERT F. L. ALLEN,  
*% American Express Co., Stamboul, Turkey.*

MY DEAR HERBERT: The Turkish business has gotten into the position I feared it would, and about which I cautioned you before leaving. The continual asking of definite information before making any commitment is just a method of stringing negotiations out while the dickering is going on, and if negotiations are allowed to get in such a condition they are dragged out indefinitely, with a chance that all kinds of complications and difficulties will arise to make them fail in the end.

I was up against the same thing in Poland until I told them that the performance of our guns in this country and the general designs which I showed them were sufficient to enable them to determine whether or not they wanted them. Detailed designs, I told them, would be furnished by me when we got the contracts, and we agreed that the details of the sighting devices would be satisfactory and subject to their approval.

It all comes down to this. Do they want the latest up-to-date material or do they want the stuff which is in the catalogs of our foreign competitors? I am told that the very latest French developments are kept secret and are not being offered around Europe. I am also informed that their very latest is still not up to ours. Our principle competitors in Poland sent trunkfuls of drawings. They also had range tables and other data in bound books. I got some of these which date from 1916 to 1917. In other words, all this stuff didn't mean anything.

We have had lately good cooperation from our own Government. It is for the purpose, however, of bringing these orders to this country and furnishing work for our plants and to be used as such, but not to be broadcasted and merely serve the purpose of furnishing information to competitors. We have already been allowed to go quite far with regard to the data of our guns.

We have furnished the Turkish Government with the muzzle velocity, maximum ceiling, and maximum range, and also the weights of the ammunition, powder charge, rapidity of fire, and other data. On top of this we have

now notified you that we can furnish the new flashless powder, which is very valuable in night firing. The guns at Aberdeen have made as good a record at night as in the daytime. The above ballistical data gives all the information needed for regarding the power of the gun. The ranges at other elevation or, in other words, the complete range table is purely an academic question and of no use to the Government in advance of having the guns. I know that the data above referred to cannot be matched by any competitor's material. It is ample, therefore, to enable the Turkish Government to make up its mind as to whether it wants our guns and to say so.

There is a wide difference between what the Government will allow us to use in manufacturing if an order is received and the information they are willing to give out merely during negotiations for contracts. This question has come up with the War Department with regard to giving out the information that the guns we are offering were the Army's guns without qualification. I made several trips to Washington in connection with this information business. I did not see what was finally sent in response to Col. Smith's request, but I understand that the Department said that their latest guns use our breech mechanism and semiautomatic mechanism. They of course cannot help saying that, and can get in no trouble by doing so because it is a matter of record that they are paying us royalties on the 3" and 105 m/m guns. They did not want to say, what might be construed as stating that the Government designs were being given out.

The Navy Department has not pussyfooted in this way, as you will see from the letter we have just received from the Chief of the Bureau of Ordnance, of which I enclose you two photostats. For your information I also enclose you a certified copy of the recent decision of the Court of Claims, which shows that the Army gun was taken bodily from the Navy gun. Of course, to anyone familiar with ordnance, they know that the performance of a gun mechanically and its rapidity of fire are all due to the breech mechanism and the semiautomatic mechanism. The performance ballistically depends upon the powder charge, weight, and type of projectile, and length of bore. None of these features are patentable, and there is nothing to prevent us from making our guns to correspond in all respects, which of course it does anyway.

The Army have lately adopted certain features of construction which do not effect the functioning of the gun, and it is immaterial to us whether we use them or not. One is in the recoil system of the 40-cal. gun, but has not been incorporated in the 50 cal. We are not interested in using this anyway. The system in the 50-cal. gun is better.

The main object in the Army making the limitations, they said was that otherwise the impression might be given that the equipment we were offering was the same in all respects including the new computer. We have asked permission to use this and it is under consideration. If it is finally determined to keep this particular instrument secret we can nevertheless furnish a fire control system that will function just as well, provided this is required of us.

Please thank the Automobile Tire & Tractor Co. for writing us while you were in Athens. I expected to send them the information earlier in answer to their cablegram regarding sights.

With the present fire-control system the sights on the guns have been discarded. Please let us know whether the Turkish Government wishes sights on the guns anyway.

Sincerely yours,

LLD:BR

EXHIBIT No. 202

Mr. H. J. LEISENHEIMER,  
Vice President in Charge of Export Sales,  
The Cleveland Tractor Company, Cleveland, Ohio.

MY DEAR MR. LEISENHEIMER: Confirming our conversation of today, I am enclosing you a statement showing our activities in the ordnance field, and the opportunity we now have of obtaining a large volume of business, not only from Poland, but other countries. The immediate business offered us is from Poland.

As the culmination of 5-year contracts and negotiations, the Polish Government is now ready to sign a contract with us for antiaircraft equipment amounting to between nine and ten million dollars.

In 1926 I returned from Poland with a contract for 300 antiaircraft guns and other materials amounting to \$7,500,000, conditional upon our securing a \$5,000,000, 10-year loan for Poland. I found, however, that all such financing was taboo, until after the stabilization loan. After this loan finally went through (in 1927), the Polish Government wished to send a military commission to see the latest developments in antiaircraft material.

Before we could show the new type of mobile mount (to carry our guns) which our Government had in the meantime developed, it was necessary to obtain an agreement from the War Department to release the designs to us for use in filling a foreign contract. This we obtained, and in the fall of 1928 the commission arrived here, having previously seen the latest developments at the various European ordnance plants. Upon returning, the commission reported that the American material was at least five years in advance of that in Europe.

Following the official approval of the Polish War Ministry, the Chief of Ordnance informed us that they wished to purchase 500 guns, and I was requested to come to Poland and conclude the contract. I have been there from the end of December 1929, until a few weeks ago.

Most of this time has been consumed in overcoming the opposition of the European firms, particularly the French, who have fought bitterly—not only to prevent our securing this contract, but to prevent the introduction of American material.

Owing to the necessity of keeping the expenditures within their immediate budget possibilities, the number of guns has been reduced.

This material, which is purely for defensive purposes, is not only approved by the League of Nations, but its acquisition required by the League, consists of 348 units (guns and mounts).

The contract is to be divided into two orders, for 174 guns each, the Government agreeing that, if the appropriations are not provided for the second lot of this same type, they will give us the equivalent value in other sizes.

I have returned for the purpose of completing our manufacturing and financing arrangements, and the Polish Government is ready to sign the contract as soon as I can return to Poland and work out the details of the Polish part of the manufacture.

The immediate order will be for 174 units, of which we expect to produce 80 in this country, and the remainder will be produced in Poland. This order will amount to \$5,000,000.

The profit will depend upon the arrangements we finally make for the Polish portion of the production. The Polish Government would prefer that we produce the guns in a well-equipped Polish plant which they have subsidized. If we will do this, the Government assures us of not only future business for Poland, but orders which they can influence from allied governments. Under this plan, the profits per gun would be \$10,000, of which our share would be one-half, plus half of the profits on the present business which the Government guarantees this plant.

An alternative plan is to license the Polish plant to build our guns upon a royalty basis. Under this, our profit would be from \$1,500 to \$1,800 per gun, plus the charge for engineering and supervision. This should bring our total profit on the first order for 174 units to about \$1,200,000.

As stated to you, some credit must be extended to Poland, of the same nature as they are accustomed to receiving from others. This credit consists of payments in installments over a period twice as long as the delivery period; the payments being secured by notes, issued by the Minister of Finance, known as "Treasury bonds."

In our case, we would receive an advance or down payment of 35 percent of the whole amount in treasury bonds, when signing the contract. The first payment of these would be payable when deliveries began, and then one every four months thereafter. The ratio of deliveries to payments can be so worked out as to keep the "peak load"—that is, the difference between the cost of the work and the paid notes—under \$500,000.

I wish to call your attention to the fact that the securing of this business for America is an important victory, for it marks a definite breakaway from the French material and means not only continued business with Poland, but, especially, with the other countries to which she is allied, and other countries which are in urgent need of adequate antiaircraft defense equipment.

Very truly yours,

LLD.FH

*President Driggs Ordnance & Engineering Co., Inc.*

(Written on back of second page of letter to H. J. Leisenheimer, dated 7/9/31.)

P.S.—I prefer that until after I have had an interview with your people at Cleveland, this entire matter be treated strictly confidential between the two companies.

# EXHIBIT No. 203

SATURDAY, SEPTEMBER, 5, 1931.

DEAR LOUIS: I am hoping it will be possible for me to leave for Poland on the "Acquitania" Wednesday night. I had expected to sail either on the "Leviathan", this morning, or the "Bremen", Sunday night, but had not the cash.

You may remember that Jockmus had agreed to lend us \$7,900 in accordance with a budget I prepared. Of this amount, \$4,100 would have been left for the trip to Poland, but \$1,000 had to go to Barnes for the option on the patents, leaving \$3,100 which Jockmus agreed to let me have when I had succeeded in getting the American part of the manufacturing provided for. I have not met all the conditions demanded of me but have not been able to get the money.

Some time after Jockmus died, I had Palmer sound out Leslie Jockmus (his nephew and heir) on his attitude towards carrying out his uncle's agreement. Palmer replied that, without doubt, Leslie Jockmus would carry it out.

As soon as we had concluded the agreement with the Magor Car Corporation, Palmer tried to see Leslie Jockmus—only to find that he had left that day on an automobile business—pleasure trip to Chicago. For several days he could not be reached but 3 days ago I received a copy of a telegram he had sent to Palmer, agreeing to put up only \$1,500 provided Palmer did the same, and proposing that Palmer advance the whole \$3,000 until his return. Palmer says that he cannot supply \$1,500 nor can he advance even that much on Jockmus' behalf. Of course, that is an impossible amount for the purpose, but, even if I could start on that, I am stumped for the present.

I feel pretty sore over the entire matter because I have not only kept within the original budget but have met all other conditions and now, with everything else done, I find the contract in a dangerous position, and myself unable to move. I should have been in Warsaw the 1st of September.

Sweetser, today, talked to Palmer, who has promised to see Jockmus between now and Tuesday. Sweetser thinks I am justified in booking my passage for Wednesday, but as I have been thrown down this way before, I am skeptical.

I enclose copy of the arrangement with the Magor Car Corp.

On August 26th, the Irving Trust Co. sent the enclosed cable and confirming letter. It is not as strong as either the Magor Corp. or I wished, but my friend, Haigh, is out of the bank and Fischer, who is holding down the job now, is "in-growing."

I do not know whether or not our negotiations with the Magor Car were on when you were here. They have plenty of money and a plant at Passaic. I have known Robert Magor, the president, since the beginning of the war. Their principal interests are in Canada—their Canadian company being the National Steel Car Corporation, with plants at Montreal and Hamilton. They do not pretend to know anything about ordnance, but expect us to supply that end of the business.

I succeeded in getting practically all of the people supplying the material to take their pay in Polish notes. This greatly reduces the amount of money tied up before the notes begin to mature.

I lost a week trying to get in touch with Barnes, to secure the extension provided for under the circumstances on the patent option. He was away on leave, and on an automobile trip. He readily assented to the extension. I learned from him that, now, all three sections of the outriggers are aluminum.

The September-October issue of "Army Ordnance", appearing on the 12th, has an article by him on the new Truck-Mount for the Anti-Aircraft Gun. The basis of this outfit is the Relay Model 60 Truck Chassis, description of which I enclose. It seems likely that this outfit will eventually replace the present type of mobile mount.

I am making efforts to raise, for my expenses and those of the office, \$5,000, on top of the \$1,500 which is all I can count upon from Jockmus. The prospects are that I will get this but not before I leave. This will provide sufficient money to pay for any of your time and expenses on work for the company.

There may be a number of things that only you can handle:

(1) It may be necessary, for closer estimates, for you to examine the drawings of the mobile outfit. These have already been released for this purpose to the Sperry U.S. Pipe crowd, and Barnes agrees with me that the Department could not refuse them to us should we demand them. However, I do not want to run the risk of any delay or controversy at this time, which would delay my sailing.

Of course, the Department might agree without question, especially if the situation is changed since the U.S. Pipe crowd, through Lagenberg, requested the drawings and made it appear that we were out of the picture, except as we might work for them. That is not the case *now*.

Did I tell you that the Sperry people became convinced that the U. S. Pipe were in no position to function with regard to this contract, and therefore recommend that the U. S. Sperry Ordnance stay out of it? Sperry has agreed to cooperate with us and have given us new quotations on the fire control.

It occurs to me that if I find Kauffman in position to function properly, as he claims, that he may be a good one to sell the pistols and flares, with Denmark as headquarters, covering Norway, Sweden, Denmark, Finland, also Holland and Belgium.

As you know, I have mistrusted Kauffman because of his habit of sending us inquiries for antiaircraft guns without giving the name of the country. I called him down for this while in Warsaw. I got no reply, and suspected him of getting information for Bofors. I may possibly have misjudged him, as I found on returning he had written the office. It is just possible he was too dumb to find out whether or not I had yet left Poland.

(2) Have just closed an agency agreement with the Auto Ordnance Co. for the sale of Thompson submachine guns in Poland, Esthonia, Latvia, Lithuania, Turkey, Bulgaria, Norway, Sweden, and Denmark.

I enclose copy of telegram sent you today, in case you want me to take any data or information with me regarding the pistols and flares.

The other matters I will send you in the form of a memorandum on Monday. I hope all of the family are well. Shall try to say good-bye over the telephone before sailing.

With love to you all,

(Sgd.) FATHER.

LLD—Sr/FLH

EXHIBIT No. 204

JANUARY 21st, 1932.

Major General SAMUEL HOF, U.S.A.,

*Chief of Ordnance, War Department,  
Washington, D.C.*

DEAR SIR: We are pleased to inform you, as stated verbally yesterday, we have been awarded a contract by the Polish Ministry of War for 70 3-inch antiaircraft guns, the order amounting to \$1,800,000. Deliveries of these guns are to begin in 10 months and be completed in 40.

We are thus enabled at last to comply with the conditions of the letter of Assistant Secretary of War, of May 8th, 1928, that the designs of the latest antiaircraft material would be released to this company upon our having a contract with a foreign government for a production quantity.

In view of the quantity now ordered, we respectfully request the Department supply us with the Van Dyke prints of this material.

We have an agreement with the Magor Car Corporation, in which they join us in the execution of the contract in their plant at Passaic, N.J. Our equipment will be immediately moved there and will be supplemented by additional

machine-tool equipment, such as will be necessary to round out the complete facilities of the plant.

We invite the Department's attention to the efforts and expenditures incurred by this company to secure foreign business that would justify the maintenance of an efficient munitions plant, the capacity of which would be of some benefit to our Government as a measure of national defense.

Except for the support of your Department, we have for several years carried on this fight entirely single-handed. We have not only the opposition of our competitors to overcome but also the political pressure which their governments bring on their behalf. This has made our negotiations long drawn out and very costly.

We have finally been successful and now have the opportunity and the means to secure and execute other contracts which are available and which we have not been in position to handle until an initial order of the magnitude of the present one was closed.

We hand you herewith a copy of the letter of the Magor Car Corporation, enclosing their balance sheet. Their financial rating is the highest possible, "Gaa" over \$1,000,000.

Very truly yours,

\_\_\_\_\_, *President.*

LLD.FH. Enclosure.

#### EXHIBIT No. 205.

FEBRUARY 22, 1929.

Mr. H. F. L. ALLEN,  
o/o American Embassy, Angora, Turkey.

DEAR HERRBERT: I enclose copy of cable sent you yesterday, also ours of the 19th. I could not understand why you requested a repetition of the whole of that cable. These cables cost money and it turned out not to be necessary. We try, even at the expense of extra words to make our cables clear.

Captain Osann was formally in the Army and was for some time Intelligence officer with the Army of occupation at Coblenz. He is well posted on the whole situation in Europe, speaks several languages and has a large acquaintance among our officials and others. He has since being in the Army been with the Department of Justice, he is now associated with David A. Buckley's law firm. As he was going to Europe on business for Buckley, it was thought that his experience would be of assistance to us in our negotiations in Europe, and especially that he would be available to run down to Turkey and give you a hand in closing up the Turkish contract, he is therefore leaving Germany now for that purpose.

With Captain Osann working with you, you will not feel that you are playing a lone hand against the Vickers crowd.

#### FIFTY-CALIBER HIGH VELOCITY GUN

I suppose you have been helpless in the matter of putting over the high-powered gun instead of the 40-caliber gun. Your cable of January 24th shows they are still harping on the 40-caliber gun. Our competitors are offering 40-caliber guns, but as I have before stated there is no competitor that can offer a gun of the power of our 50-caliber combined with the rapidity of fire and mobility of that outfit. (It is upon the latest developments in this material, which are now released to us with the purpose of supplying guns to Turkey, that our Government has spent \$2,000,000; this is official and not our estimate. I cannot conceive Turkey throwing away the tremendous benefit which would put her antiaircraft material ahead of any other European country.) Bear in mind that the 40-caliber gun with the 296-cubic-inch chamber (same volume as the fifty caliber) must be the same size over the chamber as the 50-caliber gun. By increasing, as we have done, the physical qualities of the steel, we have been able to bring the weight of the 50-caliber gun to that of the 40-caliber, the difference being, as we have previously informed you, only 131 lbs.

You speak of the possible objection to the Mobile mount being the character of terrain in Turkey and that this mount cannot be broken up into light-weight units, in this you are mistaken. The load on the original four wheels can be made very light by putting the gun together with its top carriage, and also the outriggers on another four-wheel trailer which could be provided for that purpose. The outriggers are made of aluminum alloy, but despite this fact they form a considerable part of the weight because of their lengths. This



great spread in the form of a spider web is necessary for complete stability in the firing position. This factor has never been sufficiently understood abroad, the European guns having been notoriously unstable in spite of their low power. In one of your recent letters you showed your own doubt in the mobility of this outfit by stating that it would require caterpillar 60 to transport it over any and all kinds of ground, whereas the Universal could be hauled by the "thirty." You also say that they are not ready to discard horses or mules. Evidently both you and the Turks are thinking in terms of weight, certainly if a few men can push this outfit around the field, horses and mules can do the same over hills and valley. The wheels have very large balloon tires which increase the surface contact so that the pressure per square inch is less than the former type of trailer which is used with the forty-caliber gun. We could, of course, furnish the same type of tires with the Universal mount but it seems to us here that the ability to break up the load as I suggest should remove any objection to its use even over the worse ground.

#### AUTO FRETAGE

You need not be afraid of auto frettage if the ministry wants the guns formed that way we can do it by the latest method here which is far superior than any used in Europe. Auto frettage is the cold working of the gun forging to bring up the strength of a single forging gun to that of the jacketed gun using steel of the same elastic limit. I provided for the contingency of the ministry wanting a single forging gun with a removable liner. The liner, if of the removable type, so that it can be removed in the field, should be finally worked by auto frettage, and we prepared to furnish them so made. With regard to the gun body, however, we can either start with the metal of the elastic limit usually used and bring the strength up to a jacketed gun by auto frettage, or use a special alloy steel giving us the same physical qualities, when properly forged and heat treated, that we would obtain by using the other steel and auto frettage (cold working). By using the special alloy steel, properly heat treated in oil, we bring the elastic limit of the steel up to 80,000 pounds per square inch, which will give them a better gun than one auto fretted. It also reduces the cost of manufacture, but if they want an auto frettage gun, we can give them what they want. To make it clear to you the extra cost of the finer steel is less than the cost of auto frettage, and the production is speeded up.

#### POWDER

Can you not settle the question of detailed powder specification at this time by the provision that the powder will be manufactured to the specifications of the United States War Department? We have asked the Ordnance Department to actually do the inspection if the Turkish Government will accept this, and the Department is willing, but we must arrange for this through the State Department.

#### GUN-STEEL SPECIFICATIONS

In the chemical properties of the gun steel we must have the following range:

Carbon .30—40	Silicon .12—24
Manganese .50—.70	Chromium .55—.75
Phosphorous .025 maximum	Molybdenum .20—.25
Sulphur .025 maximum	

By keeping the phosphorous and sulphur within the above limits we would want the privilege of changing the other properties, provided we gave the same physical qualities. In other words, we wish to be free to use a suitable nickel content, to give our physical properties in place of the molybdenum, so as not to be tied down to certain steel plants. Of course, in our cable I gave the means of the chemical qualities for the sake of brevity.

#### SPECIFICATIONS FOR MOUNT CASTINGS

Physical qualities: Tensile strength 95,000, elastic limit 55,000, elongation in 2" 22%, contraction of area 40%.

Chemical analysis about as follows:

Carbon .36	Phos. and sulph. below .05
Mang. 1.50	Silicon .48

We enclose herewith sketch of test specimen which is substantially the same as the sketch you sent. You will note that the prick punch marks are two

inches apart, and with the same requirements as stated by you that the break shall be within two marks, which are provided for measuring the elongation.

Sincerely,

FM: LLD

NOTE.—Colored drawings will be mailed by next steamer.

Shell steel runs .40 to .55 carbon; full analysis will be mailed you by next steamer.

You have lately said nothing about liners; do they want them and how many per gun?

How many fire controls are required, do they want one set for each battery, and also how many spares?

EXHIBIT No. 206

WAR DEPARTMENT,  
OFFICE OF THE ASSISTANT SECRETARY,  
Washington, D.C., May 8, 1928.

Mr. L. L. DRIGGS,

*President, Driggs Ordnance and Engineering Company, Incorporated,  
19 West 44th Street, New York, New York.*

DEAR SIR: Reference is made to your letter dated Washington, D.C., March 14, 1928, in which you request authority to utilize the latest United States Army designs of antiaircraft material in your manufacture of antiaircraft material for sale to European countries.

The Driggs breech and semiautomatic mechanisms have been standard equipment on U.S. Army antiaircraft guns for a number of years. These mechanisms are very satisfactory, and are utilized in the latest 3" and 105 mm antiaircraft guns developed by the U.S. Army.

It is the desire of the War Department to encourage the manufacture of munitions in the United States by commercial manufacturers. The War Department would be willing to release to your company the designs of our latest antiaircraft material with the exception of certain secret portions, provided you had a contract with a foreign government for a production quantity of antiaircraft material which you would agree to manufacture in the United States. You can readily appreciate that an order from a foreign source for only two or three of these new antiaircraft materials would only serve to disclose to the foreign power the latest United States developments in antiaircraft artillery, and would not develop any munitions manufacturing capacity in your plant. The size of the order will, therefore, have to receive the approval of the War Department before any design information is released to your company.

Design information on the following components pertaining to the latest United States antiaircraft material both of the 3" and of the 105 mm types will be released to your company:

- Guns
- Mounts, except hydropneumatic recuperators
- Data transmission systems
- Sights
- Fire-control instruments
  - A.A. telescope with wind-component indicator
  - A.A. observation instrument
  - Speed computer
  - Sound locator

The antiaircraft director (Wilson type) being developed by the U.S. Army is classed as secret, and no manufacturing details of this instrument can be released to your company.

Considerable data and information regarding the efficiency and performance of the new types of U.S. antiaircraft material have been published. The article on Antiaircraft Progress, by Major G. M. Barnes, Ordnance Department, published in the March-April 1927 issue of "Army Ordnance" is a very excellent résumé of the present status of antiaircraft development in the United States, and should serve as very good sales literature in convincing foreign governments of the efficiency of U.S. Army antiaircraft artillery mate-

Developmental. Developments since the publication of this résumé about a year ago have been in the nature of refinements, all of which would be included in the design information furnished to your company.

In supplying design information to your company, it should be understood that the War Department assumes no responsibility for the use of any patents, and that your company must assume full responsibility and liability for any patented features which you might make use of in the manufacture of this antiaircraft material. It is also manifest that the U.S. War Department can assume no responsibility for the correct functioning of any antiaircraft material built by your company and sold to a foreign power, as the United States would have no supervision or jurisdiction over the manufacture, inspection, proof, or test of these materials.

The War Department hopes that your company may be successful in obtaining an order for the manufacture of a considerable number of these new antiaircraft materials of the latest U.S. Army design.

Very truly yours,

(Signed) C. B. ROBBINS,  
The Assistant Secretary of War.

("Exhibit No. 207" has been stricken from the record upon instructions from the chairman of the committee.)

("Exhibit No. 208" has been stricken from the record upon instructions from the chairman of the committee.)

("Exhibit No. 209" has been stricken from the record upon instructions from the chairman of the committee.)

("Exhibit No. 210" has been stricken from the record upon instructions from the chairman of the committee.)

#### EXHIBIT No. 211

Head office, Tokyo, Japan; Amoy, Antung, Bangkok, Batavia, Bombay, Buenos Aires, Calcutta, Canton, Chang Chun, Chefoo, Chenuiplo, Dairen, Foochow, Hakodate, Hankow, Harbin, Hongkong, Karachi, Karatsu, Kirin, Kobe, Keelung, Kuchinctsu, London, Manila, Melbourne, Milke, Moji, Mukden, Muroran, Nagasaki, Nagoya, Newchwang, Otaru, Osaka, Peking, Portland, Rangoon, Saigon, San Francisco, Seattle, Semarang, Seoul, Shanghai, Singapore, Swatow, Sydney, Sourabaya, Tainan, Taipei, Tieling, Tientsin, Tsingtau, Vladivostok, Wakamatsu, Yokohama, e.c., etc.

In reply please refer to Engineering Dept. Cable address for all offices: "Mitsui."

MITSUI & Co. LIMITED,  
(MITSUI BUSSAN KAISHA, LTD.)

65 Broadway, New York, Telephone 7520 Bowling Green.  
New York, Sept. 8. 1927.

DRIGGS ORDNANCE & ENG. CO.,  
19 West 44th St., New York City.

GENTLEMEN: In reply refer to M.F. #6221—J.T.

Regarding the 37 mm antiaircraft gun and 47 mm semiautomatic gun, we beg to confirm the conversation had with your Mr. Driggs yesterday in your office, that you would willingly quote us your best export prices f.o.b. New York for each of the above guns. You will also let us have five copies of rough sketches of 37 mm antiaircraft gun under your design, the same as those which you showed us yesterday.

As you are well aware from the conversation had with Colonel S. Oyaizu, he is very much interested in the above guns and desires to send full information about the same to the Japanese Government, recommending your goods as the best in this line. Under the circumstances, we are now doing our best to obtain their order for our mutual benefit.

We shall be much obliged if you will give this matter your special attention and send us all your documents, as requested by us, as quickly as possible, along with a description of your company's history and all your references, as we have to send all this information to our Tokyo office as well as the Japanese Government.

In the meantime, we would ask you not to quote to others in case you receive any inquiries from our competitors for this business, but if this is impossible, please quote them higher prices than for us, after you have been in touch with us.

Thanking you for your kind cooperation, we are,

Yours very truly,

MITSUI & COMPANY, LTD.  
(Sgd) S. KOHNO,  
*Engineering Dept., New York Branch.*

#### EXHIBIT No. 212

[Excerpts]

SEPTEMBER 7, 1931.

DEAR LOUIS: Supplementing my letter to you of Saturday, the following memorandum is for your records:

(1) We have an inquiry from Jugo-Slavia for: 100 to 250 infantry accompanying guns, with 150 rounds of ammunition each.

This seems a ridiculously small amount of ammunition. Kauffmann states that they want only our guns and that we are sure of the order, but we must keep the price down, as Jugo-Slavia is working on a reduced budget.

I expect to see Kauffmann as I go through Berlin, and determine whether I should run down there from Poland.

I have sent the finished gun-body drawing to Wilder, for quotations on finishing them, completely machined, except for rifling, chambering, and the hook-slot for securing the gun to the cylinder and the extractor dish.

(2) We have some quotations pending with the United Aircraft Export Corporation for infantry accompanying guns (57 m/m anti-aircraft gun—McClean) and 30 2-pounder Hotchkiss mountain guns, which we will buy from Bannerman. These are new guns but an old model. (All of this material is for China.)

(3) We have an inquiry, received through W. D. Shearer, for rifles, machine guns, and TNT for China. The rifles and the 150 3-inch field guns or which we have also quoted, can be obtained from Poland. (Machine guns can be obtained from Soley.)

On the TNT we are awaiting advices from Shearer as to the quantity. The two firms, Atlas Powder, and Barton Explosives, Inc., will make it—if the quantity is sufficient. Of course, a deal that would enable us to buy the above material from Poland would put our present negotiations in perfect shape, a Poland could thus make us a cash payment of \$250,000 on account of our contract.

(4) Another inquiry pending (South American), includes 25,000 Mauser rifles which we will obtain from Poland; some machine guns, which we will obtain from Soley Armament Co. (England): 6, 8, or 10 75 m/m or 3-inch field guns, and 4 37 m/m antiaircraft guns.

Of these latter, we have 1 at the shops, 1 in the office here, and 2 we can obtain from Poole.

The mounts must be built and I have Trulson at work detailing the general design we have.

(Three paragraphs omitted.)

(Sgd) L. L. DRIGGS, Sr.

## EXHIBIT No. 213.

THE SOLEY ARMAMENT CO., LTD.,  
3, Irwin Street, London, 8th March, 1929.

Confidential.

The DRIGGS ORDNANCE CO.,  
19 West 44th Street, New York, U.S.A.

DEAR SIRS: We acknowledge receipt of your two cables of 6th and 7th March. We have replied as follows:

1. "Lee Enfield, made by Remingtons 1917, unused quantity 100,000 or more. Lewis 3,000 ammunition 25 millions, particulars battery posted today."

2. "Ammunition quantity should read 125 millions instead of 25 million."

*Rifles*.—Pattern 1914 calibre .303. There are 200,000 available, with spare parts, bayonets, and scabbards. Delivery could be made in about 30 days, which time is required for packing. Credit for full amount would be required to be opened in London and guarantee of delivery would be given against the opening of credit. *Terms*, cash against shipping documents London. *Inspection* and acceptance would have to be London. *Price*: For quantities above 50,000, the price of a rifle, bayonet, scabbard, and one thousand rounds of ammunition would be five pounds five shillings, £5 5s; f.o.b. London.

*Lewis machine guns*.—These guns were made by the B.S.A. and are calibre .303. They are all in first-class-service condition, those which are not new having been reconditioned and tested by the W.O. This means that they are equal to new from the service point of view, and as you may be aware, the British W.O. are extremely strict on such classification. The guns are complete with all spare parts and tools. *Price*, One gun, spare barrel, 4 magazines, spare bolt, extractors, return spring, etc., packed in wooden chest, for quantities above 500, £30 (thirty pounds) each; f.o.b. London.

*Mountain battery, calibre 2.75 B.L.*—These guns are new and have never been used. By "shells" we mean the projectile, as there are no cartridge cases in a B.L. gun, the propellant is loaded behind the shell, and is contained in a silk bag. Handbook sent by post yesterday gives full particulars.

*Trench mortars "Stokes"*.—We can supply sixty of these, new, complete with bipods, at £10 (ten pounds) each, extra bipod if required at a cost of £4 each; f.o.b. London. No ammunition available, but it is cheap and simple to make.

*Hotchkiss Machine guns, calibre .303*.—There are approximately 8,000 of these available, complete with spare parts and loading strips or belts. First-class service condition.

*Steel helmets*.—85,000 of these are available, good condition most being new, price 2/6d. (two shillings and sixpence) each, packed in sacks of 50; f.o.b.

*Mills hand grenades*.—200,000 unfilled, 2/6d. (two shillings and sixpence) each; f.o.b. Cost of filling about 4d. each.

*China*.—Should you have good connection with the Chinese market, we can advise you that the arms embargo may be removed shortly, and it is worthwhile investigating the possibilities there.

As we informed you previously, the sale of this material is subject to the export licence being granted by the British Government; but most countries are now free except Russia and China, and China will soon be freed.

Yours faithfully,

For the sole Armament Company, Ltd.:

JOHN BALL, Director.

P.S.—We have marked this letter "confidential" as we do not wish it to be generally known that such large stocks of rifles and machine guns exist, and as a matter of fact they are much larger than stated here.

## EXHIBIT No. 214

Pencil notation: "Copy for Mr. Driggs" (Excerpts.)

NOVEMBER 4TH, 1932.  
"Via air mail"

MESSRS. URUENTA & SAMPER,  
Bogota, Colombia.

CONFIDENTIAL

DEAR SIRS: Our mutual friend, Mr. Owen Shannon, of the Curtiss Wright Export Corporation has been kind enough to give us your name and recommend

your firm to look after our negotiations in Bogota with the Government of Colombia. Accordingly, we took the liberty of cabling you on October 29th, as per copy enclosed, and are pleased to acknowledge your cable reply of November 2nd, reading:

"ACCEPT AWAIT FULL DETAILS. URSAN"

(2 paragraphs omitted)

At present our guns are standard with the United States Army, Navy, and Marine Corps, in all the sizes in which we manufacture them. They also have been adopted and are being used by a number of foreign governments. We feel that no better recommendation can be offered for the efficiency of our material.

Whilst our line of artillery comprises the most widely accepted types from 37 m/m to 152 m/m (6 inches), our Driggs antiaircraft guns in sizes of 37 m/m and 3 inches, stand out from all others, being at least five years ahead of any other antiaircraft guns in the world.

(4 paragraphs omitted)

In view of the publicity attendant to the international situation between Colombia and Peru, the Colombian consulate here has been deluged with proposals for all kinds of war material, mostly second-hand, obsolete material, offered by brokers. To safeguard the interests of the Colombian Government and save the time of the consulate and of the war ministry in Bogota, the United States Government has "loaned" to the Colombian consulate one of its naval officers, to act as advisor on the merit of the material offered.

The officer in question is Comdr. James Strong, U.S.N. Inasmuch as our guns have been the standard used by the Army and Navy for more than forty years, and their efficiency has been amply demonstrated in past wars (particularly the World War), Commander Strong is thoroughly acquainted with our equipment and not only has he approved our proposals but strongly recommended the acquisition of our material as being the finest obtainable. Consul General Olano has conveyed that recommendation to the President.

(16 paragraphs omitted)

The hand grenade we have offered is absolutely the latest developed for the U.S. Army, and we know from comparative tests made with the latest similar material developed in Europe, that ours are far ahead of all competition.

\* \* \* \* \*

As you will see, the amount of material required by the Government makes a substantial business. We have no competition here. We are the only manufacturers of artillery and the only ordnance engineering company in the U.S.A. The material we offer your country is the latest type, used by the U.S. Army and Navy. Our only competition is from Europe; however, that competition is only in the matter of price, *not* in design and efficiency of equipment. We produce the most advanced, the most efficient material in the world.

(7 paragraphs omitted)

Very sincerely,

DRIGGS ORDNANCE AND ENGINEERING CO.  
(Signed) A. J. MIRANDA, Jr.

AJMJR/IJ

#### EXHIBIT No. 215

[Excerpts]

NOVEMBER 25TH, 1932.

Sres. UBUETA & SAMPER H. (Sucesores)  
*Banco de Colombia No. 404, Bogota, Colombia.*

DEAR SIRs:

(16 paragraphs omitted)

Now, we have another matter pending before your Government, of great importance and of extremely confidential nature. i.e.

Your Government finds it absolutely indispensable to fortify the Pacific ports of Buenaventura and Tumaco, and has requested the Consul here to have Com-

mander Strong make a thorough analysis of the situation and offer his recommendations. Because of our experience, the Consul and Commander Strong have requested our cooperation.

Assisted by hydrographical charts which we have procured from the U.S. Navy Department, we have been able to formulate an excellent plan of defense. To apprise you thoroughly on this matter, we enclose copy of the reports submitted by us and by Commander Strong on this subject. The reports have gone forward from the Consul to the President.

This matter is of prime importance to your Government and we are confident that a more thorough and intelligent report and plan of defense will not be mapped out—either there, by your General Staff or in Europe, if such request should have been made.

Our proposal will run about two millions of dollars, but will assure the safety of your country's gateway from the Pacific and of its proposed Pacific naval and aerial base at Tumaco, and its defense will be of the latest.

Please post yourselves thoroughly with the detailed information which we send herewith in strict confidence. Make your inquiries very discreetly as this is a matter that has been treated only by the President with the Consul. Your comments will be welcome.

We will keep you posted on developments.

Faithfully yours,

DRIGGS ORDNANCE & ENGINEERING CO.  
A. J. MIRANDA, JR.

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EXHIBIT No. 216

[Copy]

ANGORA, TURKEY, Nov. 30, 1927.

(Excerpts)

DEAR LOUIS: I hesitate always to write. It is one thing today; another tomorrow. Since writing you much has happened and nothing has happened. I don't know whether to begin at the beginning or first tell the latest situation. Always we must consider the oriental mind. It is absolutely impossible to get a signature on the dotted line. If you appear anxious they will lose confidence. The country is a storehouse of potential wealth, but the people have never known anything about business. We must remember that the Republic and the people are no more advanced than Americans were immediately after the victory of Washington over the British. Essentially the control is military and they are occupied in trying to make a capital out of Angora. In this, in 3 years, they have done more than America did in the city of Washington in 50 years. This is no exaggeration. They have electricity and some paved streets. Until about 1870 Washington was a quagmire. They are ambitious, but terribly and damnably sensitive. They want to get rid of French, German, and English influence. They want America and America is deaf.

(Omission of 1 paragraph)

I must divide my operations in sections. For weeks I occupied myself to unravel the most difficult and mysterious of intrigues—knowing the oriental mind I waited. It was impossible to work in American fashion. The characters on the sage were Heinekin, Roehr, Chorinsky, Hitzigroth, Captain Rudshi, and Kemal Ochri. Heinekin and Chorinsky tried to get me to Berlin. In Pera, Hitzigroth tried to represent Roehr who was so sick that when "Jawus" urged your coming here; he was so sick that at times in delirium he knew not his wife. Chorinsky was trying to get rifle contracts from Turkey, Roehr's operations for Jonkers smelled to heaven. One way to finance new projects and return to favor was to get American financial credit. If the German group could do this they might retrieve their former influence. They believed we might be the means of accomplishing this. The competitors for contracts were French, English, and Swedish. We were the only German hope. I upset their plans by coming directly here. They hoped to ride on American shoulders. By coming here directly this was circumvented. Daily Hitzigroth came to see me.

I tempted him with the bait of representing us and eliminating Heinekin. He fell and revealed proof of Heinekin's treachery. He was willing but I told him Heinekin had himself forfeited his arrangements with you by failing to work with Noury Pacha. Finally he acknowledged this and was willing to throw Heinekin, overboard. I refused to name my intermediary until after the showing of the films. This had been arranged by a letter of Colonel Smith, the military attaché, but was delayed by failure to receive your remittance which instead of coming for the 12th came on the 17th.

(One paragraph omitted)

When in Paris, Kaufman told me that he had some indirect negotiations under way with Abyssinnia, through Steffin. It seemed possible Heinekin had learned of this so I replied to Hitzigroth. I was sure I already knew the country and to get Heinekin to reveal the country in confidence to him and we would compare, but I would not leave Turkey. If it was something we did not know about we would take care of him for informing us but under no circumstances would I accept Heinekin's posing as our representative. Nothing resulted. Daily Hitzigroth sought to find the day of my departure for Angora. Finally I arrived. Another digression. I have often referred to the Automobile Tire & Tractor Co. of Turkey, representatives of Dodge. Holt and Goodyear and to whom I gave the agency for Wright. They have agencies throughout Turkey. Ahmed Emmen one of their principal stockholders is a Turkish Jew who attended Columbia in New York. Kemal Bey a real Turk, another. In Angora, they have a branch with a subsidiary company composed of Arkel Bey and Mahmoud Nedim; both influential and the latter a deputy, viz. a member of congress. They have no senate here only the chamber of deputies. Because of their representing the Wright for us, they volunteered to give every assistance. They told me they understood the situation and would do all possible in a complimentary way. I sent for Noury Pacha and discovered that he had definitely taken appointment with Vickers, because of Heinekin's failure to work with him, but it is a question if he had not already made this arrangement when he wrote you his letter of about June 15. He is capable of doing this to get the dope of competitors. I sent for Ochri Bey (Kemal Ochri) and he suavely and smoothly deprecated all others. He was surprised when I asked him if he has been the principal in the Jonkers airplane deal, which smells to heaven and which makes the Turks so sore. It developed he was Roehr's right hand in that deal. Later I learned he and Chorinsky were also partners in selling some horses to Turkey which resulted in Chorinsky leaving Turkey and not since returning. It was another Chorinsky net; but fortunately avoided. Noury Pacha played with me without giving up Vickers. Tried to learn my prices and other conditions. Finally I had, without committing us, the collaboration of the Embassy, Noury Pacha and all the associates of the A. T. & T. Co. as to the film. Last Sunday morning this took place with great success. The General Staff was represented by the Chief of Staff and Quiazim. Pacha and Quiazim Pacha, each assistant chief of staff; one the brother-in-law of Noury Pacha and the other of no relation; but equal in rank, and in the cinema they sat together. Noury's uncle, dark and saturnine, the other a charged battery of electricity throwing sparks all about him.

(Last part of foregoing paragraph omitted)

(2 paragraphs omitted)

Furthermore Noury could not get free from Vickers. He wanted to be friendly. He said if Kemal Bey of A. T. & T. stayed in Angora it would insure success. Kemal decided to stay. I wanted Kemal and Noury together. Finally Noury proposed to Kemal to work for us secretly and double-cross Vickers. This Kemal and I have not agreed to. Then Noury tried to arouse my interest in cruisers and wanted American prices only for me to discover through friendly government agencies that Vickers had offered to construct certain cruisers and boats for \$30,000,000 (Turke) but demanded bank guarantee for the deferred payments. Vickers also decided to abandon the field on the 100,000 shell. These are for Skoda guns. Last night Vickers people were prepared to return to England, but at the last minute decided to stay longer. I asked for time on the Howitzers and shell. I must find out what the other companies are going to accept in terms of payment. They are equally anxious to discover what I will offer. Meanwhile I will offer nothing. If they make a price I will know it in 24 hours. If I make one they will know mine.



Yesterday another letter from Marsha Bey of Hitzigrath. In the afternoon a show down and definite decision. Sent a telegram to Heinekin because of notation of your letter about working with Noury he was fired. Advised Hitzigrath also. Proved to Marsha Bey he had been duped by Heinekin and Roehr. He proved that he was not responsible for telegrams urging contract was ready for closing and admitted before three witnesses that it was at no time the situation. Therefore today definitely rid of German group. Learned also Army definitely wants anti-air on mobile mounts.

(1 paragraph omitted)

The Turks are trying to feel me out on the possibility of an American loan. Three times an emissary of the Government has sought me out on this. Always I am friendly but never much I show interest. But at last I am on the right track. I have learned their export duties are unpledged. This would be good security. Last night I got copies of the contracts with Sweden for \$55,000,000 credit and the so-called "Belgian group" for about \$15,000,000 for railroad construction. They are in French and Turkish. After studying them until late last night I gave them to the embassy to make copies for their archives. In return they had dug up dope about the mineral resources for me and had Frank Blackburn, assistant to the Oriental Institute of the University of Chicago, there to see me. Blackburn is an archeologist who with some others has been digging and exploring the sites of the Hittites of over 4,000 years ago. He has seen much iron earth and copper and knows the location of a copper mine richer by far than Djakaber the one the Germans have got hold of. He brought me samples tonight and has presented me with an iron ring a little too small for my little finger which was a Hittite coin between 4,000 and 5,000 years ago. If there is really iron in this country the governments ambitious plan of steel rolling mills, etc., can be realized. It is up to you how much of all this we can get into. I can get all you want. *If you cannot finance me for God's sake explain it to someone who can, for copper and iron. Go see William Loeb, Jr., 120 Broadway of Guggenheim & Co. show him unhesitatingly this whole letter. You can do so with greatest confidence. He knows me well but due to my loyalty to you I cannot write to him or Gulick directly. I can get iron and copper mills concessions on almost my own terms. Will the Guggenheims finance my stay here and send me an engineer of mines whose report they will accept as to copper and iron. This is no dream but the coldest of facts.*

(3 paragraphs omitted)

With kindest regards,

(Signed) HERBERT ALLEN.

EXHIBIT No. 217

[Excerpts]

SEPTEMBER 14, 1926.

I. C. MUNTHE KAUFFMANN,  
Upsalagac 18,  
Copenhagen, Denmark.

Infantry Accompanying Guns—Denmark.

DEAR SIR:

(3 paragraphs omitted)

Until now the European firms have had such a monopoly, through political influence or otherwise, of the ordnance business in Europe and in the Near East that American firms have been unable to break it.

I found during my recent visit to Europe, that the guns being built there are not up to date and the prices are higher than ours. I believe that an energetic campaign on your part will get us considerable business.

(6 paragraphs omitted)

Very truly yours,

DRIGGS ORDNANCE & ENGINEERING CO., INC.,  
By \_\_\_\_\_, President.

## EXHIBIT No. 218

[Excerpts]

Address:  
Ing. Florjan Ziemba  
Wspolna 60  
Warsaw, Poland

WARSAW, June 13, 1927.

Mr. L. L. DRIGGS,  
*President Driggs Ordnance & Engineering Co.,  
19 West 44th Street, New York City.*

DEAR MR. DRIGGS:

Commission and Mr. Pisarek.

I have taken into the serious consideration your suggestion of cooperating with Mr. Pisarek and I was going to make him a concrete proposal. However, after investigating the expenses that will be connected with the securing of orders I have found out that it is impossible for you to yield anything from my 5% commission. The number of people that have to be "influenced" is larger than I expected, and in order to conduct any effective work the expenses will take the larger bulk of my commission and I shall be satisfied if at the close of the deal I would be left with net 2% for myself. You undoubtedly understand by yourself that this hardly could be shared with anybody. Realizing, however, that the cooperation of Mr. Pisarek would be of great service to us I would like to ask you to provide him with a commission of 1%. In view of the fact that your company does not furnish any means for advertising propaganda, etc., I find it quite justified if you would secure for us the services of a man who would conduct excellently the routine work but will be also of a great use by writing articles, influencing officers of Artillery Corps and doing general propaganda work.

\* \* \* \* \*

(6 paragraphs omitted)

Very sincerely yours,

(Sgd.) F. ZIEMBA.

## EXHIBIT No. 219

[Excerpts]

ANGORA, January 22, 1929,

MY DEAR LOUIS:

\* \* \* \* \*

(8 paragraphs omitted)

Having accomplished this much the commission next decided to take up a description of the gun and we covered again the questions of tube, jacket, and breech; they wanted to know what process we used for jacketing and I explained the method used at Bridgeport. I was only afraid they would bring up the question of auto frettage and some other ideas prevalent in Europe. There was much general discussion as to the powder specifications and I then showed them the photos of the new mobile mount. I told them of the report of the Polish Commission but the member who I suspect of being too friendly with Vickers remarked in Turkish that they could not attach so much importance to Polish military reports as they were not very expert and very well informed. I suspect Landa with the other members of Vickers have tried to offset the favorable attitude of the Polish Government to us. The Vickers crowd are the dirtiest opponents here. They have almost an entire embassy in number working for them and use women of doubtful character freely. I have not seen Noury Pacha this trip and from something overheard I suspect they are not using him to get all their information.

There is an Englishman living in Stamboul connected with local representation of the Remington Typewriter Company and a few nights ago the Vickers crowd staged a dinner with the Remington representatives present. None of these representatives are from America. The next day this Englishman of the Remington, left Landa's table and going to another table asked a certain

man there, "Have you got the copy of the Driggs specifications which they filed yesterday?" This was asked in English and the reply "No" was in English. So far I have been unable to identify the second man, but expect to in a few days. Remember he is not a Turk; also that such matters never interest Emin Bey or his Turkish associates, as they believe each and every single official or under-official is absolutely honest and beyond crookedness, out without naming a certain ambassador of my acquaintance he does not think so; yet he believes it is confined to those lower down than higher up.

Just as an indication of what these European competitors will do. About two weeks ago, the Caterpillar tractor man, demonstrating to the military here, was called upon to drive his sixty with a large eight-inch Russian howitzer to the general staff headquarters, which is on a large hill on the outskirts of Angora. His competitors were also required to make the trip, because Fevzi Pacha, the great chief of staff, was going to review the manoeuvres. The Caterpillar driver soon discovered that someone had removed the plug from his radiator and had lost a lot of water. He remembered tightening that plug himself and so it could not have come loose. That same morning several of his special tools had disappeared. All this with a tractor required to be guarded by soldiers at the military garage.

After this sidelight on the situation I will return to the commission's discussion. There is a question of pulling tests which I must write to you about.

(a) There is a fixed ratio of diameter of tests specimens to the length.

(b) The test specimen shall be divided into four parts, theoretically, and the test specimen shall not break or rupture outside of the two inner quarters. As follows below:

Yesterday's discussion in regard to powder brought rather strongly the commission's attitude with reference to Dupont. From one source many months ago I had heard that Dupont had been here to get a big contract for powder but had some difficulty over the guarantee and lost the contract. The Government's specifications here ask for a 15-year guarantee, which to me appears to be ridiculous without any mental or expressed reservations. It would seem that European manufacturers are not above making such guarantees and then trusting to the future to evade any difficulty. Undoubtedly Nobel has no hesitancy to do this, and I have been asked if we could offer our proposal based on Nobel powder. I replied that there was a question of our guaranteeing the performance of the guns and we might consider the subject if Nobel would give us adequate guarantees. I asked why we could not make our own tests with Dupont powder and if the government wanted to buy Nobel powder we might drop out of the powder end of the contract. I am not sure if you have some financial arrangement with Dupont either involving credits for Turkey or otherwise and while I would like to protect Dupont we cannot afford to lose the gun contract on a question of powder. These considerations have justified my asking of you that a Dupont man be sent here. I have learned they have a Mr. Taylor in Paris, whose assistant handled the situation here for him and that this assistant had a former artillery officer as his representative here. This Turkish officer is known to some of my friends and we are now trying to get hold of him so as to use him in our behalf as well as Dupont's because perhaps he can review the specifications and collaborate with us.

So much for this letter.

Sincerely yours.

(sgd) HERBERT ALLEN.

NOTE.—Diagram is sketched on letter showing length of test specimen, with the notation: "Must break between a—b. If between C—D or E—F will be rejected."

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EXHIBIT No. 220

[Copy]

Letter No. 3.

ANGORA, January 22, 1929.

MY DEAR LOUIS: I have scotched a snake. He is a certain man named Pasano, connected with the Paris office of the Electric Boat Co., of the United States.

Sometime ago in one of my letters I told you that a report was current in official quarters here that the American Government would not permit us

to sell war material abroad. Of course, I knew this to be an unvarnished lie, and I was more concerned in locating the man spreading this report than in denying it. It was rumored at that time that the information came from Danish sources, and I asked you about it.

Recently an official in the military, rather high placed, when I called to see him brought this to my attention in a friendly way, attaching no special importance to it. He hunted for the card of the man who had told this to him and brought forth the card of this Pasano of the Paris office of the Electric Boat Company. He told me that Pasano has stated that they, too, were interested in furnishing ordnance.

Now what is their game? Do you suppose it has any origin in the States, or is it perhaps some move on the part of their representative in Paris to help some foreign competitor. If you can locate any explanation of the attitude of the company in U.S. kindly advise me. Remember in inquiring that I might have the name slightly changed. I am sure of the Pasan, but the last letter may be "o" or "u", and he may not be the head of the Paris office.

From other sources about two months ago I had heard that some electric boat man was out here in Stamboul about boats.

Why not take me into your confidence as to where you expect to have the patrol boats, or torpedo boats manufactured. Sooner or later the Government officials will ask this information.

If you hooked up with Cramp it would have a good effect here, because of their having built the cruiser Medjde, the contract for which General William secured. The cruiser was sent out in command of Bucknam who the Sultan afterward made an admiral and Pacha. He is now dead but I understand the estate of Sultan Abdul Hamidis still paying his widow a pension. Perhaps you made the deal with Fletcher or someone else. Do you not realize that I cannot tell anyone even where our factory is? Please let me know the answers to these things.

Very sincerely,

(Signed) HERBERT ALLEN.

P.S.—He definitely said Driggs Ordnance Co. had not yet succeeded in getting authority of the American Government to sell abroad.

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#### EXHIBIT No. 221

Coupon no. (?). 8 No. of words. Translation made by ———. From German into English.

Manufacturers' Translation Bureau. 220 Broadway, New York (Telephone Cortlandt 3489)

BERLIN W 35, GERMANY.

January 19, 1927.

DRIGGS ORDNANCE AND ENGINEERING Co.,  
19 West 44th Street, New York.

GENTLEMEN: We sent to you under date of September 24, 1926, as well as under date of December 1, 1926, two letters, to which we have not received any reply so far. We suspect that the letters were not sent out or got lost on the way, owing to an irregularity which took place in the fall of last year in connection with our registered letter department.

We therefore now repeat the essential contents of our letters.

Our letter of September 24, 1926, dealt with the general situation of the traffic in firearms the way we judge the same from Berlin. We said the following therein among other things:

Buyers for firearms are the Balkan States (Jugoslavia, Greece, Roumania, of late also Bulgaria), moreover the Baltic boundary states (Latvia, Lithuania, Esthonia, Finland), also the near Orient (Turkey, Persia, Siam, Afghanistan, Arabia, Abyssinia), and finally China, in which connection, of course, only those Chinese generals enter into consideration who fight against the bolshevism which is threatening from Russia.

The other large European countries get their supply of firearms for the greater part from their own large factories, and therefore only enter into consideration as buyers on rare occasions.

The first-mentioned countries, which are of medium or small size, send their military commissions to central Europe for making purchases, i.e., in the first place to Berlin. Although, due to the Versailles peace treaty, Germany has lost her pre-war position as the chief purveyor of firearms, she still enjoys with the countries mentioned the reputation of having the most experience in the manufacture of war material; the result of which is that Berlin (besides Paris) has today become the center of Europe as regards the trade in firearms. On the strength of this fact our firm has developed as a special concern for dealing in firearms and ammunition, as well as war supplies of all kinds. In the course of the years we have already furnished war material to all the mentioned states, and we maintain with all the war departments of these countries, either direct connections, or we have well-connected representations in the respective capitals. In Athens (Greece), in Belgrade (Jugoslavia), and in Teheran (Persia).

(8 paragraphs omitted)

Yours,

(Sgd.) STEFFEN & HEYMANN.

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EXHIBIT No. 222

DUESSELDORF, GERMANY, January 19, 1929.

MR. DAVID A. BUCKLEY, Jr.,  
New York City.

Re the L. L. Driggs Ordnance & Engineering Co.

DEAR MR. BUCKLEY: I am herewith submitting a summary of the various steps which I have taken since my arrival in Germany in accordance with the arrangement made between you, Mr. Driggs and myself, previous to my departure from New York:

I called at the office of the commercial attaché of the American Embassy at Berlin who, as you may remember, has been in correspondence with Mr. Driggs regarding the subject of suitable representation in Europe and who had recommended to him the firm of Steffen & Heymann of Berlin. I had a lengthy conference with Mr. Douglas Miller, assistant commercial attaché, with whom I am acquainted for a number of years. Mr. Miller being a U.S. Government official, I did not hesitate in acquainting him with the fact that the War Department assured Mr. Driggs of the release of the designs of the U.S. Army antiaircraft matériel, provided he has a contract with a foreign government for quantity production which would be agreeable to the Government. Mr. Miller was very much impressed with this feature and called Major Zornig, Ordnance Corps, U.S.A., at present assistant military attaché of the American Embassy at Berlin, into conference. Both gentlemen advised me that they consider Steffen & Heymann well qualified to represent an American ordnance concern in foreign countries, especially in the Balkans and the Near East, and asked me to keep them informed of any progress made in this direction.

Mr. Miller arranged for a meeting between myself and Major Hans Steffen of Steffen & Heymann, whose correct address is Steffen & Heymann, 17 Blumeshof, Berlin W 35, cable address, Aviamotor, Berlin.

Messrs. Steffen & Heymann occupy business quarters of ample size and good appearance in a relatively large office building in the better part of the city.

The firm is apparently a partnership composed of Major Hans Steffen, formerly of the air service of the Imperial German Army, a Mr. Heymann who remained invisible, and a Dr. Von Cramon who at present is in Teheran, Persia, but is expected to return within a few weeks. Dr. Von Cramon is a member of the Reichswirtschaftsrat, one of the numerous German semiofficial economic bodies, the importance of which you have to guess. There are some additional members having the right to sign for the firm; most of these gentlemen appear to be ex-German army officers of some standing.

Major Hans Steffen, who seems to be the leading spirit in the enterprise, is about 40 years old, of excellent appearance and manners and certainly has more brains than I credit the average German officer with.

The firm concedes upon its stationery as well as in the city and telephone directory that it deals in arms and ammunition; it has a special patent department and seems to feature an airplane camera.

In my conversation with Major Steffen a number of interesting and sometimes startling features were disclosed which I will attempt to relate here:

Steffen is without any doubt a political expert in affairs touching the Near East. He tried to impress me with the fact that he is in good standing with the German foreign office. I not only believe him, but have reasons to assume that any commercial transaction engaged in by Mr. Driggs with Steffen & Heymann as agents will have not only the sympathy of the German Government, but its wholehearted cooperation. The motive will, of course, not be an urgent desire to assist the Driggs Ordnance Co., but to resume a share of its former control of the supply of certain foreign countries with arms and ammunition.

Immediately after making my acquaintance, Steffen expressed his anxiousness to cooperate with Mr. Driggs; this desire did not weaken in the course of our conversation and has been repeated over and over again. I just received a letter from one of his associates, also a former major of the German Army, who again asks me to inform Mr. Driggs that the firm has an extraordinary interest in the speedy establishment of business relations with Mr. Driggs.

My intention of gradually acquainting Steffen with the scope and possibilities of the Driggs Ordnance Co. was frustrated by the discovery that Steffen knows more about Driggs ordnance than I do. It developed that this knowledge is based upon information imparted to him by one Von Seebeck, very much known to me as former representative of the Concord Finance Co., a personal friend of Pagenstecher, a quondam resident of Fort Oglethorpe, Ga., in 1917 and 1918, and an intimate friend of George E. Williams and Charley Johnson. One Kautz, known to me as former assistant of Seebeck and incidentally a former intelligence operative of the German Government in the occupied zone of the Rhineland during my secret service days, is in close relations with Steffen & Heymann, if he is not an actual member of the firm. Kautz impressed me some years ago when I met him in the infamous Hackfeld deal as a rather resourceful roughneck. Steffen conceded that he has seen photographs and complete descriptions of the Driggs ordnance which were shown to him by Kautz.

What Seebeck missed, Sherman seems to have finished. I gathered that Sherman called on Steffen & Heymann during his last European trip; the result was that Munthe Kaufmann, Mr. Driggs' present agent, immediately became an active associate of Steffen & Heymann. According to Steffen, Munthe Kaufmann cooperated some months ago with a former German officer in the manufacturing of hand grenades; the deal miscarried and Munthe Kaufmann is at present in bankruptcy proceedings.

Steffen stated at the time I made my initial call that he had just returned from Angora, the capital of Turkey, and expected to return there sometime in January 1929 in order to negotiate a deal involving the purchase of a large number of antiaircraft guns on the part of the Turkish Government. A discreet inquiry, made by me after some time had elapsed, whether he had heard at any time of a certain Mr. Allen, connected with the Driggs Ordnance Co., was answered in the negative with a facial expression too innocent to be sincere.

Steffen professed to know everything about the possible purchase of Driggs antiaircraft guns on the part of the Polish Government.

Steffen explained his apparent anxiety to enter into business relations with the Driggs Ordnance Co. by stating that European ordnance is higher in price than that produced in the U.S.A. Two months ago I would have considered such statement preposterous; I am now inclined to believe it and to extend it to almost any quality article in whatever line you may mention. What Steffen wanted to say is that the cheap French antiaircraft material, which relies upon the use of quantities of ordinary field guns, proves in the end to be more expensive than the special antiaircraft equipment as produced by Driggs.

However, Steffen may have had in mind a comparison with the prices demanded by a European concern, i. e., Bofors of Sweden. I have made a little private investigation of my own regarding this interesting enterprise; I will not bother you with details, but can resume the result by stating that Bofors is Krupp and Krupp is I.G. Dyewerks. The frequency with which I refer to I. G. Dyewerks in my various reports to you is not due to the interest which I am taking in this concern with regard to a certain matter, but six weeks in Germany have convinced me that I. G. Dyewerks is the real octopus embracing almost everything in the economic, and a large part of the political, life of post-war Germany. Whenever you mention the name of I. G. Dyewerks to anybody

in Germany, he registers awe, fear, admiration, and the desire to be somehow involved in a transaction which might bring him closer to that giant organization. Steffen, representing the once-flourishing, now inhibited, trade in arms and ammunition, and enjoying apparently the benevolent sympathy of the German Government, is too interesting a figure to have been passed up by I. G. Dye-works. Since Bofors, Sweden, would be the connecting link between Steffen and I. G., I am afraid that the relations between Steffen & Heymann and Mr. Driggs' rival concern in Scandinavia are not merely theoretical.

When approached by me regarding the possible financing by a German bank of any contract passed between the Driggs Ordnance Co. and a foreign government through the sales agency of Steffen & Heymann, Steffen emphatically stated that no German financial institute will entertain the financing of any deal involving the sale of arms and ammunition and cited several examples, all of which, however, involved contracts with the Russian Soviet Government. Of course, every German bank will deny that it finances any business whatsoever, and such denial is perfectly sincere, if one understands the German mind; Bayer-Leverkusen denies in good faith that it ever had any patents in the U.S., but Francis P. Garvan considered Synthetic Patents, Inc., to be identical with Bayer-Leverkusen, and was probably correct.

Steffen seems to understand that Mr. Driggs is not in a position to forward samples; he insists, however, that he would have to be supplied with blue-prints, photographs, descriptions, etc., in case an arrangement between Driggs and Steffen & Heymann should become an accomplished fact.

Steffen appears to understand that I am acting in this matter solely as technical adviser of Mr. Driggs' legal counsel and that I am not in a position to make definite arrangements for the Driggs Ordnance Co., but that my task is simply to transmit such suggestions as he may have brought before me.

Steffen & Heymann ask me in writing whether Driggs Ordnance Co. can produce the 37-mm wire projectile, explaining in detail that this shell is used in antiaircraft defense and operates by throwing small wire nets in front of the target; the wire net remains a few seconds stationary and the propeller of the airplane is likely to get entangled in the net. I wouldn't be surprised if Steffen & Heymann had a patent for such a thing and are anxious to sell it.

Steffen in writing speaks of various serious inquiries regarding antiaircraft matériel and mentions Hungary as one of the inquirers. I called his attention to the fact that that country is inhibited by the Versailles Peace Treaty from purchasing arms other than those allowed by the Interallied Control Commission.

From all the foregoing I conclude:

That Steffen & Heymann appear to be an unusually qualified sales agent for ordnance in Eastern Europe, the Balkans, and the Near East.

That their standing with the controlling element in Germany's government and industry makes them valuable if on friendly terms, and dangerous if otherwise.

That Steffen & Heymann have, through indiscretion or worse, been able to follow the trail left by Mr. Driggs' former sales agents.

That in all possible transactions which Mr. Driggs may engage in with Steffen & Heymann, a strict surveillance imposes itself, not because of possible dishonesty in financial matters, but because of the danger that Steffen & Heymann may involve the Driggs Co. in a political situation of which the U.S. Government would not approve, and of the further danger that Mr. Driggs' trade secrets may be disclosed to Bofors, Sweden.

That, while none of the big German banks will openly engage in the financing of contracts between foreign manufacturers of arms and ammunition and foreign governments, subsidiaries of these banks may do so.

As answer to the questions opened by the foregoing, I submit the following suggestions:

It appears to me that the logical thing to do in order to establish contact between Driggs and Steffen & Heymann, or for that matter any other German or European concern which is to act as sales agent, would be the organization, or the use of an existing financial institute in the U.S. with close relations to a German or European bank, such American financial institute to deal independently with Driggs in the U.S. and in Europe with Steffen & Heymann or whoever is to be the sales agent. This would avoid any direct connection between the manufacturer and the sales agent and would probably simplify the necessary financial transactions. The whole proceeding would graphically appear as follows:

Manufacturer Driggs; Seller, U.S. financial institute; sales agent, Steffen & Heymann; buyer, foreign government.

Inasmuch as you intimated in your letter of Dec. 27th—incidentally the last communication that I received from you—that you have made some inroads into Johnson & Co., the International Germanic might be the proper organization to fill the place of the U.S. financial concern. Much capital would not be needed since the notes issued by the buyer could be subjected to a double discount, once in Europe and then, bearing the discount of a reputable European bank, again in New York.

The surveillance indicated in dealings with Steffen & Heymann could, of course, be exercised by myself as long as I am in Europe.

While you and Mr. Driggs are mulling this over, I suggest that Mr. Driggs make some immediate inquiries in Constantinople where his Mr. Allen resides, regarding the alleged relations between Steffen & Heymann and the Turkish Government. I further suggest that Mr. Driggs send me, through you, some matériel which will keep Steffen & Heymann interested without giving them anything which might become dangerous in their hands.

With my best regards to you and Mr. Driggs, I am,

Sincerely yours,

H. E. OSANN.

P.S.—While writing this letter, I received the following communication, written in good English:

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EXHIBIT No. 223

[Postal Telegraph]

Copy of translation of cable received by us, dated Warsaw, January 20th, 1932.  
 "King of Great Britain summoned our ambassador in London and intervened in 3-inch or 75 mm AA 50 cal. gun on new mobile mount letter Dec. 15th, 1928 contract. Stop. Chief stands high pressure but great difficulty hold situation. Stop. You must hasten summoning commission to America. Anxiously await your telegram promised for today."

(FLH)

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EXHIBIT No. 224

Penciled notation. "Allen."

CONSTANTINOPLE, April 10, 1928.

[Excerpt]

MY DEAR LOUIS:

\* \* \* \* \*

(9 paragraphs omitted.)

\* \* \* To offset that I am working on a plan, with the Embassy's cooperation, to have the cruiser *Detroit*, now in the Mediterranean, come here to show our guns on board to the military commission or to have the commission visit the ship in Italian waters. To accomplish this, the Turkish Government must invite the ship to come here through the Foreign Dept., and immediately this is done Ambassador Grew will cable the State Dept. asking that the visit of the *Detroit* be arranged. The Turkish War Department has asked their Foreign Minister to make the invitation and it may come out tomorrow. Meanwhile Erui Bey, the head of the A.T. & T. Co., left today for Angora, and I may go tomorrow instead of going to Greece. In fact the action of the Technical Dept. will probably come to a head before the first of May and if in our favor the discussion of the financial matters should be concluded by June 1st. The typewritten offers enclosed are literal translations from the Turk which accounts for the phrasing used.

\* \* \* \* \*

(3 paragraphs omitted.)

Sincerely,

(Signed) HERBERT F. L. ALLEN.



## EXHIBIT No. 225

[Radiogram]

(Western Union)

HERBERT ALLEN

*Amezco,**Stamboul (Turkey)*

May 4, 1928.

When invitation received *Detroit* at Leghorn en route France if nearer Department would have ordered Constantinople. Stop. Due Ville, France, 10th May; Cherbourg 16 to 28. Department anxious to cooperate. Will delay departure Ville, France, until 12th May if notified by 7th. May try to arrange examination France Telegraph promptly.

(Translation of code.)

## EXHIBIT No. 226

[Cablegram]

(Western Union)

"VIA ITAL CABLE", May 5, 1928.

M. L. PISAREK,

*Mostowca 13 Warsaw (Poland)*

(TRANSLATION)

U.S.S. *Detroit* carrying our guns at Cherbourg from 16th May to about 28th May, Navy Department will telegraph instructions show guns Polish commission. Try to arrange visit of commission or representative.

(Signed) DRIGGS.

(“Exhibit No. 227” appears in text on p. 498.)

(“Exhibit No. 228” appears in text on p. 498.)

(“Exhibit No. 229” appears in text on p. 499.)

(“Exhibit No. 230” appears in text on p. 499.)

(“Exhibit No. 231” appears in text on p. 500.)

## EXHIBIT No. 232

FEBRUARY 20, 1929.

Subject: U.S. Government's permit to manufacture latest-model antiaircraft guns and mounts for foreign governments.

Mr. H. F. L. ALLEN,

*% American Embassy,**Angora Turkey.*

DEAR HERBERT: In order to answer statements that the American Government would not allow us to manufacture the latest antiaircraft material for a foreign power, you can state, as we have previously informed you, that the War Department has agreed to release these latest designs for filling orders for foreign powers when the orders are of sufficient size to give adequate work to our plant. Under date of May 8, 1928, the War Department, Washington, D.C., wrote us as follows:

"Reference is made to your letter, dated Washington, D.C., March 14, 1928, in which you request authority to utilize the latest United States Army designs of antiaircraft material in your manufacture of antiaircraft material for sale to European countries.

"The Driggs breech and semiautomatic mechanisms have been standard equipment of U.S. Army antiaircraft guns for a number of years. These mechanisms are very satisfactory, and are utilized in the latest 3" and 105-mm antiaircraft guns developed by the U.S. Army.

It is the desire of the War Department to encourage the manufacture of munitions in the United States by commercial manufacturers. The War Department would be willing to release to your company the designs of the latest antiaircraft material, provided you had a contract with a foreign government for a production quantity of antiaircraft material which you would agree to manufacture in the United States. The size of the order will, therefore, have to receive the approval of the War Department before any design information is released to your company.

"Design information on the following components pertaining to the latest United States antiaircraft material, both of the 3" and of the 105-mm types, will be released by your company:

"Guns, mounts, data transmission systems, sights, fire-control instruments, A.A. telescope with wind component indicator, A.A. observation instrument, speed computer, sound computer.

"Considerable data and information regarding the efficiency and performance of the new type of U.S. antiaircraft material have been published. The article on antiaircraft progress, by Major G. M. Barnes, Ordnance Department, published in the March-April 1927 issue of "Army Ordnance" is a very excellent resumé of the present status of antiaircraft development in the United States, and should serve as a very good sales literature in convincing foreign governments of the efficiency of U.S. Army antiaircraft artillery material. Development since the publication of this resumé about a year ago have been in the nature of refinements, all of which would be included in the design information furnished to your company.

"The War Department hopes that your company may be successful in obtaining an order for the manufacture of a considerable number of these new antiaircraft materials of the latest U.S. Army design.

"Very truly yours,

"C. B. ROBBINS,

"The Assistant Secretary of War."

The above is for the confidential information of the Turkish Government. We must be careful that our competitors do not make it the basis of misrepresentation of the American's Government's position on the reduction-of-armaments question.

As you will see, this permission is conditional upon the size of the order which, of course, is met by an order of the size contemplated by Turkey at the present time.

If you have not already done so, you should drive home the fact that this proves we are offering the Turkish Government the world's latest and best designs in antiaircraft material; upon the development of which the U.S. Government has spent over \$2,000,000.

Very sincerely,

\_\_\_\_\_, President.

LLD:MS

EXHIBIT No. 233

[Excerpts]

APRIL 9TH, 1929.

Mr. W. R. PALMER,  
Treasurer, The Smedley Company,  
New Haven, Conn.

(One paragraph omitted.)

With reference to the visit of the "Raleigh" to Constantinople, the Turkish Government sent a commission from Angora made up of officers from the War Ministry and also a naval officer, as there is now a good prospect of our obtaining some naval guns also.

(One paragraph omitted)

The principal fire-control instrument is the case III computer. If you remember the letter from the Secretary of War releasing the latest designs to us for manufacture under contracts from abroad, the new Wilson computer being developed was excepted, the Department hoping to keep that secret. However, Major Wilson died last fall, and there being none in the Department to carry on the development work, it was turned over to the Sperry Gyroscope Company. The result is a very wonderful instrument, and quite different from the "Wilson." It is far in advance of anything existing in Europe. We have been working with the Sperry Company to get a release on this instrument which they already had obtained for the sound locators and searchlights. This the Department granted a few weeks ago but only for manufacture after an order was obtained. That would not help us in getting the order since we must give the Turks an idea of what we are going to furnish. We therefore got the Sperry Company to request the War Department to release the descriptions and general specifications in advance of an order.

As the matter was pressing, I went to Washington last week and got the War Department to wire the Sperry Company its consent. The Sperry Company got all the descriptions and photographs over to me Friday, and they were mailed that night to Allen, so that we have been able to meet the Turk's requirements.

(Two paragraphs omitted.)

With reference to his last letter. This refers to the desire of the Polish Government that we either establish a plant in Poland or supervise the manufacture of guns in an existing plant similar to such an arrangement as I had with Starachowice when I came back from Poland. This is something that, of course, can't be settled by correspondence. Now that the business is assured in Poland, the only point to determine is what proportion of the work we shall produce here, and what proportion in Poland. The financing ought to be wound up quickly now so that I can get over to Poland and deal on the spot.

Very truly yours,

\_\_\_\_\_, *President.*

LLD:MS

EXHIBIT No. 234

[Excerpts]

33 SCHARNHORST STRASSE,  
Ducsseldorf, Germany, Apr. 22, 1929.

DAVID A. BUCKLEY, Esq.,  
New York City.

DEAR MR. BUCKLEY:

(Nineteen paragraphs omitted.)

In spite of the poor representation of Driggs and the doubt regarding his capability of discharging his obligation when the contract is signed, Emin Bey appears to be confident that the contract is to go to Driggs. They have information from the States and the visit of the "Raleigh" confirmed it, that the United States Government is supporting Driggs in this affair.

(c) The American authorities at Constantinople. They are thoroughly disgusted. They lost no time informing me of Allen's critical financial situation. They were frank in expressing their opinion of Driggs who seems to them to be endangering any future effort on the part of American exporters to Turkey for years to come. They made inquiries of their own in Washington. The information obtained does not seem to give in every respect with the claims made by Allen in behalf of Driggs. But they found out that Driggs is supported by the U.S. Government, or by some prominent officials thereof; they did not hesitate to advance the information to the Turks that the York plant may be Government-owned and leased to Driggs; they opined when asked where the skilled workmen were to come from for this job, that they may be military or naval arsenal employees, let out to Driggs for the purpose. The visit of the "Raleigh" set their minds at peace and they are convinced that Uncle Sam is the real party behind this business and that he was only unlucky in choosing Driggs as his agent and Allen as the latter's representative.

(d) Vickers-Armstrong and Schneider-Skoda, the competitors. Both are represented by Turks, assisted by technical experts sent from France and

England, respectively. The Vickers representative has especially strong relations in Turkish Government circles. He is well posted relative to Driggs' standing in the U.S. and is probably the party who put the doubt as to the existence of Driggs' factory in the mind of Emin Bey and through him in the mind of the American authorities. The arrival of the "Raleigh" destroyed the best sales argument of the competition; i.e., that nobody had ever seen the Driggs gun, while they, Schneider and Vickers' had working models. Their models remained models, while the "Raleigh" proved that the Driggs guns is in actual use.

(Six paragraphs omitted.)

Sincerely yours,

H. F. OSANN.

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EXHIBIT No. 235

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Photo showing Herbert Allen, the Driggs Co. representative in Turkey, standing alongside a Driggs gun on board the U.S.S. *Raleigh*, when that vessel visited Constantinople.

EXHIBIT No. 235



U. S. Raleigh, photo taken in Constantinople, showing group of American and Turkish naval officers, Emmen Bey, the Driggs Co. Turkish agent, is shown on extreme right.







100-4 1934

# MUNITIONS INDUSTRY

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## HEARINGS

BEFORE THE

SPECIAL COMMITTEE

INVESTIGATING THE MUNITIONS INDUSTRY

UNITED STATES SENATE

SEVENTY-THIRD CONGRESS

PURSUANT TO

**S. Res. 206**

A RESOLUTION TO MAKE CERTAIN INVESTIGATIONS  
CONCERNING THE MANUFACTURE AND SALE  
OF ARMS AND OTHER WAR MUNITIONS



---

### PART 3

SEPTEMBER 7 AND 10, 1934

AMERICAN ARMAMENT CORPORATION

---

Printed for the use of the  
Special Committee Investigating the Munitions Industry



UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON: 1934

**SPECIAL COMMITTEE INVESTIGATING THE MUNITIONS INDUSTRY**

**GERALD P. NYE**, North Dakota, *Chairman*

**WALTER F. GEORGE**, Georgia

**ARTHUR H. VANDENBERG**, Michigan

**BENNETT CHAMP CLARK**, Missouri

**W. WARREN BARBOUR**, New Jersey

**HOMER T. BONE**, Washington

**JAMES P. POPE**, Idaho

**STEPHEN RAUSHENBUSH**, *Secretary*

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# INVESTIGATION OF MUNITIONS INDUSTRY

FRIDAY, SEPTEMBER 7, 1934

UNITED STATES SENATE,  
SPECIAL COMMITTEE TO INVESTIGATE  
THE MUNITIONS INDUSTRY,  
*Washington, D. C.*

The hearing was resumed at 10 a.m. in the Caucus Room, Senate Office Building, pursuant to taking of recess, Senator Gerald P. Nye, presiding.

Present: Senators Nye (chairman), George, Clark, Bone, Pope, and Vandenberg.

The CHAIRMAN. The committee now wishes to hear Mr. Miranda, Mr. Sweetser, Major Brayton, and also Mr. Johnson. Mr. Johnson was not summoned to appear, but since he is here there may be matters on which he can aid us.

## TESTIMONY OF ALFRED JOSEPH MIRANDA, JR., HAROLD MORGAN BRAYTON, FRANK ELLIOTT SWEETSER, AND FRANK JOHNSON

### CORPORATE STRUCTURE OF AMERICAN ARMAMENT CORPORATION

(The witnesses were duly sworn by the chairman.)

The CHAIRMAN. Mr. Miranda, your full name and residential and business address, please.

Mr. MIRANDA. Alfred Joseph Miranda, Jr., of 255 West End Avenue, New York City; and No. 6 East Forty-fifth Street, New York City.

The CHAIRMAN. What are your business connections?

Mr. MIRANDA. American Armament Corporation and Miranda Brothers, Inc.

The CHAIRMAN. What is your official capacity with those companies?

Mr. MIRANDA. I am the president of the American Armament Corporation and vice president of Miranda Bros., Inc.

The CHAIRMAN. Mr. Sweetser, your full name and residence and business address.

Mr. SWEETSER. Frank Elliot Sweetser, Cold Springs Harbor, Long Island, N.Y.

The CHAIRMAN. Are you secretary of the American Armament Corporation?

Mr. SWEETSER. Yes.

The CHAIRMAN. Are you connected with any other company that is engaged in the manufacture of munitions or ordnance?

Mr. SWEETSER. No.

The CHAIRMAN. Major Brayton, what is your residence and business address?

Mr. BRAYTON. My residence is 42 Edgemont Place, Teaneck, N.J., and my office is at 1515 Willow Avenue, Hoboken, N.J. My full name is Harold Morgan Brayton.

The CHAIRMAN. What is your connection with the American Armament Corporation?

Mr. BRAYTON. I have the title of technical director.

The CHAIRMAN. Technical director?

Mr. BRAYTON. That is right.

The CHAIRMAN. Mr. Johnson, what is your full name?

Mr. JOHNSON. Frank Johnson; residence, Glen Ridge, N.J., and my main office is 420 Lexington Avenue, New York City.

The CHAIRMAN. What is your connection with the American Armament Corporation?

Mr. JOHNSON. I am a director.

The CHAIRMAN. Not an officer?

Mr. JOHNSON. Not an officer; no, sir.

The CHAIRMAN. All right, Senator Bone, will you proceed?

Senator BONE. Mr. Miranda, when was the American Armament Corporation organized?

Mr. MIRANDA. December 15, 1933.

Senator BONE. Is it a New York corporation?

Mr. MIRANDA. It is a New York corporation; yes, Senator.

Senator BONE. What is your stock set-up?

Mr. MIRANDA. We have 500 shares of stock.

Senator BONE. Does it have a par value or is it nonpar?

Mr. MIRANDA. Nonpar.

Senator BONE. That is your actual capital?

Mr. MIRANDA. That is our actual capital; yes, sir.

Senator BONE. Is it fully paid in?

Mr. MIRANDA. Fully paid in; yes, sir.

Senator BONE. What do you consider your stock to be worth?

Mr. MIRANDA. Today?

Senator BONE. Yes.

Mr. MIRANDA. It is hard to tell.

Senator BONE. What was it carried at on your books at the time it was issued?

Mr. MIRANDA. It was issued for a consideration.

Senator BONE. What was that consideration?

Mr. MIRANDA. The consideration was our services.

Senator BONE. Your services?

Mr. MIRANDA. Yes, sir.

Senator BONE. Do you control any patents?

Mr. MIRANDA. Some patents have been acquired through the issue of stock.

Senator BONE. And by your "services" you mean your experience?

Mr. MIRANDA. In foreign trade.

Senator BONE. In the business in which you were about to engage?

Mr. MIRANDA. Particularly the experience in foreign trade.

Senator BONE. This stock was issued, I take it, to the incorporators, and will you please tell us who got that?

Mr. MIRANDA. The incorporators were—there are usually three dummy incorporators that are taken care of by the attorney.

Senator BONE. I mean the men who had actually had the bona fide interest in the company. Who were they and how much stock was issued to them?

Mr. MIRANDA. My brother, myself (conferring with associate). I find that the stock was all issued to Miranda Bros.

Senator BONE. Did they allocate it subsequently to the others?

Mr. MIRANDA. Yes, sir; they subsequently allocated it to the present stockholders.

Senator BONE. This record which I have before me shows that F. E. Sweetser is secretary of the corporation; is that correct?

Mr. MIRANDA. That is correct.

Senator BONE. There was no actual cash put into the corporation?

Mr. MIRANDA. Not at all; I mean, except the expenditures that I bore out of my own pocket.

Senator BONE. That was in connection with the formation of the corporation?

Mr. MIRANDA. Exactly.

Senator BONE. Now, Mr. Johnson testified or stated, I believe, that he was president of the Elevator Supplies Co. and also was a director of the American Armament Corporation.

Mr. MIRANDA. That is correct.

Senator BONE. How much do you yourself own of this stock?

Mr. MIRANDA. Personally?

Senator BONE. Yes, sir.

Mr. MIRANDA. Forty-nine percent—I beg your pardon, eighty percent of the stock of the corporation is owned by Miranda Brothers, Inc.

Senator BONE. That is, you and your brother?

Mr. MIRANDA. Myself, my brother, and my father.

Senator BONE. Yourself, your brother, and your father?

Mr. MIRANDA. I own 49 percent of Miranda Bros., and my brother owns 49 percent of Miranda Bros., and my father owns 2 percent.

Senator BONE. And in turn, Miranda Bros. own 80 percent of the stock of this corporation?

Mr. MIRANDA. Yes, sir.

Senator BONE. Mr. Sweetser holds 10 percent of the stock?

Mr. MIRANDA. That is correct.

Senator BONE. Mr. Higgins 5 percent and Mr. Joyce 2 percent, and the record indicates 3 percent is held in the treasury.

Mr. MIRANDA. That is correct.

Senator BONE. During the war you had some service or saw some service with this Government, did you not?

Mr. MIRANDA. I was with the Office of Naval Intelligence.

Senator BONE. How long were you connected with the Navy?

Mr. MIRANDA. I think it was from the spring of 1918 until the end of the war.

Senator BONE. After the war, you engaged in the export business in New York City?

Mr. MIRANDA. That is correct.

Senator BONE. With Boomer & Co.?

Mr. MIRANDA. With Boomer & Co.

Senator BONE. About that time you organized an export corporation there and in 1922 organized this firm of Miranda Brothers, Inc., to which you have referred?

Mr. MIRANDA. That is right.

Senator BONE. I will hurriedly go through this history, so that we will get a picture of the situation for the record.

Mr. MIRANDA. Yes, sir.

Senator BONE. What was Miranda Bros. engaged in selling?

Mr. MIRANDA. Mostly automotive material, automobiles, trucks, tires, and some machinery occasionally.

Senator BONE. Did you dispose of any war supplies?

Mr. MIRANDA. No; not at all.

Senator BONE. Did you handle the sale of airplanes?

Mr. MIRANDA. Yes; we handled the sale of airplanes, not war supplies.

Senator BONE. Commercial airplanes?

Mr. MIRANDA. Yes; when the aircraft industry began thinking about foreign business we went right after that, and we have been handling a number of aircraft accounts.

Senator BONE. So that we can better understand this picture as we go along, are we to understand that your activities were almost wholly confined to South America?

Mr. MIRANDA. Yes.

Senator BONE. When did Miranda Bros. first come in contact with the munitions business?

Mr. MIRANDA. In 1920, I believe. A mission came up from Colombia, where we had some agents and dealings in automobiles and trucks, and this mission was recommended to us to take care of. The members of the mission did not speak English, and at that time they were interested in purchasing some material. They were interested in purchasing some guns, and I first came in contact with Mr. Driggs, and I took this Colombian mission in to see Mr. Driggs.

Senator BONE. That was in 1920?

Mr. MIRANDA. 1920 or 1921.

Senator BONE. You brought the Colombian military or naval mission into contact with the Driggs Ordnance & Engineering Co.?

Mr. MIRANDA. With the Driggs Ordnance & Engineering Co.

Senator BONE. And endeavored to interest them in some of that material, I take it.

Mr. MIRANDA. In some of the material which Mr. Driggs had left from his war contracts; yes, sir.

Senator BONE. It appears that in 1925 a second Colombian military mission came to this country.

Mr. MIRANDA. That is correct.

Senator BONE. Did they contact you?

Mr. MIRANDA. Right away; and we took them over to Driggs' office, although from the first visit no business had resulted. From the second visit a small order resulted, I think \$8,000 or \$9,000 was offered.

Senator BONE. Do you know or can you tell us what inspired these missions to come to this country? What was the inspiration down south?

Mr. MIRANDA. I do not know. At the time it was strange because they had never sent any missions up to this country.

Senator BONE. Can you advise us whether or not American Government officials were down in that country suggesting a course of defensive measures for them?



Mr. MIRANDA. I do not believe so. I really was not paying very much attention to the munitions business. It was incidental with us and I did not look into it.

Senator BONE. Now, getting down to 1932, there was considerable discussion in the press about the trouble between Colombia and Peru, as you will recall, over a boundary dispute.

Mr. MIRANDA. Yes, sir; Leticia, on the Amazon River.

Senator BONE. Did you talk to Mr. Driggs at that time about the possibility of some business?

Mr. MIRANDA. Yes; it happened that shortly before that time I had had to discontinue my efforts in the sale of automobiles, and therefore I had some spare time. I called on Mr. Driggs and suggested contacting the Colombian consul and trying to interest him in some of the material that Mr. Driggs still had left from the time of his war contracts.

Senator BONE. Were you able to sell any of the materials possessed by the Driggs outfit?

Mr. MIRANDA. Yes, sir; we sold the Colombian Government about \$300,000 worth of material.

Senator BONE. About \$300,000?

Mr. MIRANDA. Yes, sir; between, I think, September or October of 1932 and the spring of 1933.

Senator BONE. At or about that time did you make a visit to Colombia or Peru?

Mr. MIRANDA. Not to Peru. I went to Colombia in 1933.

Senator BONE. Along in March?

Mr. MIRANDA. March 4, 1933.

Senator BONE. Did you visit Bogota?

Mr. MIRANDA. I went to Bogota and I spent several weeks there. I think it was 2 or 3½ weeks.

Senator VANDENBERG. Senator Bone, before you leave that particular point, may I clear up a question which was in controversy this morning?

Senator BONE. Yes; these questions are largely preliminary. Go ahead.

Senator VANDENBERG. I want to inquire from you, Mr. Miranda, about the letter as to which I interrogated Mr. Driggs this morning, "Exhibit No. 208." This is the letter which you wrote to the Consul General of Colombia, and in which the phrase appears "the unusual already known to you."

Mr. MIRANDA. That is a typographical error, Senator.

Senator VANDENBERG. That is a typographical error?

Mr. MIRANDA. Definitely so.

Senator VANDENBERG. You mean usual terms?

Mr. MIRANDA. Yes, sir; usual terms. We had already done some business with Colombia—with the Colombian Government—and so that they knew our terms, and what we stated was the usual terms.

Senator VANDENBERG. If they were unusual, naturally, it would merit scrutiny.

Senator BONE. There is one thing I omitted. What commissions were paid you or your firm for negotiating these sales for the Driggs people?

Mr. MIRANDA. They ranged from 12 percent to 15 percent, and we ourselves had to pay our Colombian agents.

Senator BONE. In other words, out of your commission you paid for the sales costs of the work?

Mr. MIRANDA. The sales cost in Bogota; yes, sir.

Senator BONE. Who was United States Minister to Colombia at that time, at the time you were down there?

Mr. MIRANDA. Mr. Jefferson Caffery, the present American Ambassador to Cuba.

Senator BONE. There was some controversy at that time over damages, or alleged damages, growing out of a vessel which failed to measure up to what they thought were the requirements, was there not?

Mr. MIRANDA. Yes, sir; they claimed the cruising radius of a vessel which we had sold them was not what we had stated.

Senator BONE. Did the American Minister to Colombia interest himself in the adjustment of that claim?

Mr. MIRANDA. We claimed that they had not given us ample time to run the necessary tests in order to adjust the vessel to the cruising radius they wanted. They were in such a hurry to get it to the Amazon that, as soon as it was finished it sailed.

Senator BONE. What was the name of that boat?

Mr. MIRANDA. The name of the boat, the new name of the boat in Colombia?

Senator BONE. Yes, sir.

Mr. MIRANDA. The *Meriscal Sucre*.

Senator BONE. What is the American name?

Mr. MIRANDA. *Flying Fox*.

Senator BONE. What was she, a yacht?

Mr. MIRANDA. She had been designed as a yacht but along torpedo lines, Yarrow built. She was built by Yarrow in Scotland.

Senator BONE. What was she intended to be used for down there?

Mr. MIRANDA. A light gunboat.

Senator BONE. A light gunboat?

Mr. MIRANDA. Yes, sir.

Senator BONE. In ocean service or the river?

Mr. MIRANDA. River. One of the interesting points was that she was a very shallow-draft boat.

Senator BONE. While you were there did you succeed in obtaining any new orders for ammunition?

Mr. MIRANDA. Yes, sir; we secured an order for, I think, 2,000 rounds of ammunition for the guns that were mounted on the boat.

Senator BONE. What did that order amount to? Do you know?

Mr. MIRANDA. Roughly \$30,000 or \$35,000.

Senator BONE. That was for the Driggs concern?

Mr. MIRANDA. Yes, sir; I was still acting as a commission salesman for the Driggs concern.

Senator BONE. During the year 1932 were you able to sell anything to Venezuela?

Mr. MIRANDA. In 1932, yes; a small order for about \$65,000.

Senator BONE. Now at that time, when you saw some prospects of this trade coming to the Driggs Co., you saw prospects for opening up South America to a somewhat wider field of operations, did you not?

Mr. MIRANDA. Not quite. I went down from Venezuela—I was sent to Brazil. I had learned in Colombia and Venezuela that there

was quite a call for munitions going to Europe and practically nothing coming to this country. I spent three months in Brazil, because the Government was interested in the purchase of a large number of guns.

Senator CLARK. What kind of guns were they trying to purchase?

Mr. MIRANDA. 75 millimeter and 125 millimeter, field guns and mountain guns.

Senator BONE. Was the Driggs Co. in position to turn out that sort of equipment?

Mr. MIRANDA. I do not think so. Rather, I felt they were not.

Senator BONE. Where would you have had them built, if you had gotten the order?

Mr. MIRANDA. I do not think we could have gotten the order with the set-up we had. An order for about 6 million or 8 million dollars is not gotten unless one has a very definite industrial and financial condition.

Senator BONE. Would it have paid to put up a new plant for that and to have assembled the machinery, and so forth, for a 6- or 8-million dollar order.

Mr. MIRANDA. I do not know, but I do not think so. I spoke about it with Mr. Bardo, and he thought if we only got that order and spent quite a bit of money for tooling up and we did not get any more business, it was going to be difficult.

Senator BONE. Mr. Bardo was president of what?

Mr. MIRANDA. New York Shipbuilding Co.

Senator BONE. Do they make or attempt to make armament of any kind?

Mr. MIRANDA. No. At the time Brazil had a naval program for about \$40,000,000, and we thought that we might be able to interest the New York Shipbuilding Co. in some sort of combine with the Driggs Co. in creating a company into which both Driggs and New York Ship would go, and that Driggs would take care of making the guns and New York Ship would go after the shipbuilding.

Senator BONE. The New York Shipbuilding Co. at that time was beginning to interest itself in possible Brazilian business?

Mr. MIRANDA. Yes.

Senator BONE. When did you leave the Driggs organization?

Mr. MIRANDA. I think it was some time in November. I do not remember very accurately.

Senator BONE. The record I have here indicates November 27, 1933. Would that be about right?

Mr. MIRANDA. Yes, sir; about that date.

Senator BONE. When you left the Driggs Co. what did you do about creating your own organization? Was it created immediately?

Mr. MIRANDA. No; not quite. As a matter of fact, I had to look around for connections with a manufacturer that had a plant, with a record of being able to build very accurately, and also that would have the necessary financial backing to post any bonds that might be required for the fulfillment of the contract.

Senator BONE. Your company appears to have been organized in December 1933, so that you were a month or more making these preliminary arrangements for the creation of this American Armament Co.?

Mr. MIRANDA. That is right.

Senator BONE. Did you take over any of the assets of the Driggs Co. at the time you created your corporation?

Mr. MIRANDA. No; not at all. As a matter of fact, there were no assets.

Senator BONE. No assets?

Mr. MIRANDA. There was an unfortunate condition in the Driggs Co., where they came over and closed up the office.

Senator BONE. Did the American Armament Co., having no paid-in capital, but its capital being reflected solely as the reward for services rendered to the company, or rendered by its officers, find itself in this position: That you had to make some arrangement for manufacturing?

Mr. MIRANDA. Correct.

Senator BONE. What arrangement did you make to manufacture the stuff which you got in the way of orders?

Mr. MIRANDA. We made an arrangement with the Elevator Supplies Co.

Senator BONE. Where is their plant?

Mr. MIRANDA. At Hoboken.

Senator BONE. Hoboken, N.J.?

Mr. MIRANDA. Hoboken, N.J.; yes, sir.

Senator BONE. Did they have a plant capable of manufacturing ordnance?

Mr. MIRANDA. Yes, sir.

Senator BONE. Up to what size?

Mr. MIRANDA. I believe up to 3-inch.

Senator BONE. Up to 3-inch?

Mr. MIRANDA. Up to 3-inch. Is that true, Mr. Johnson?

Mr. JOHNSON. Yes, sir.

Senator BONE. Can you manufacture a gun of larger caliber?

Mr. MIRANDA. Major Brayton might know.

Mr. BRAYTON. Six inches would be the maximum.

Mr. JOHNSON. Not with the tools we have now, but of course you can always buy tools.

Senator BONE. Major Brayton, you say you could manufacture a gun up to 6-inch caliber?

Mr. BRAYTON. Most of the parts. We have no forging equipment.

Senator BONE. Where would you get the forgings, if you had an order?

Mr. BRAYTON. There are many companies in this country that do that sort of thing. Bethlehem Steel, National Forging & Ordnance Co. in western Pennsylvania, and the Midvale Steel.

Senator BONE. Have you the tools and machinery to put the finishing touch on the guns?

Mr. BRAYTON. I believe the tools there would be suitable for a 6-inch gun, but that would be the limit.

Senator CLARK. You made an arrangement with them to manufacture the guns if you got the order?

Mr. MIRANDA. A little bit more than that, Senator. They were to be our manufacturing affiliate, and they were to put up the necessary money for us, carry on our activities, and they were to put up the necessary funds for us to bid on foreign business, and put up performance bonds.

Senator CLARK. Do you have any interest in that company?

Mr. MIRANDA. No; I have no interest in that company.

Senator CLARK. Do they have an interest in yours?

Mr. MIRANDA. Yes, sir; they have an interest in ours.

Senator CLARK. How much interest do they have?

Mr. MIRANDA. They have an interest of 20 percent. It is not a stock interest, but purely a profit-sharing interest.

Senator BONE. So that we may have the picture in an accurate shape, the Elevator Supplies Co. is the agency that will build the product when you get the order?

Mr. MIRANDA. That is correct.

Senator BONE. Yours is merely a skeleton organization which is largely in the nature of a sales organization?

Mr. MIRANDA. Sales and designing.

Senator BONE. Sales and designing?

Mr. MIRANDA. Yes, sir; which is very important.

Senator BONE. And the Elevator Supplies Co. merely takes the blueprints, drawings, plans, and specifications and hand back the finished commodity to you?

Mr. MIRANDA. That is correct.

Senator BONE. They also underwrite any necessary financial operations, they, I take it, being more substantial financially and having a better rating than your company?

Mr. MIRANDA. Yes, sir.

Senator BONE. That is not suggested as an invidious comparison

Mr. MIRANDA. That is perfectly all right.

Senator BONE. What we want to get at is just merely the facts.

Mr. MIRANDA. That is all right.

Senator BONE. How long has the Elevator Supplies Co. been operating?

Mr. JOHNSON. Forty years.

Senator BONE. For how long, Mr. Johnson, has it been capable of manufacturing war supplies of any kind?

Mr. JOHNSON. I do not know exactly, but I think about 3 years.

Senator BONE. Prior to that time, to what field did you confine your activities?

Mr. JOHNSON. Elevator work of various kinds, mostly to elevator signals, the up-and-down lights, you see, closures for elevator doors, hangers and tracks for elevator work, and all work of that kind.

Senator BONE. What induced your company to enter the munitions field?

Mr. JOHNSON. The building field went down to nothing.

Senator BONE. It was an adventure into a new field due to economic conditions?

Mr. JOHNSON. Economic conditions, exactly.

Senator BONE. Due to the fact that the world picture looked more healthy for the munitions business?

Mr. JOHNSON. No; due to the fact that we had a plant with several hundred men, and we wanted to keep our organization and men together.

Senator BONE. There must have been some reason for entering that field.

Mr. JOHNSON. We had the tools to do it and the other people did not.

Senator BONE. Was that business showing more life then than other forms of business?

Mr. JOHNSON. Yes, sir.

Senator BONE. Did you have to acquire much in the way of new tools and equipment to enter this field?

Mr. JOHNSON. No, sir.

Senator BONE. You could handle it with your elevator equipment?

Mr. JOHNSON. Yes, sir.

Senator BONE. Is there anything in manufacturing ammunition which requires other tools, outside of rifling equipment?

Mr. JOHNSON. You have to have tools which are precise and the work must be very accurate.

Senator BONE. Are those tools easily obtained?

Mr. JOHNSON. They can be bought.

Senator BONE. They can be bought? They are sold in the open market?

Mr. JOHNSON. They are sold in the open market.

Senator BONE. There is nothing very difficult about going into that type of business and quickly organizing a plant?

Mr. JOHNSON. You could organize a plant almost over night.

Senator BONE. Could you start it operating quickly?

Mr. JOHNSON. It would take a certain amount of time and your personnel would have to get used to the tools and handling them, and all that sort of thing.

Senator BONE. What type of men do you use in the plant? Expert machinists?

Mr. JOHNSON. Yes, sir.

Senator BONE. Men familiar with lathes and machinery and so forth?

Mr. JOHNSON. Yes, sir.

Senator BONE. What connection had Mr. Sweetser had with the Driggs Co.?

Mr. SWEETSER. I was secretary of the Driggs Co.

Senator BONE. When did you join the American Armament Organization?

Mr. SWEETSER. Shortly after the 1st of January of this year.

Senator BONE. During the month of January?

Mr. SWEETSER. Yes, sir.

Senator BONE. Of 1934?

Mr. SWEETSER. Right.

Senator BONE. The present year?

Mr. SWEETSER. Yes, sir.

Senator BONE. Did Mr. Joyce, who was formerly with the Driggs Co., likewise join the new organization?

Mr. SWEETSER. Yes.

Senator BONE. Major Brayton, had you been connected in any way with the Driggs concern?

Mr. BRAYTON. As a consulting engineer from time to time only.

Senator BONE. You were not on their pay roll?

Mr. BRAYTON. As a consulting engineer only, being paid for what I did.

Senator BONE. Did you affiliate yourself with the new American Armament Corporation?

Mr. BRAYTON. Yes, sir.

Senator BONE. When did you join?

Mr. BRAYTON. Almost immediately, or I would say immediately, because I played some part in helping Mr. Miranda get the thing going, so far as I could, and advising them as to what we could do, and that sort of thing.

Senator BONE. Mr. Johnson, did your concern, prior to the organization of the American Armament Co., manufacture anything for the Driggs Ordnance Co.?

Mr. JOHNSON. Yes, sir.

Senator BONE. What did you make for them?

Mr. JOHNSON. I do not know exactly, Senator; shells, that is, these shells that Mr. Miranda sold to Colombia and Venezuela, part of the equipment of this *Flying Fox*, and things of that kind.

Senator BONE. Did you do any ordnance work for them?

Mr. JOHNSON. I do not think so.

Senator BONE. How long had you been with the American Elevator Co., if that is the name of the company?

Mr. JOHNSON. I came there on the 1st of January 1933.

Senator BONE. What had been your business connections prior to that time?

Mr. JOHNSON. The Elevator Supplies Co. was an amalgamation of two other companies in 1917. At that time I was the treasurer and vice president of one of those companies, and I went with the Elevator Supplies Co. as general manager for about a year until the amalgamation was completed. My people have held their stock interest in the concern ever since, but I have not been active in it.

Senator BONE. How old is the Elevator Supplies Co.?

Mr. JOHNSON. At least 40 years old. It was organized in 1892; that is, the Elevator Supplies Co. was organized in 1917, but it was a combination of two firms that had been organized in 1892 and 1893.

Senator BONE. The Elevator Supplies Co., does this manufacture for this Government or any foreign governments on direct orders that are not put through the American Armament Co.?

Mr. JOHNSON. No, sir.

Senator BONE. Do you have any working arrangement with the American Armament Corporation whereby all that business goes through them?

Mr. JOHNSON. We have not any working arrangement, but we have not any salesmen or any set-up to get that business.

Senator BONE. If any of that business came to you, you would manufacture it and sell it direct?

Mr. JOHNSON. We might, although I do not think so.

Senator BONE. Did you ever get any business or have any connections with the Bolivian Government?

Mr. JOHNSON. No, sir.

#### BUSINESS RELATIONS WITH BOLIVIAN GOVERNMENT

Senator BONE. Mr. Miranda, has the Bolivian Government done any business with you?

Mr. MIRANDA. Oh, yes.

Senator BONE. Will you kindly indicate when that was accomplished and the amount of it.

Mr. MIRANDA. We have had altogether six contracts with the Bolivian Government.

Senator BONE. What is the type of ammunition and war material covered by those contracts?

Mr. MIRANDA. Mortars and mortar ammunition.

Senator BONE. What sort of mortars were they?

Mr. MIRANDA. The small trench mortars. I see you have a catalog of ours here.

Senator BONE. Trench mortars?

Mr. MIRANDA. They are called "trench mortars"; yes.

Senator BONE. That is a small mortar that will throw a shell only for a short distance?

Mr. MIRANDA. Well, not very short; up to 3,000 meters.

Senator BONE. Translated into English, what is that distance?

Mr. MIRANDA. About 3,300 yards.

Mr. BRAYTON. Two miles.

Senator BONE. Is this a picture of the bomb [indicating in catalog]?

Mr. MIRANDA. That is the picture of a bomb that is thrown by this mortar, a picture of the projectile.

Senator BONE. Can you tell us anything about the explosive force of that bomb and its capacity for the destruction of life?

Mr. MIRANDA. I think it would be better if Major Brayton would tell us about that.

Senator BONE. Will you tell us about that, briefly, Major?

Mr. BRAYTON. These mortars can be made in various sizes. We have actually made for the Bolivian Government two sizes only, one of the 47 mm, which is small, you see, 1.85 inches and the 105 mm, which is 4.1 inches approximately.

The smaller one, the 47 mm one is, of course of short range relatively, 2,000 meters and is designed primarily for use in attacking enemy troops while in trenches or behind a hill or woods or upon ground that is very high, so that the shell would go very high and fall down on them.

Senator BONE. In other words, it is designed for high-angle fire.

Mr. BRAYTON. For high-angle fire; yes. All mortars of this type are. It is used for relatively short range work. They are used exclusively against personnel, in trench warfare or in warfare in rugged country, in mountainous areas or wooded areas, and so forth.

The 47 mm gun carries just one size of shell weighing about 4.3 pounds. It contains about a third of a pound of high explosives, a fairly deadly little item. It does not do any destruction to material objects, but is designed principally for use against troops in trenches, and so forth, to get down into them. Each shell would do a relatively small amount of destruction, but they are small and they can be fired rapidly and in the aggregate may cause considerable damage. They are cheap to manufacture and are very popular in the smaller countries in South America.

The larger size, 105 mm, is in a different class, although it is a smooth-bore model. We furnish two sizes of projectiles with that, one weighing 14 pounds and the other weighing 24 pounds, the 14-pound one having a 3,000- or 2,900-meter range.



These larger projectiles are designed primarily for the destruction of material objects such as the destruction of a road or a bridge or a sand bank or a trench, or that sort of thing. If personnel get in the way of the shell fragments, why, they are eliminated, of course. But the primary object of that mortar is to destroy material objects.

Senator BONE. I take it that it would have a terrific explosive force.

Mr. BRAYTON. Not so terrific, but sufficient to do considerable damage. The smaller shell contains 2 pounds of high explosive and the larger ones 4 pounds.

Senator BONE. Are they used for disseminating poison gas or purely for explosives.

Mr. BRAYTON. No, sir; just high explosives. They could be loaded with gas, but we have not done anything of that sort. We are not in that business.

Senator BONE. Can you tell us whether any of these guns that were shipped there were used in the Chaco trouble?

Mr. BRAYTON. I have no knowledge, personally.

Senator BONE. However, they were acquired by the Bolivian Government.

Mr. BRAYTON. That is right.

Senator BONE. Major, I take it from your title that you were in the military service.

Mr. BRAYTON. I was in the military service during the war; yes, sir.

Senator BONE. With this Government?

Mr. BRAYTON. With this Government.

Senator BONE. How long did you serve?

Mr. BRAYTON. Just during the period of the war, from the latter part of July 1917 until December 1918.

Senator BONE. Did you go into the Army from civilian life?

Mr. BRAYTON. Yes, sir.

Senator BONE. What branch of the service were you in?

Mr. BRAYTON. Ordnance Department.

Senator BONE. You had, of course, a university training?

Mr. BRAYTON. I am a graduate of Massachusetts Institute of Technology in Boston.

Senator BONE. Did you see service overseas?

Mr. BRAYTON. I did not. I spent my whole time at the Frankford Arsenal in Philadelphia.

Senator BONE. The record indicates that the Bolivian contract amounted to nearly a million dollars, is that right?

Mr. JOHNSON. One contract?

Senator BONE. Yes.

Mr. MIRANDA. There is one contract that we have not filled that is for a million and a half.

Senator BONE. You have delivered so far to the Bolivian Government how much in the way of munitions, represented in money?

Mr. MIRANDA. I think about \$800,000.

Senator BONE. There is a record of an order from the Bolivian Government of \$1,600,000.

Mr. MIRANDA. That is correct.

## BUSINESS RELATIONS WITH CUBAN GOVERNMENT

Senator BONE. Have you done any business with the Cuban Government?

Mr. MIRANDA. Indirectly.

Senator BONE. What other countries in South America have you solicited for business?

Mr. MIRANDA. We have solicited every country by this time. We have had orders from all of those countries except Paraguay. We have not solicited in Paraguay.

Senator BONE. When you referred to the Cuban negotiations as being indirect, what did you mean?

Mr. MIRANDA. We had an order from a firm in New York, the International Ordnance & Instrument Co. A man by the name of Figuerola. He gave us a small order for artillery ammunition and mortar ammunition that he obtained from the Cuban Government.

Senator BONE. That amounted to about \$14,000?

Mr. MIRANDA. I think it was just \$14,000.

Senator BONE. Did you have any trouble over the order?

Mr. MIRANDA. Yes, sir.

Senator BONE. What was that trouble?

Mr. MIRANDA. Well, Mr. Figuerola did not furnish us with all the information that we needed and when the ammunition was tested it proved defective.

Senator BONE. What happened?

Mr. MIRANDA. Perhaps Major Brayton will tell you in his technical terms.

Senator BONE. You understand, gentlemen, that it is perfectly all right for any of you to interrupt the other, so far as the committee are concerned, to supply information.

Mr. MIRANDA. I would like to have you get the story first hand.

Mr. BRAYTON. I do not know how much detail you want me to go into, Mr. Senator.

Senator BONE. Just tell us the story briefly, Major.

Mr. BRAYTON. If I go into too much detail, just tell me and I will stop.

The order originally came to us in this way: First of all a man came to see me having heard that we were starting in the business. That was this Mr. Figuerola. He sat down in my office and introduced himself first, of course. I had not met him before. He told me that he was in the business of getting orders for munitions wherever he could; that he had a small order at the present time that he had to fill; that he was in the habit, whenever he got such orders, of sending over to Europe and getting the munitions there to fill the orders, he functioning as a broker or commission merchant on it, but that he had heard that we were starting in business and that he would like to locate an American source of supplies to fill the orders he got.

He pictured this to me as a situation where what he had now was but a very small order, it was really only a trial order; that he had very good connections in some of the South and Central American countries, and that if we could get together he could get quite a good bit of business for us.

He outlined to me exactly what he wanted. My first reaction was that the quantity was so terribly small that there was no sense of our bothering with it, because we would have to charge for the tools and all of the equipment necessary to make the stuff and the price necessarily would be so much higher than he could get in Europe that he might just as well get it in Europe. I was ready to show the man out of the office; it was something that we thanked him for coming to us about, but it was so small that there was no use of our bothering with it.

He was somewhat insistent that I go into the matter of cost, that it really did not matter so much, that he might be willing to pay for this small amount what we asked in order to establish relations with us, that he could get more business, and so forth.

So I went ahead and estimated on the cost of furnishing this material, which was really just ordinary stuff although we had no tools for making it. I turned the cost figures into our New York office, to Mr. Miranda, and he, in turn, made a proposal.

There were some negotiations back and forth and finally we received the order.

Senator BONE. Were these for the Cuban Government?

Mr. BRAYTON. We did not know that. He did not tell us the source, or who it was for.

Senator BONE. He did not disclose his principal?

Mr. BRAYTON. It was not disclosed until the material was actually ready to ship and we had to mark the boxes. It was then disclosed to us, but not before. We really were not interested. We just figured that it was his business and perfectly legitimate, so far as we were concerned.

We got the order and as the order was received, it read like this:

Four hundred rounds of ammunition for the 3-inch Stokes trench mortar. That was the mortar that was used by our Army and all the other allied armies extensively during the war and now obsolete, so far as our Army is concerned.

Two hundred rounds of ammunition, the low-explosive ammunition, for the 37-millimeter Navy type gun, the American Navy type gun.

Five hundred rounds of ammunition for the 75-millimeter Schneider field gun, which the Cuban army had, a foreign gun.

Of course, we immediately told Mr. Figuerola that we would have to have certain information, particularly on that Schneider gun. We had no information at all as respects the size of the chamber, its ballistic characteristics, what velocity they expected to get out of the ammunition, and so forth.

We did have information on the ammunition for the Navy type gun, because that has been in use for probably 30 years or more, and the old 3-inch Stokes is a gun that is known everywhere.

He agreed to furnish us with a sample round of ammunition of the two weapons, the 37-millimeter and the 75.

Somewhat immediately after he gave us the order, he left for Europe, destination unknown to us, and his office would not give it to us. We waited for quite some time and yet got no sample round of ammunition. We kept after his office, and his secretary, and she apparently kept after the place where the stuff was coming from, but several weeks went by.

In the meantime, we could not move on certain phases of that and were under contract to deliver it. In due time, instead of getting a round of ammunition, we got a sample cartridge case—3 of them, not 2—the 37-millimeter proved not to be the Navy gun, but proved to be the Army gun.

Senator BONE. Which gun?

Mr. BRAYTON. The 37-millimeter Army field gun, our Army field gun, which is really a French gun taken over during the war, known to the trade as the "Puteau gun."

In addition to the 75-millimeter gun that our order called for, we got two cartridge cases and we were then told that the order instead of being 500 rounds for the 75 Schneider field gun was split up into two units, 250 rounds for the Schneider mountain gun and 250 rounds for the Schneider field gun. That changed the complexion of the order, which we had already taken at a price. It put us to the expense of making an extra-size cartridge case for only 250 rounds.

In addition to that, he had given us no ballistic information on the weapons and we had no way of getting it. We did not know where the material was going. If we had, we could have contacted the Cuban Government directly, in order to get the information.

We would be taking the risk of suit by him against us for failure to fill our contract.

I had to make the best estimate I could on what the ballistics of those weapons would be; in other words, the best intelligent scientific guess that we could make and go ahead and produce the stuff.

Senator BONE. This certainly could not have been a Cuban order or the Cuban Government would have known precisely what they wanted.

Mr. BRAYTON. The point of this, I learned later, was this. The Cuban Government had turned over to the International Ordnance & Instrument Co. all the information, but they had not turned it over to us. I got that directly from the second in command of the Cuban Army, personally, when I was in Habana.

Senator BONE. What do you suppose was the purpose of this man Figuerola withholding this information?

Mr. BRAYTON. I do not think he did it intentionally. I think he just went to Europe and forgot about it; I do not know.

Senator BONE. What were his connections in Cuba?

Mr. BRAYTON. That I do not know.

Senator BONE. Do you know what his business was? What was his business there?

Mr. BRAYTON. Outside of this particular deal, I do not know.

Mr. MIRANDA. His business was in New York, but he was supposed to be well connected with the Grau administration. That was the administration that came after Machado was sent out.

Senator BONE. Was that still in the saddle?

Mr. MIRANDA. No. My understanding is that the Grau administration gave him a blank amount of money, sixty or seventy or eighty thousand dollars, whatever it was, to buy so much material. He just took the money and went out to buy the material. He came to us and bought the ammunition from us and it seems that before

they got the material, the Grau administration was out and another administration was in.

Senator BONE. Do you know what happened to the \$80,000?

Mr. MIRANDA. I do not know, except that when the material reached there and it did not function satisfactorily—it worked, but not satisfactorily—it seems that the Cuban officers thought that we were in cahoots with Figuerola to furnish defective material so that if the material had to be used against the new administration, it would not work. They were quite incensed. As a matter of fact, they held him in one of the Army camps until we sent Major Brayton down to conduct the test and find out just what was wrong, and we assured the Cuban Government that we would rectify whatever was wrong.

Senator BONE. In your negotiations in South America, have you had occasion to do any business with Uruguay?

Mr. MIRANDA. No; neither Uruguay nor Paraguay.

Mr. BRAYTON. Just to finish up my little point, Senator, on this Cuban matter. When I was sent, as Mr. Miranda says, to Habana, we started to get wild, exaggerated statements regarding the thing. Many of those we knew were not correct. We run into that often in these foreign countries. They get material and take it out and test it or shoot it in a way in which it could not possibly work, like shooting it against a sheet of paper or something of that sort equally absurd. So we get a lot of wild statements as to what is wrong, most of which, when I get there I found were not true. But the principal trouble was that due to a lack of ballistics information, which we could not get, I had not made a perfect guess as regards the powder charge in one of the weapons in particular, the powder being too slow and did not produce quite the velocity that they had been in the habit of getting. The pressure was low and it simply needed what they call in the trade a "faster" powder, and that we are correcting.

#### FOREIGN AGENTS AND METHODS USED IN OBTAINING BUSINESS

Senator BONE. I am going to read for the purpose of the record the names of your agents in South America, and I wish you would indicate if these are correct for the purpose of the record.

In Cuba, Jose Merla?

Mr. MIRANDA. That is correct.

Senator BONE. In Mexico, Pietro Merla?

Mr. MIRANDA. That is correct.

Senator BONE. In Colombia, Urueta & Samper?

Mr. MIRANDA. That is correct.

Senator BONE. In Peru, V. Menozzi?

Mr. MIRANDA. That is correct.

Senator BONE. In Chile, Domingo Grez?

Mr. MIRANDA. That is correct.

Senator BONE. In Bolivia, Webster & Ashton?

Mr. MIRANDA. That is correct.

Senator BONE. Is that an American firm?

Mr. MIRANDA. They are Bolivians of British ancestry.

Senator BONE. In Argentine, Larreta?

Mr. MIRANDA. That is correct.

Senator BONE. In Brazil, Souza Sampo & Co.?

Mr. MIRANDA. That is correct.

Senator BONE. In Venezuela, B. de Santa Ana?

Mr. MIRANDA. That is right.

Senator BONE. Who is he?

Mr. MIRANDA. Colonel Santa Ana.

Senator BONE. Is he related to the Mexican Santa Ana?

Mr. MIRANDA. He is a grandson of Santa Ana.

Senator BONE. A grandson of old General Santa Ana?

Mr. MIRANDA. Yes.

Senator BONE. In Ecuador, F. Sefzic?

Mr. MIRANDA. That is correct.

Senator BONE. Do you have European representatives?

Mr. MIRANDA. We have a number of people that will doubtless have representation, but I do not believe that we have as yet—have we, Mr. Sweetser?

Mr. SWEETSER. We have given two sort of trial agencies for a very short time. They have got 2 or 3 months to run.

Senator BONE. Are you attempting to do any business in Europe?

Mr. MIRANDA. Yes. We hope to do business all over the world.

Senator BONE. You have lines out where you are trying to make some contact?

Mr. MIRANDA. Yes, sir.

Senator BONE. What are your business relations, if any, in the Far East—Japan and China?

Mr. MIRANDA. Well, we have recently made an arrangement with a firm, Anderson Meyer & Co. in China.

Senator BONE. Where are they located?

Mr. MIRANDA. I think their main office is in Shanghai, but they have offices all over China. They represent a number of American machine manufacturers.

Senator BONE. What about Okura?

Mr. MIRANDA. In Japan Miranda Brothers for a number of years has done business through Okura & Co.

Senator BONE. What are they, general importers and exporters?

Mr. MIRANDA. Yes; they are importers and exporters. They are one of the largest firms in Japan.

Senator BONE. Do they deal in munitions of war as well as other things?

Mr. MIRANDA. I do not know, because we have never dealt with them in munitions of war. We have dealt with them in aircraft.

Senator BONE. Who represents you in Siam?

Mr. MIRANDA. The firm of Suphan Phanich.

Senator BONE. Have you done any munitions business with any of these Asiatic countries?

Mr. MIRANDA. No. The only munitions business has been with Bolivia, this indirect order with Cuba and with the Government of the Dominican Republic.

Senator BONE. Getting down to Japan, have you sold any airplanes to Japan?

Mr. MIRANDA. Yes. In the last 3 years we have sold 3 planes.

Senator BONE. What type of planes?

Mr. MIRANDA. Lockheed.

Senator BONE. Are they the latest type?

Mr. MIRANDA. We have recently sold them one of the latest type.

Senator BONE. The very last type.

Mr. MIRANDA. Yes.

Senator BONE. What are you going to use that for—passenger service?

Mr. MIRANDA. No. I understand Okura & Co. have sold that plane to the Japanese Imperial Navy.

Senator BONE. So that the Japanese Imperial Navy is now equipped with the latest model Lockheed plane?

Mr. MIRANDA. That is correct, Senator.

Senator CLARK. What were the other two planes that you sold to Japan?

Mr. MIRANDA. They were two single-engine transport planes.

Senator BONE. In connection with the sale of these planes—and I take it the Lockheed is a very fast plane—

Mr. MIRANDA. It is one of the fastest in the world.

Senator BONE. One of the fastest in the world?

Mr. MIRANDA. Yes.

Senator BONE. It represents, I understood you to say, the latest development in airplanes?

Mr. MIRANDA. Yes. I think that the Lockheed and the Douglass are the two foremost developments of the American aircraft industry.

Senator BONE. Does the United States Government lay any embargo on the free sale of planes to Japan?

Mr. MIRANDA. Not thus far.

Senator BONE. Out on the Pacific Coast, I might suggest to you, we are interested in this because we are being told by the newspapers out there all the time that the Japanese are preparing to fly the Great Circle route and bomb our Puget Sound cities. I am a bit curious to know about the type of plane that is going to blow me off the earth.

Mr. BRAYTON. How are they going to get back, Senator?

Senator BONE. I do not know how they are going to get back, but we are advised out there that they are coming.

Mr. MIRANDA. Senator, as a possible point of interest, the French Government recently bought the rights to the Lockheed Electra, the latest model.

Senator BONE. You say that the French Government has bought the rights to the Lockheed plane? Will you explain what you mean by that?

Mr. MIRANDA. They bought the plane and the right to manufacture the Lockheed in France. I think it is the first instance where France has bought a plane outside of France.

Senator BONE. They are doing that I take it for the purposes of national defense as well as other purposes?

Mr. MIRANDA. Probably.

Senator BONE. You represent the Soley Armament Corporation of England, in North and South America?

Mr. MIRANDA. That is correct.

Senator BONE. Will you tell us just briefly what the Soley Armament Corporation is. Give us a little word picture of that organization?

Mr. MIRANDA. I can only give you the word picture that I get from my correspondence with them. I have never been there myself—to the Soley Co. My understanding is that it is a corporation that is used by the British Government for the disposal of its surplus war materials, or the material that they want to get rid of.

Senator BONE. Is it an official or semiofficial agency of the British Government for that purpose?

Mr. MIRANDA. I would consider it a semiofficial agency. I say semiofficial, because they will only sell with the consent of the British Government.

Senator BONE. Then, of course, the Government, in retaining that control over the corporation, makes it in effect the arm and agency of the British Government. That is correct, is it not?

Mr. MIRANDA. Well, my interpretation is as I have given it to you.

Senator BONE. If the British Government can control its sales, the British Government manifestly is acting through that agency. Have you done any business with Belgium or with any firms in Belgium?

Mr. MIRANDA. Just a sample order. We imported a sample sight of one of the firms in Belgium.

Senator BONE. From them?

Mr. MIRANDA. Yes.

Senator BONE. You were doing that in connection with your own research work?

Mr. MIRANDA. With our own mortar development. We wanted to know whether it would be cheaper to buy the sights abroad or manufacture them here.

Senator BONE. In these Latin-American countries, particularly in South America, it appears from the evidence that we have before us, that the military group down there is really the political power in those countries; is that correct?

Mr. MIRANDA. I think in most cases it is.

Senator BONE. They are really, then, semimilitary dictatorships in practical effect?

Mr. MIRANDA. You will find that the military are, as a rule, well-educated people—people that may have been educated abroad and therefore they hold the upper hand.

Senator BONE. Are these military groups that are dominant down there tied in with the bigger business groups in the country?

Mr. MIRANDA. In each country?

Senator BONE. In those countries; for instance, mining groups?

Mr. MIRANDA. I imagine that they have something to do with them.

Senator BONE. Has that been your experience growing out of your contacts with them?

Mr. MIRANDA. No; I cannot say that. It is just a surmise on my part.

Senator BONE. It appears also that European nations have, for a great many years, been sending so-called "military and naval missions" to those countries.

Mr. MIRANDA. Yes.

Senator BONE. How far back does that practice extend?

Mr. MIRANDA. I do not know, probably 30 or 40 years.



Senator CLARK. As a matter of fact that was started since the World War, was it not—about 1920?

Mr. MIRANDA. No; I do not believe so. I think they have had missions right along, for 30 or 40 years.

Senator CLARK. As a matter of fact, these missions that are now sent down there are sent down there in pursuance of a law passed in 1920; is not that so?

Mr. MIRANDA. You mean American missions?

Senator CLARK. Yes.

Mr. MIRANDA. I am not talking about American missions. I am speaking about European missions.

Senator CLARK. Oh, I beg your pardon.

Senator BONE. When a mission goes for instance from Great Britain or France to a South American country, what does it do? Let us take a naval mission, for example. What does it do, when it arrives, for instance, in Chile or Peru?

Mr. MIRANDA. Well, sir, the mission is immediately assigned to the—let us say it is a naval mission—to the naval academy of the country, if there is one. If there is no naval academy, they will probably talk the country into establishing a naval academy, and they become instructors.

Senator BONE. Why would England want to establish a naval academy in Peru?

Mr. MIRANDA. It would be a Peruvian academy. They train the Peruvians in British naval methods, and the logical thing is they will create an interest in British battleships, torpedo boats, and destroyers, and the order should go to Britain.

Senator BONE. In other words, the order then would go to Great Britain?

Mr. MIRANDA. Yes.

Senator BONE. So that these missions are just sales agents?

Mr. MIRANDA. I think that is all they are. No; they are more than that.

Senator BONE. Just go ahead and explain the idea a little further, so that we will get the facts.

Mr. MIRANDA. As I said before, the military are in favor in every country almost in South America, and it happens that the young well-to-do people want to go either to the army or the navy. The officers go to the local military school, and in later years they come in contact with the foreign officers and are trained and taught by the foreign officers, and they gain the manner of thinking that the foreign officers have given them, not only as regards war material, but as regards all material, generally speaking.

Senator BONE. Then, as well as to sell war material, it is to build up a sort of caste system along with it?

Mr. MIRANDA. To make them feel they should go to that country, or look to that country for most of their requirements, not only military requirements, but most of their requirements.

Senator BONE. Do these South American countries pay the expenses of the foreign missions?

Mr. MIRANDA. No; they are sent there and paid by the European government.

Senator BONE. Then the taxpayers of these governments pay for these missions?

Mr. MIRANDA. That is all right, they get back enough to offset the cost of the mission.

Senator BONE. That does not offset the huge army on the dole in England and it does not help to balance the budget.

Mr. SWEETSER. I guess it does with the amount of business they are getting.

Senator BONE. They do not appear to be making a very satisfactory job of it, that is what I was thinking.

I take it along with this sales talk that accompanies these expeditions there is a very gradual infiltration of European ideas into the South American mind.

Mr. MIRANDA. Unquestionably.

Senator BONE. Then also, aside from the sales aspect of it, it has another different aspect, that is to impregnate the South American mind with European culture as a superior culture.

Mr. MIRANDA. You can say most of the South American well-to-do boys of the army or navy are sent to Europe to be educated. Very few get over here.

Senator BONE. I take it, this desire to bring European culture to South America might lead to somewhat of a race between the European countries to get their culture established in these countries.

Mr. MIRANDA. What they are interested in is the foreign market.

Senator BONE. Now, Mr. Miranda, let us be just frank with ourselves. It all simmers down to a market in the last analysis.

Mr. MIRANDA. To capture the market; yes.

Senator BONE. A la Zaharoff, is that right? Of course dukes, titles, and the bangles come along later when the market is established. Is that right?

Mr. MIRANDA. Probably.

Senator BONE. Do you think as the result of these years and years of activity on the part of these European naval and military missions there has been established in the minds of youthful Latin-America the idea that European culture is superior to ours?

Mr. MIRANDA. Unquestionably.

Senator BONE. That would be well recognized?

Mr. MIRANDA. Yes, sir.

Senator BONE. Are you a Latin-American?

Mr. MIRANDA. Yes; I was born in Mexico.

Senator BONE. So that you understand that mind more than any of us born in the United States?

Mr. MIRANDA. I am of the Latin race and of Latin education, and I try to see both viewpoints.

Senator BONE. You have been favored then, in being able to answer the questions I cannot answer. Your opinion is that the sales efforts on the part of the European naval and military missions has inculcated in the South American mind, especially the youth, the idea that European culture is better than ours?

Mr. MIRANDA. I think it has been a factor.

Senator BONE. Do you think it has any tendency to create any stronger militaristic attitude or mind among the young people of South America?

Mr. MIRANDA. To some extent; yes, sir.

Senator BONE. Has it tended to make them more belligerent in their attitude?

Mr. MIRANDA. They are bellicose enough.

Senator BONE. Well, that is in their blood, is that right?

Mr. MIRANDA. Yes.

Senator BONE. Do you think under those conditions, with this constant stimulus of Europe, with all of the high-pressure salesmen, with the dukes, and with all these successful operations, there is not much chance of building up a real strong Pan-American relationship here, a relationship that is based on comity and good will?

Mr. MIRANDA. I think so. I think when this country goes to the same effort that the Europeans do to make those nations of the South American continent better friends, that a greater degree of harmony will exist.

Senator BONE. Do you think we can accomplish something in that direction by shipping munitions to them?

Mr. MIRANDA. I think shipping munitions to our people will help.

Senator CLARK. Your idea is, Mr. Miranda that the more means we furnish these South American people for killing each other, the more they will be inclined to love us?

Mr. MIRANDA. That is because it is not only furnishing the material, but along with it will come the American training methods, American instructors, and that is what is going to help get the American idea into the mind of the South American people.

Senator BONE. Let me call your attention to a letter dated Habana, Cuba, April 10, 1934, and signed Jose Merla and addressed to yourself, which I offer as "Exhibit No. 236."

(The letter referred to was marked "Exhibit No. 236", and will be found in the appendix on p. 655.)

Senator BONE. This letter may enable us to get a little better picture of the naval situation down in that section of the world. He says:

My patron here is the paymaster general.

What does he mean by "patron." Has that any significance in a Latin-American country?

Mr. MIRANDA. Probably he means that he is his sponsor.

Senator BONE. That does not illuminate it any further. What is a sponsor?

Mr. MIRANDA. It would be his friend.

Senator BONE. Does that have any reference to a purchasing agent he might not have otherwise any access to?

Mr. MIRANDA. I would not be surprised.

Senator BONE. Here is another letter from V. Menozzi to yourself, dated Lima, December 4, 1933, which I offer as "Exhibit No. 237."

(The letter referred to was marked "Exhibit No. 237", and will be found in the appendix on p. 655.)

Senator BONE. In this letter, "Exhibit No. 237", Mr. Menozzi tells of his close connection with Peruvian officials and says his wife is a niece of the former president. He says:

I find myself in a very advantageous position for a foreigner, because from the very first I moved in the best Peruvian social circles. I have many personal friends and so has my wife, who is a Peruvian, niece of the ex-President of

the Peruvian Republic, Don Nicholas De Pierda, who no doubt was the best President Peru ever had since the period of independence.

Was he your agent down there?

Mr. MIRANDA. He was our agent; yes, sir.

Senator BONE. Were you able to do any business as the result of his activities?

Mr. MIRANDA. No; not yet.

Senator BONE. I call your attention to another letter dated March 25, 1933, signed F. Sefzic and addressed to the Driggs Ordnance & Engineering Co., Inc., which I offer as "Exhibit No. 238."

(The letter referred to was marked "Exhibit No. 238," and will be found in the appendix on p. 656.)

In this letter I find the following statement:

The Bethlehem Steel Co., of Bethlehem, Pa., has been so kind to give me your address and stating that your firm are engaged in the manufacturing and selling of war materials. In view of this I desire to bring the following facts to your attention with the object of offering you my personal services as exclusive indent agent.

And then further on it says:

It may interest you that I have very good contacts with the Ecuadorian Government officials and the general staff of the army and may frankly state will be secretly connected with the commission to be appointed in buying the necessary requirements.

Was this agent afterwards connected with that commission?

Mr. MIRANDA. I do not know.

Senator BONE. Reading further, the letter says:

Doubtless you know the international situation in South America is not very peaceful and that Colombia and Peru are more or less even though officially no war has been declared are fighting. Unfortunately Ecuador is in between two fires and it feels the necessity of preparing itself for armed neutrality.

Senator CLARK. What is the date of that letter, Senator?

Senator BONE. That is March 25, 1933.

The CHAIRMAN. Senator Bone, we might as well have the understanding now to avoid later trouble, and for the information of the reporters, let the record show when these exhibits are offered, that they are for printing in the appendix unless the Senator or other examiner stipulate they be put in the main body of the record itself.

Senator BONE. Does your firm advertise in the magazine Bolivian?

Mr. MIRANDA. Yes.

Senator BONE. You advertise also in the Army Ordnance Magazine published in this country?

Mr. MIRANDA. Yes.

Senator BONE. What is your opinion of the Army Ordnance Magazine?

Mr. MIRANDA. I believe it is a very interesting journal.

Senator BONE. You think it is the best we have?

Mr. MIRANDA. I think it is probably the best in the world. It is the widest read.

Senator BONE. Where does it circulate?

Mr. MIRANDA. It circulates all over.

Senator BONE. Do you think it is helping you make sales?

Mr. MIRANDA. No; we have not been in business long enough.

Senator BONE. I mean by giving your concern information through advertisement and information in the magazine that you might not otherwise have?

Mr. MIRANDA. No; I think we have all of those records.

Senator BONE. In comparing that with foreign munitions journals, do you think it has more information in it?

Mr. MIRANDA. I do not think there are any foreign munitions journals.

Senator BONE. Do you belong to the Navy League or the Army League?

Mr. MIRANDA. We are members of the Army Ordnance Association, and that is the way we get the magazine.

Senator BONE. Is that the only organization of that type that you belong to, or any member of the firm, or the firm itself?

Mr. MIRANDA. That is all.

The CHAIRMAN. What is the Army Ordnance Association?

Mr. BRAYTON. If I may answer that?

The CHAIRMAN. Yes.

Mr. BRAYTON. Immediately after the war many of the leaders in this country recognized the need for interesting all industry in the ordnance problem, and the result was that in early 1920 a group of influential men, some of whom were in the Army during the war, organized this Army Ordnance Association, with the full backing of the War Department and the United States Army.

The CHAIRMAN. Were they necessarily affiliated with any manufacturer of ordnance?

Mr. BRAYTON. No; they were not necessarily so, neither then nor since. I have been a member since its organization. They publish this journal I think four times a year, and during my period of activity as a civilian engineer in the Ordnance Department I used to contribute articles to it, among others. Anyone can write for it as a matter of fact. They put out a very splendid journal and have done very splendid work in keeping the industry up on the ordnance problem.

Senator BONE. Mr. Miranda, what were the relations of the Driggs Co., when you were with them, with the Curtiss-Wright Corporation?

Mr. MIRANDA. I do not believe that the Driggs Co. had any relation with the Curtiss-Wright Corporation. Of course, my brother having the handling of aircraft in our business from the beginning, naturally has been in close contact with members of other companies that handle the foreign end of their business.

Senator BONE. Do you know Mr. Owen Shannon?

Mr. MIRANDA. I know him very well.

Senator BONE. He is with Curtiss-Wright?

Mr. MIRANDA. Yes.

Senator BONE. They maintain an export corporation to look after their foreign business?

Mr. MIRANDA. That is correct.

#### RELATIONS WITH UNITED STATES NAVAL OFFICIALS

Senator BONE. Under date of November 4, 1932, there is a letter signed by yourself for the Driggs Ordnance & Engineering Co., addressed to Messrs. Urueta & Samper, Bogota, Colombia, which I offer as "Exhibit No. 239."

(The letter referred to was marked "Exhibit No. 239" and will be found in the appendix on p. 657.)

Senator BONE. In this letter, "Exhibit No. 239", you state:

Our mutual friend, Mr. Owen Shannon, of the Curtiss-Wright Export Corporation, has been kind enough to give us your name and recommend your firm to look after our negotiations in Bogota with the Government of Colombia. Accordingly, we took the liberty of cabling you on October 29th, as per copy enclosed, and are pleased to acknowledge your cable reply of November 2d.

Mr. MIRANDA. Yes; I wrote that.

Senator BONE. Now, further down in the second paragraph below it says:

In view of the publicity attendant to the international situation between Colombia and Peru, the Colombian consulate here has been deluged with proposals for all kinds of war material, mostly second-hand, obsolete material, offered by brokers.

Can you give us any information about those brokers, who they would be?

Mr. MIRANDA. Yes, sir; I believe the International Ordnance & Instrument Co. was one, probably Bannerman, of New York, offered them some, and then there is, I think, the Export Consolidated Co.

Senator BONE. The Consolidated Export Co.?

Mr. MIRANDA. Yes; that is it; the Consolidated Export Co.

Senator BONE. Was the United States Government at this time taking any official notice of the conditions that existed in the Colombian-Peruvian situation?

Mr. MIRANDA. I imagine they were watching the situation, but they have made no statement.

Senator BONE. Do you know what this Government did in that connection?

Mr. MIRANDA. I don't think they did anything.

Senator BONE. I call your attention in this letter to a further statement which I read as follows:

To safeguard the interests of the Colombia Government and save the time of the consulate and of the War Ministry in Bogota, the United States Government has "loaned" to the Colombian consulate one of its naval officers, to act as adviser on the merit of the material offered.

Is that correct?

Mr. MIRANDA. Yes.

Senator BONE. Can you tell us the name of that officer?

Mr. MIRANDA. Commander Strong.

Senator BONE. So the letter is correct when it says the name of the gentleman is Commander Strong?

Mr. MIRANDA. Yes.

Senator BONE. He was a commander in the United States Navy?

Mr. MIRANDA. Yes, sir.

Mr. BONE. Do you know when he resigned from the Navy?

Mr. MIRANDA. I understand he resigned from the Navy in February of this year.

Senator BONE. So he was with the Navy a year and several months after this letter was written, and a year and several months after this Government loaned him to Colombia as adviser.

Senator CLARK. Wasn't this the situation, Mr. Miranda, there were hostilities between Peru and Colombia, and the United States sent a mission to Peru and only loaned Colombia this one man and Colombia got the worst of it?

Mr. MIRANDA. The naval mission to Peru was many years ago.

Senator CLARK. The naval mission was down there in 1930 when President Leguia was run out.

Mr. MIRANDA. But this was 1932.

Senator CLARK. The naval mission was down there telling them to buy submarines so as to protect itself from Colombia.

Mr. MIRANDA. No; from Chile.

Senator BONE. Now, Mr. Miranda, I have this further question to ask. You go ahead in this letter I have just referred to and say:

Inasmuch as our guns have been the standard used by the Army and Navy for more than forty years, and their efficiency has been amply demonstrated in past wars (particularly the World War), Commander Strong is thoroughly acquainted with our equipment not only has he approved our proposals but strongly recommended the acquisition of our material as being the finest obtainable.

It appears that Commander Strong went down to Colombia as a sales agent, with his mind made up that Driggs ordnance was the best, and he went down there only as military adviser and also to use your or Driggs armament.

Mr. MIRANDA. I know that he explained the whole thing.

Senator BONE. Well, you tell us, if you can, what that meant.

Mr. MIRANDA. As I said before, when the difficulty between Colombia and Peru came up I went to Mr. Driggs and said, let me go down to see the consul and see if I can stir up some business. So I went down and took my catalog down and spoke with the consul, and the consul said, well, we have now an expert to pass on all of the material we are going to buy, and he called in Commander Strong and introduced him to me. He said all of the material we are going to buy is going to be passed on by this expert. Now, then, the only guns available in this country at the time were the Driggs gun, and Commander Strong told me, "I remember the Driggs gun, I remember it was in our book at the Naval Academy." He said he remembered it and spoke very highly of the Driggs gun, that he was familiar with it in the Navy. There was no other gun he could recommend; he had to recommend the Driggs gun or let the business go to Europe.

Senator BONE. In other words, he would not let any business go to Europe if he could prevent it?

Mr. MIRANDA. Then in addition to that, there is the question of the merit of the gun.

Senator BONE. What is your opinion of the Government sending a man down to Colombia?

Mr. MIRANDA. He was not down there, he was here in New York all of the time.

Senator BONE. Was he advising on defense from New York?

Mr. MIRANDA. Yes.

Senator BONE. Then the only advice he could give would be to buy the Driggs gun?

Mr. MIRANDA. That is about all.

Senator POPE. Mr. Miranda, were you present this morning when Mr. Driggs testified?

Mr. MIRANDA. Yes.

Senator POPE. You recall he testified Commander Strong and he were present and prepared the report to Colombia which I introduced

in the record this morning, as to defenses, there being two reports, one November 19 and the other December 2?

Mr. MIRANDA. Yes.

Senator POPE. Which were followed immediately by a letter on November 19 to Colombia and one on December 3, which he testified were prepared at the time the reports of recommendations were prepared. Were you also present at that time?

Mr. MIRANDA. Yes, sir. I went down to the Colombian consulate. The consul sent for me, and he told me he had instructions from the Colombian President to have Commander Strong draw up plans for the defense of their ports. Then, inasmuch as we had already done some business with him and inasmuch as he knew there was no other company in this country that could furnish the guns, he wanted to know if we could cooperate with Commander Strong to give him whatever information we could in connection with the guns to be supplied, and I said certainly.

Senator POPE. You were present when the recommendations were prepared and also when the letters were written by Driggs Ordnance Co. to Colombia?

Mr. MIRANDA. Yes.

Senator CLARK. What type of guns were to be supplied Colombia?

Mr. MIRANDA. What we recommended was the 6-inch coast defense guns.

Senator POPE. That was very valuable service to you in connection with your efforts to sell munitions, to have Commander Strong prepare the recommendations which you were to follow by a letter?

Mr. MIRANDA. They had no other alternative, they could not get guns from anyone else.

Senator POPE. But that was very valuable to you in making sales?

Mr. MIRANDA. You mean his recommendation of our gun?

Senator POPE. Yes.

Mr. MIRANDA. He was working for the Colombian Government and had to meet their request. Suppose we had said, No, we were not in position to furnish those guns, then the consul would have cabled down to Colombia that the United States was not in a position to furnish the guns, and they would look to England or France for the guns.

Senator POPE. Now, for that service, which was undoubtedly a very valuable service to you, what compensation did you pay Commander Strong?

Mr. MIRANDA. We never considered it as a service to us. He was in the employ of the Colombian Government.

Senator POPE. Yes; but did you pay him anything for his services?

Mr. MIRANDA. Why should we pay him? In the first place, no sale was made.

Senator POPE. Did you pay him anything?

Mr. MIRANDA. No; we did not pay him anything.

Senator POPE. Did you pay him anything or help him to obtain any compensation indirectly?

Mr. MIRANDA. Not at all.

Senator BONE. And does Commander Strong work in conjunction with you in acquiring new business?

Mr. MIRANDA. No; he is in the employ of the Colombian Government.



Senator BONE. He is now in the employ of the Colombian Government?

Mr. MIRANDA. He has been in the employ of the Colombian Government since the end of February.

Senator BONE. In that connection he is frequently in and out of your place of business?

Mr. MIRANDA. He comes to our office whenever it is necessary for him to do so.

Senator BONE. Now, I call to your attention a letter dated December 4, 1933, from yourself to Joaquim Samper in Bogota, which I offer in evidence.

(The letter referred to was marked "Committee Exhibit No. 240" and will be found in the appendix on p. 658.)

Senator BONE. In this letter, "Exhibit No. 240", you say this:

In the meantime, Commander Strong came to town and contacted me. As you know, Strong and I are very, very good friends; we understand each other perfectly, and he will do everything possible to throw the business our way. I want you to bear this in mind and remember that he is one of our strongest allies, and, therefore, whenever possible boost his stock with the Government.

You had been trying to boost your stock with the Colombian Government to redound to your benefit?

Mr. MIRANDA. Naturally, we were competing against European business.

Senator BONE. I read farther from this letter:

He told me that he has been in conference with the Minister at Washington (Lorenzo) for 2 weeks, and that the Government now realizes the negotiations at Rio are getting nowhere.

What negotiations were those?

Mr. MIRANDA. Peace negotiations between Peru and Colombia.

Senator BONE. They were being carried on in Rio Janeiro?

Mr. MIRANDA. Yes.

Senator BONE. And getting nowhere?

Mr. MIRANDA. That is correct.

Senator BONE. I read further from the letter:

They are trying to arrange for the U.S. Navy to release Commander Strong so that he can go to Columbia as an adviser to your Government.

What do you mean by that?

Mr. MIRANDA. The United States Government.

Senator BONE. Trying to get the United States Government to release him?

Mr. MIRANDA. Yes.

Senator BONE. Reading further the letter says:

He is a very competent man with a splendid record in the American service, one of the youngest full-fledged commanders in the Navy, and I am certain that if he goes to Bogota for a while and you people give him decent support that he will be able to organize matters for you along modern lines.

Now, subsequent to this letter the United States Government actually loaned Commander Strong to the Colombian Government?

Mr. MIRANDA. No; they had loaned him a year prior to this letter.

Senator BONE. The United States Government had actually loaned Commander Strong to the Columbian Government to advise them on military matters?

Mr. MIRANDA. Yes.

Senator CLARK. May I ask a question?

Senator BONE. Indeed.

Senator CLARK. Were you familiar with this defense plan that Commander Strong was preparing?

Mr. MIRANDA. Yes, sir.

Senator CLARK. That had particular reference to protection against Peruvian submarines?

Mr. MIRANDA. No; Peruvian cruisers.

Senator CLARK. You did not have any provision for submarines?

Mr. MIRANDA. Yes; I think we had made provision for a submarine net at one port.

Senator BONE. What compensation were you paying Mr. Strong for the services rendered in stimulating the sale and your negotiations?

Mr. MIRANDA. None at all.

Senator BONE. Were you doing anything for him at all?

Mr. MIRANDA. I was not.

Senator BONE. Was your company doing anything at all for him?

Mr. MIRANDA. No.

Senator BONE. Were you handling an account for him on the New York stock market?

Mr. MIRANDA. I could not tell you except that I did hear it.

Senator BONE. When did you hear it?

Mr. MIRANDA. The first thing I heard about it was from the investigators.

Senator BONE. Who was handling the account?

Mr. MIRANDA. My brother was.

Senator BONE. Here is the statement of the account of I. J. Miranda with Estabrook & Co., which shows a pencil memorandum on it saying: "Bought for Jim, July 17, at 19½, \$2,133.45." Underneath that is a deduction of \$1,962.50, showing a gain to him of \$170.95, and I offer this memorandum as "Exhibit No. 241."

(The paper referred to was marked "Exhibit No. 241" and will be found in the appendix on p. 659.)

Senator BONE. This memorandum shows that gain I have just read?

Mr. MIRANDA. If that was for the account of Commander Strong yes, sir.

Senator BONE. As a result of that there was a gain to him, Commander Strong, of \$170.95?

Mr. MIRANDA. Yes; as I said, if that was for the account of Commander Strong.

Senator BONE. The Driggs Co. was handling the account for Commander Strong at that time; is that right?

Mr. MIRANDA. Yes.

Senator BONE. Now, we have a letter from Commander Strong, signed "Jimmy Strong", dated "Cherry Cottage, Box 35, Leni, Pennsylvania", under date of August 14, 1933, on the letterhead stationery of the United States Navy Yard, Philadelphia, Pennsyl-

vania, Naval Aircraft Factory, written in ink, addressed to "Dear Iggy." Who is "Iggy"?

Mr. MIRANDA. My brother.

(The letter referred to was marked "Exhibit No. 242" and was read in full by Senator Bone, as follows):

[Written in ink]

Estabrook Co. \* \* \* File.

UNITED STATES NAVY YARD, PHILADELPHIA, PA.,  
NAVAL AIRCRAFT FACTORY, CHERRY COTTAGE,  
Box 85, Leni, Pa., August 14, 1933.

[Excerpts]

DEAR IGGY: Many thanks for your note regarding the sale of New York Ship. I agree with you in taking a little profit and then grabbing the stuff back again in the reaction of another little gain.

I was expecting you down to Trenton last week with the Brazilian mission, but Switlik has since informed me that it will probably be this week.

\* \* \* \* \*

[1 paragraph omitted]

Sincerely yours,

(Signed) JIMMY STRONG.

Senator BONE. Who was Switlik, to whom Commander Strong refers in the letter?

Mr. MIRANDA. Switlik Parachute Co.

Senator CLARK. The copy of the letter which I have reads in the last paragraph: "Has Alfred left for Paris this week?"

Who is "Alfred"?

Mr. MIRANDA. Me.

Senator BONE. This is signed "Jimmy Strong." That is James Strong of the United States Navy?

Mr. MIRANDA. James H. Strong; yes, sir.

The CHAIRMAN. The committee will take a recess at this time until 10 o'clock Monday morning, at which time, gentlemen, we hope you will be back here.

Mr. Johnson, it is understood that you may be excused now.

(Thereupon the committee took a recess until Monday, Sept. 10, 1934, at 10 a.m.)



# INVESTIGATION OF MUNITIONS INDUSTRY

MONDAY, SEPTEMBER 10, 1934

UNITED STATES SENATE,  
SPECIAL COMMITTEE TO INVESTIGATE THE  
MUNITIONS INDUSTRY,  
Washington, D.C.

The hearing was resumed at 10 a.m., in the Caucus Room, Senate Office Building, pursuant to the taking of recess, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), George, Bone, Pope, and Barbour. Present also: Donald Wemple, investigator.

The CHAIRMAN. Let the committee be in order, and let the record note that the committee members who are absent this morning, Senator Vandenberg and Senator Clark, will be joining the committee again on Thursday morning of this week. They are absent at their home by reason of calls.

Senator Bone, you may proceed with the witnesses.

**TESTIMONY OF ALFRED JOSEPH MIRANDA, JR., HAROLD MORGAN BRAYTON, FRANK ELLIOTT SWEETSER, AND FRANK JOHNSON—**  
Resumed

## RELATIONS WITH SOUTH AMERICAN REPUBLICS

Senator BONE. Mr. Miranda, can you tell us who General Vargus was, in the United States of Colombia?

Mr. MIRANDA. General Vargus was one of the officers of the Colombian Government. He was retired I believe for the last 3 years until he resigned and went down with the *Flying Fox* to Colombia in 1933. He was with the *Flying Fox* during the campaign; then he returned to the United States and retired again.

Senator BONE. Is he living in this country now?

Mr. MIRANDA. He is living in this country now, I understand.

Senator BONE. There was some discussion in the latter part of 1932 about making him general military and technical officer of the Colombian Government, but instead of that Lieutenant Commander Strong was made such officer of the Colombian Government.

Mr. MIRANDA. Strong had been an officer of the Colombian Government since September or October of 1932. Their work was entirely nonconflicting.

Senator BONE. This reference in your letter of December 4, 1933, which I think has been placed in evidence, says the government had an idea of making him the official inspector of purchases, but the minister prevailed with the president to appoint Strong, and that

refers back to this appointment of Commander Strong which we have heretofore been discussing, and that was the appointment Strong had secured sometime prior to that date. You will note that in the sixth paragraph of your letter.

Mr. MIRANDA. That is right.

Senator BONE. So this merely referred to the old appointment of Strong?

Mr. MIRANDA. Yes; the old appointment of Strong.

Senator BONE. At the time this letter was written, December 1933, Commander James Strong was having a conference of some sort with a party of the name of Goulding. Whom did he represent?

Mr. MIRANDA. Goulding is in the employ of the Curtiss-Wright Co.

Senator BONE. That is an American airplane company?

Mr. MIRANDA. Yes.

Senator BONE. Were they in the field for the sale of airplanes to Colombia at that time?

Mr. MIRANDA. They had been supplying practically all of the airplanes to Colombia from several years past.

Senator BONE. Were those military or ordinary commercial type, or both.

Mr. MIRANDA. I think they were mostly the military planes.

Senator BONE. Can you tell us anything about the character of the planes, whether they were generally the latest design and type?

Mr. MIRANDA. I understand they were the latest type the Government had released for export.

Senator BONE. Who was Mr. Bell mentioned in this letter?

Mr. MIRANDA. Mr. Bell, I believe, is vice president or general sales manager of the Consolidated Aircraft Co.

Senator BONE. Where are they located?

Mr. MIRANDA. In Buffalo.

Senator BONE. Buffalo, N.Y.?

Mr. MIRANDA. Yes.

Senator BONE. Were they also selling airplanes down in that country?

Mr. MIRANDA. They also had sold, I think, one airplane to Colombia?

Senator BONE. Was it a military type of plane?

Mr. MIRANDA. Yes; it was a military type.

Senator BONE. Was Commander Strong at that time pushing the purchase of other types of materials down there besides trying to be friendly with your firm?

Mr. MIRANDA. Commander Strong was trying to push the sale, if you want to put it that way, of American material. The European governments were bidding for this Colombian business in hand.

Senator BONE. That would be indicated by the statement that he was "pushing for the acquisition of this material." Meaning military material from America?

Mr. MIRANDA. Yes.

Senator POPE. In the event Mr. Strong was able to sell these airplanes for either the Curtiss-Wright or any others, was it understood that you would arm them with your guns?

Mr. MIRANDA. No. We did not manufacture machine guns, and that is all the equipment they would carry. We were then develop-

ing an airplane gun, and we hoped that certain of the types of airplanes that might be purchased would carry these airplane guns. But, as a rule, most of the airplanes only carried machine guns, and we did not manufacture machine guns.

The CHAIRMAN. Mr. Miranda, did you job in supplies you did not manufacture yourselves?

Mr. MIRANDA. We actually have not, although we would not be averse to doing it. That is the reason we made the connection with Soley in England. They have stocks of rifles and machine guns and ammunition and stuff that we do not manufacture, and not infrequently in our negotiations with the Government they would say "Have you any machine guns for sale, or any rifles for sale?"

Senator BONE. Where did the Bellanca airplane outfit get into the picture in South America?

Mr. MIRANDA. You mean in all countries in South America?

Senator BONE. Yes; let me call your attention to a letter dated April 26, 1933, which I offer as "Exhibit No. 243."

(The letter referred to was marked "Exhibit No. 243", and is included in the appendix on p. 659.)

Senator POPE. Senator Bone, before you go to that letter, there is one further question I would like to ask about the letter of December 4, 1933.

Senator BONE. Yes.

Senator POPE. Mr. Miranda, in this letter of December 4, 1933, written by you to Mr. Samper, you make this statement:

Nevertheless, Cortes Vargas and I, personally, are on very friendly terms. I believe that he is going to be given some sort of military position in Colombia. After the last campaign he certainly deserves an A1 rating and will be a good leader for your troops. Possibly you feel antagonistic towards him but do not let that mar the business possible. Cortes Vargas and I have thrashed our differences and we are on very friendly terms and I know that he will recommend our equipment. You will see that I have tried to cover myself by every possible means, that is to make certain that this time substantial business available will come to this country and will come to us.

What differences did you thrash out with Cortes Vargas?

Mr. MIRANDA. General Cortes Vargas was very much in favor of Colombia buying British boats. They had bought, during the time he was there different ordnance or different stuff in Colombia, probably 10 years ago when they had purchased some gunboats from the Yarrow Co. in England, and when we sold the Flying Fox to the Government, he felt it was a mistake to purchase a boat which had been expressly built not for military service, and he thus expressed his thoughts to the Colombian Government, and it was not very favorable to us. Nevertheless, when he returned from the campaign—and he was on the boat all through the campaign and found the boat had given service very efficiently—he returned to New York, and he and I got together, and he said I agree that with the price for which you furnished the boat, and the quick time in which it was furnished, it covered the job.

Senator POPE. Then your reference to covering yourself by every possible means, simply meant you did talk to him and protected yourself from any adverse report?

Mr. MIRANDA. It was not a matter of any adverse report, because that had already been done. He had a prejudice but I did make him

feel by that time, we were in a position to furnish a certain class of material to his government, and had gained his confidence.

Senator POPE. You referred in the very last paragraph of that letter to the following:

Keep on pushing, and keep me thoroughly posted and do not forget that the "Sucre" needs a range finder and additional ammunition.

The *Sucre* was the same as the *Flying Fox*?

Mr. MIRANDA. Yes; the *Sucre* was the same as the *Flying Fox*. The *Sucre* was the Colombian name of that boat.

Senator POPE. You refer there to selling the *Sucre* to the Colombian Government?

Mr. MIRANDA. Yes.

Senator POPE. Your company did not; but the Driggs Co. did?

Mr. MIRANDA. Yes; that was before the formation of the American Armament Corporation.

Senator BONE. Now, going back to this letter of April 1933, I believe I asked you where the Bellanca crowd got into this picture. Can you give us any light on that?

Mr. MIRANDA. Yes; during the spring and summer of 1933 my brother of course was pursuing his airplane business, and you must bear in mind that the American Armament Co. was not established at that time, and I was in Brazil on behalf of the Driggs Ordnance Co.

Senator BONE. This was referring primarily to—just go ahead and make your explanation.

Mr. MIRANDA. So my brother was pushing his airplane business as he had for a number of years. At that time Strong—

Senator BONE. That is Commander Strong of the United States Navy?

Mr. MIRANDA. Yes; Commander Strong of the United States Navy. In this connection, with this business, he recommended the Bellanca plane, and that is the way my brother became introduced to the Bellanca Co.<sup>1</sup>

Senator BONE. Through Commander Strong?

Mr. MIRANDA. Yes; through Commander Strong.

Senator BONE. Can you tell us whether Strong was in touch with different organizations in this country furnishing military supplies?

Mr. MIRANDA. No; I think he was chief of ordnance.

Senator BONE. That was in connection with Colombia?

Mr. MIRANDA. No; this was not in connection with Colombia. Colombia had not bought any Bellancas, but Commander Strong, because of the nature of his position was in touch with the aircraft companies so that he could offer suggestions as regards aircraft equipment. This has nothing to do definitely with his capacity as advisor to the Colombian Government.

Senator BONE. Your reference there to the Lockheed amphibian, evidently they are the manufacturers of the Viking plane. What is that reference.

Mr. MIRANDA. As a matter of fact Groes Bros. had acquired financial control of the Lockheed Co. just about that time.

Senator BONE. Who are they?

Mr. MIRANDA. I do not know, sir.

<sup>1</sup> In a telegram to the committee which was entered into the record of Sept. 18, 1934, immediately preceding the noon recess, the Bellanca Aircraft Corporation denied that Mr. Miranda handled their business in Colombia (see pt. VII).



Senator BONE. Where is the Viking plane manufactured?

Mr. MIRANDA. It is manufactured in New Haven, Conn.

Senator BONE. Were those both American outfits, the Lockheed and the Groes outfit?

Mr. MIRANDA. Yes.

Senator BONE. When you refer to "Waco", is that Semper—that is referred to in the P. S. later in the letter?

Mr. MIRANDA. Oh, yes; that is correct.

Senator BONE. What is that, some sort of nickname?

Mr. MIRANDA. Yes; that is his nickname.

Senator POPE. Who is Colonel Escallon referred to there?

Mr. MIRANDA. Colonel Escallon is the chief of the matériel division in Colombia.

Senator POPE. I notice you say you sent a pair of sportaculars to Colonel Escallon. What was that?

Mr. MIRANDA. It was a pair of glasses, just as a present.

Senator BONE. Who is Mr. Wilcox?

Mr. MIRANDA. Mr. Wilcox was the name that Mr. Olano, the counsel of Colombia, adopted in all of his negotiations for armament material.

Senator BONE. What was his name?

Mr. MIRANDA. Mr. Olano.

Senator BONE. So that the reference to Mr. Wilcox in the letter of April 8, 1933, refers to Mr. Olano, that is correct, is it?

Mr. MIRANDA. Yes.

Senator BONE. Just give his official connection again.

Mr. MIRANDA. He was the consul general of Colombia in New York.

Senator BONE. And that is who you referred to in the letter of April 8, 1933, when you say Mr. Wilcox, and at this time, I will offer this letter in evidence.

(The letter referred to was marked "Exhibit No. 244", and is included in the appendix on p. 660.)

Senator BONE. In this letter here you are stating that you had communicated to him the confidential information that Peru had ordered seven Hawks from the Curtiss-Wright Co. How did you come into possession of that information?

Mr. MIRANDA. I am sorry, Senator, but it was my brother who wrote that letter. I was away from this country at that time, and just how he came in possession of this information I could not tell you.

Senator BONE. Where is the plant of the Curtiss-Wright Co.?

Mr. MIRANDA. I understand one of their plants is in Buffalo.

Senator BONE. Do they maintain a plant in Chile?

Mr. MIRANDA. Yes; I believe they have a factory in Chile, or an assembling plant.

Senator BONE. Do you know whether the Curtiss concern has plants in other countries?

Mr. MIRANDA. I do not know, Senator. The fact is that it has not been within my province to handle the aircraft end of our business, so that I am a little vague on some of those details.

Senator BONE. You were authorized by Seversky Co. to negotiate the sale of planes in Brazil at one time, that is Miranda Bros.?

Mr. MIRANDA. Yes.

Senator POPE. I am interested in this man Wilcox. He was the consul general?

Mr. MIRANDA. Yes, that is correct.

Senator POPE. Why did you call him Wilcox?

Mr. MIRANDA. That was the recommendation he made to all of the firms he was dealing with in military supplies. He was fearful that the Peruvians were watching him or perhaps tapping his wires, and he wanted to keep matters quiet. Possibly those were the instructions that he had from his government, but his request to us, and the understanding to all of the firms he was dealing with in military supplies was that he was to be called Mr. Wilcox, and when they telephoned to the consulate they were to ask for Mr. Wilcox, then Mr. Olano would answer.

Senator POPE. Just one other question. The purpose undoubtedly was, in communicating to Mr. Wilcox this information that Peru had ordered seven Hawks, to stimulate the desire by Colombia to purchase planes?

Mr. MIRANDA. Not at all. We had no aircraft account to sell to Colombia at all, so that could hardly be possible.

Senator POPE. You did hope to arm the aircraft?

Mr. MIRANDA. No; that was not the case, it was simply the matter of service. When Colombia and Peru had their differences, we decided we would stay with one of the two sides not both. We obtained substantial business from Colombia, so that we were on the Colombia side, and we tried to render them services in such way whenever we had the information.

Senator BONE. What is the Barr Shipping Co., of New York?

Mr. MIRANDA. That is a shipping and forwarding company.

Senator BONE. What do you mean by a shipping and forwarding company, do they manufacture anything?

Mr. MIRANDA. No; their business is to handle shipments to all parts of the world.

Senator BONE. They are simply forwarders, and not a manufacturing company?

Mr. MIRANDA. Yes; they take care of the insurance, the inland transportation and all of the details of shipping.

Senator BONE. The same thing applies to the American Steel & Copper Plate Co., of New York, or, tell us who they are?

Mr. MIRANDA. They have no military business at all. That is Mr. Pittman, who is the owner of the company and he is a very old friend.

Senator BONE. What do they manufacture?

Mr. MIRANDA. They manufacture engraving plates.

Senator BONE. Do they manufacture any war equipment of any sort?

Mr. MIRANDA. Not that I know of.

Senator BONE. You have had occasion in behalf of Miranda Bros. to refer to them as to your financial standing and ability to make deliveries in addressing a letter to an Italian commercial bank and trust company of New York, and that is why I asked about it.

Mr. MIRANDA. Mr. Pittman, the owner of the concern known as the American Steel & Copper Plate Co., was the man who originally financed my brother and I when we started in business in 1919. He

has known us throughout our business career, and we always feel free to refer to him in such instances.

Senator BONE. Now, in the latter part of November 1933 Miranda Bros. of which you were a member were handling the export business of Lockheed?

Mr. MIRANDA. That is right.

Senator BONE. And the Detroit Aircraft Corporation?

Mr. MIRANDA. Yes.

Senator BONE. And of the Switlik Parachute & Equipment Co. Did this latter company make airplanes?

Mr. MIRANDA. No; they made parachutes and such equipment.

Senator BONE. Were the Detroit Aircraft Co. able to manufacture airplanes for military use?

Mr. MIRANDA. No; they have always manufactured commercial planes. As a matter of fact, none of those three companies you have mentioned manufacture military planes.

Senator BONE. Now, can you tell us whether along in the early part of this year there was any kind of an understanding between Peru and Colombia as to composing their differences, some sort of a cessation of at least verbal hostilities between those two countries?

Mr. MIRANDA. There was a cessation of hostilities accomplished on May 1, 1933, and an armistice was declared for a year's time. That armistice was to end on May 1, 1934.

Senator BONE. That was over the Leticia affair?

Mr. MIRANDA. That was over the Leticia affair in 1934. As May 1, 1934, approached—I mean January, February, and March of this year, the outlook for a definite cessation of hostilities was not very favorable. So that both countries began preparing again so that in case at the end of the armistice warfare should be resumed.

Senator BONE. Now, your brother along about May 28, 1934, the letter bearing that precise date, wrote to the Seversky Aircraft Corporation of New York, directing particular attention to Mr. North. I want to introduce that letter as "Exhibit No. 245" and have it shown to you, Mr. Miranda.

(The letter referred to was marked "Exhibit No. 245" and is included in the appendix on p. 660.)

Senator BONE. That letter states in part as follows [reading]:

As you know, the armistice with Peru comes to an end in about 60 days; both Peru and Colombia are making great preparations and a big time is expected by all.

By "big time" you of course were figuring on the big time when the bullets would begin to fly again? Is that right?

Mr. MIRANDA. That is just an expression.

Senator BONE. I understand it is mere verbiage, but that is what he meant?

Mr. MIRANDA. I do not know, but it is more or less of an idiomatic expression.

Senator BONE. In that letter your brother goes on to say [reading]:

It being impossible to sell both to Peru and Colombia because one would not buy from you if the other one did, we have chosen Colombia—

"We"—meaning Miranda brothers—

first and foremost, because they have money (which Peru has very little of) \* \* \*

What was the matter with Peru? Had the bankers finished Peru, Juan Leguia, and the rest?

Mr. MIRANDA. I could not tell you.

Senator BONE. Your crowd was better qualified to tell what was happening in Peru than anybody else?

Mr. MIRANDA. They did not seem to have the money. To begin with, Peru's resources and Colombia's resources are very different. Colombia is an infinitely wealthier country than Peru.

Senator BONE. Peru had been through the banking mess, the flotation of huge loans in this country, which practically destroyed their credit. That is what actually occurred?

Mr. MIRANDA. That probably was the case.

Senator BONE. You have heard a lot of testimony about the Peruvian situation, have you not? I have noticed you sitting here throughout most of the hearings and you have heard the witnesses tell about the Peruvian finances. Without asking you to verify each of those statements, I will ask you if that is not a correct picture of Peruvian finances, which you have heard placed in the record here by these witnesses?

Mr. MIRANDA. Yes, sir; that is what I have heard.

Senator BONE. That would save us going into detail on that.

You say here:

\* \* \* because of the fact that our connections in official circles in Colombia are just made to order.

Can you be a little more explicit about that?

Mr. MIRANDA. You know in the Latin American countries that the subject of personal contact and personal relations plays a very important part in doing business with the government. Suppose an American manufacturer will contact with one of those countries and he does not know anyone there, and he may have a first-class product which he wants to sell, and he may go to see the war office or the minister of public works—this does not necessarily apply to munitions but applies to doing business in general with the government of Latin American countries—and if he does not have a sponsor, or if he does not have some means of introduction, he is liable to cool off his heels for one or more weeks. That would not be the case with us because I know and my representatives in Colombia know most of the people in the government, so that we would at least have a hearing within a very reasonable time.

Senator BONE. Would you say that the business relations that have to be established down there are such that you would prefer to take a fellow off to one side and tell him about it rather than write him a letter about it?

Mr. MIRANDA. I would not tell him anything. I would just leave that matter to my agents to handle. What they were to do—

Senator BONE. If you were going, for instance, to tell me about how the business was gotten in South America, and sort of give me the "low down" on it, would you rather take me somewhere, say, to my office, and tell me, rather than write a letter?

Mr. MIRANDA. Senator, I would have to follow the practice they follow down there.

Senator BONE. I do not know whether you get my point. I will put it more bluntly. Would you rather tell me than put it in writing? If I were the business agent down there, and we finally

got together on this matter, would you rather tell me in person or write a letter?

Mr. MIRANDA. I think it is always safer to tell things than to write them.

Senator BONE. That would explain why "Iggy" says:

Aside from that, the writer's brother is down in Bogota—

Perhaps we can sympathize with that viewpoint, understanding the situation down there. [Continuing reading:]

Aside from that, the writer's brother is down in Bogota—

That would be yourself?

Mr. MIRANDA. That is right.

Senator BONE (continuing):

where we are negotiating sales of war material running into several millions of dollars.

That was in March of this year?

Mr. MIRANDA. March 28, 1934; that is correct.

Senator BONE (reading):

By the very nature of our business we find it necessary to contact the very highest Government officials. The President, the Finance Minister, the War Minister, and Chief of Staff of the Colombian Army have also approved the Seversky and are in full accord with our view to the effect that this type of ship is eminently suited for their local conditions.

By "local conditions" that meant the possibility of war arising?

Mr. MIRANDA. No, sir; they mean the high mountains and the large number of rivers. The Seversky is an amphibian plane.

Senator BONE. It can land on the river?

Mr. MIRANDA. It can land on the river and on the plateaus.

Senator BONE. The purpose of my question was to suggest to you an answer as to whether or not those planes could and would be used for military purposes.

Mr. MIRANDA. Yes, sir; we were talking about military purposes.

Senator BONE (reading):

Mr. Miranda, Jr.—

Which would be yourself—

During his stay in Bogota, has lined up for us a contract for 18 Severskys.

Do you know whether or not the Severskys did much work down there?

Mr. MIRANDA. No; the contract did not go through.

Senator BONE. This letter seems to be something of a report.

Senator POPE. Pardon me, Senator.

Senator BONE. Go right ahead.

Senator POPE. With reference to this letter to which Senator Bone referred, in the fourth paragraph of that letter, the very last part of the paragraph, there is reference to Commander Strong again. The writer says:

\* \* \* The Seversky has met with the most enthusiastic approval which is of the utmost importance for us inasmuch as he is the one who will determine what is going to be purchased.

Mr. MIRANDA. Yes, sir; no purchases would be made unless he passed on the technical side of the question.

Senator POPE. In effect, it placed the sole final responsibility on him as to what guns and other material would be purchased by Colombia?

Mr. MIRANDA. If they were purchased from America; yes.

Senator BONE. You refer here to your representative in Brazil? Who was he? That is, the writer of the letter refers to him, your brother. Would that be Sonza Sampaio & Co.?

Mr. MIRANDA. No, sir; Sonza Sampaio & Co. only handle our armament business. Sonza Sampaio & Co. handle the Curtiss-Wright account in Brazil, so that for that reason they could not handle the Seversky account.

Senator BONE. This is a high naval officer, retired, as referred to by your brother. Who would that be?

Mr. MIRANDA. Commander Figueira.

Senator BONE. There is reference here to his very close intimacy with the Chief of the Air Service, the Chief of Staff, and the War Minister.

The CHAIRMAN. Mr. Miranda, referring to this letter of March 28th, 1934, "Exhibit No. 245", which has been under consideration, your brother speaks of the armistice with Peru having come to an end. When did that come to an end?

Mr. MIRANDA. The armistice with Peru did not come to an end until the 30th of April or the 1st of May.

The CHAIRMAN. But it was in effect at the time this letter was written?

Mr. MIRANDA. Yes.

The CHAIRMAN. Then would not it——

Mr. MIRANDA. It says here:

As you know, the armistice with Peru comes to an end in about 60 days.

The CHAIRMAN. I see. So that this letter was written while the armistice was in effect?

Mr. MIRANDA. Yes, sir; this letter was written while the armistice was in effect.

The CHAIRMAN. Down in the fifth paragraph of this same letter I find this language [reading]:

By the very nature of our business we find it necessary to contact the very highest Government officials.

And then the letter makes reference to you personally having lined up large orders there in Colombia. Are we to understand that you were lining up these orders during the armistice?

Mr. MIRANDA. Oh, yes; we were working for them.

The CHAIRMAN. And the contracts which were then being entered into were dependent upon the armistice coming to an end?

Mr. MIRANDA. No, not at all. Both governments were preparing in case that the armistice failed. In other words in case that permanent peace negotiations were not terminated prior to the termination of the armistice. So that both countries had requested, both countries had approached manufacturers of armament material for their possible requirements in case that the armistice failed.

The CHAIRMAN. You say "had opposed?"

Mr. MIRANDA. Had approached.

The CHAIRMAN. There were no terms in the armistice, then, against building up in preparation for a renewal of hostilities?

Mr. MIRANDA. That I would not know. An armistice like that is a secret document between the two governments, but both governments were going ahead and making very large purchases of war material during the armistice, preparing in case the armistice failed, or, rather, in case that permanent peace terms were not arrived at during the period of the armistice.

The CHAIRMAN. Were you sworn to secrecy by Colombian officials against revealing their contracts and their plans with you?

Mr. MIRANDA. Generally you are not sworn to secrecy, but you are expected to keep all negotiations with foreign governments absolutely confidential.

The CHAIRMAN. The fact remains that during the armistice you were soliciting and receiving orders for Colombian munitions?

Mr. MIRANDA. We were soliciting, but we did not receive any.

The CHAIRMAN. You had the orders lined up? You had reported?

Mr. MIRANDA. Yes, we were hoping to get them.

Senator BONE. I want to get this gentleman identified. Will you pronounce his name again, that is, Figueira?

Mr. MIRANDA. In Brazil. Figueira.

Senator BONE. What is his first name?

Mr. MIRANDA. Raoul.

Senator BONE. That is the gentleman whom you said was a retired naval officer?

Mr. MIRANDA. That is correct.

Senator BONE. What had been his connection with Brazil in the navy? Was he a captain?

Mr. MIRANDA. He was a lieutenant commander.

Senator BONE. A lieutenant commander?

Mr. MIRANDA. Yes, sir.

Senator BONE. That was his status when he was retired?

Mr. MIRANDA. Yes.

Senator BONE. In the Brazilian Navy?

Mr. MIRANDA. In the Brazilian Navy; yes, sir.

Senator BONE. And he became your representative there to help you make a sale of some of your American products in Brazil?

Mr. MIRANDA. That is correct.

Senator BONE. You refer to him later, and we will come to that, as being one of the best men you could have had for that purpose on account of his local knowledge of the conditions there?

Mr. MIRANDA. Not particularly that, but on account of his technical knowledge. He is a man who had been in this country for I think a year.

Senator BONE. When you talked about war munitions he knew what you were talking about?

Mr. MIRANDA. He knew the technical side of it.

Senator BONE. The writer of the letter states here "who is on the most intimate terms with the Chief of the Air Service, the Chief of Staff and the War Minister."

Mr. MIRANDA. Yes.

Senator BONE. He appears to have been a good man, and you say:

He has followed up our work beautifully; he has had wholesale copies made of the photographs which we have sent him, printed the Seversky specifications on the backs and distributed them to all army and navy aviators. He

has published featured articles in the Brazilian newspapers with large photographs of the Seversky and detailed descriptions as to performance, specifications, and background of experience of Major Seversky.

So that he was laying a foundation there for the Seversky plane, if it was purchased by the Brazilian Government?

Mr. MIRANDA. Yes, sir.

Senator BONE. When was this \$3,000,000 appropriation made by the Brazilian Government for the purchase of aircraft? Can you tell us?

Mr. MIRANDA. I imagine it was made this year 1934, or in the latter part of 1933.

Senator BONE. So that apparently Brazil is now in the market for a lot of airplanes?

Mr. MIRANDA. Oh, yes.

Senator BONE. Military and naval planes?

Mr. MIRANDA. Yes, sir.

Senator BONE. Do you know how strongly they are going in for commercial aviation down there, or is that in the hands of the outside corporations?

Mr. MIRANDA. There are three companies operating commercial planes in Brazil, Pan-American Airways, the Condor Co., that is a German company, and a French company. That is, I think they call the French company Air France.

Senator BONE. Those are outside companies?

Mr. MIRANDA. Yes, sir.

Senator BONE. They are controlled outside Brazil?

Mr. MIRANDA. There are no Brazil transportation passenger companies. The purchases of the Government of Brazil heretofore have been mostly of military planes.

Senator BONE. Did the Brazilian Government ever acquire the rights to build the Seversky plane?

Mr. MIRANDA. Not yet.

Senator BONE. They are negotiating for that?

Mr. MIRANDA. Yes, sir.

Senator BONE. Your brother in this letter was advising the Seversky Co. of the interest of Brazil and other South American countries in such business. There is nothing particularly significant in this fact except you were advising the Seversky people of the possibility of business in South America.

Now coming to a letter dated June 13, 1934, addressed to the Lockheed Aircraft Corporation, Burbank, Calif., signed by J. Miyata for Okura & Co., I will ask that it be marked "Exhibit No. 246."

(The letter referred to was marked "Exhibit No. 246" and is included in the appendix on p. 661.)

Senator BONE. In this letter he states:

We have had the great pleasure of having secured an order for the Japanese Navy for one (1) complete set of your Electra Model 10-A and the order has been placed through Mr. A. J. Miranda, Jr., who is your representative in this city for the Far East.

I take it from that that you were representing the Lockheed Corporation in the sale of this Lockheed plane. Is that correct?

Mr. MIRANDA. That is correct, sir.

Senator BONE. That has been testified to, or there has been testimony here as to the latest model of Lockheed plane.



Mr. MIRANDA. It is not a military plane.

Senator BONE. What kind of plane is it?

Mr. MIRANDA. A passenger plane.

Senator BONE. A passenger plane?

Mr. MIRANDA. A 10-passenger commercial plane.

Senator BONE (reading):

In the meanwhile, we were advised by our head office in Tokyo to the effect that the following naval officers are coming to the States very shortly and that they have recommended them to visit your plant on their way to the east.

That is to say, the Lockheed plant [continuing reading].

These officers accompanied by our Mr. T. Imai, who is also arriving per S.S. *Chichibu Mary* which is due at Los Angeles on June 29 are—

And then appear the names of four naval officers of Japan. Did they come over?

Mr. MIRANDA. Yes, sir; they came over and visited the Lockheed plant.

Senator BONE. Do you know what was shown them down there?

Mr. MIRANDA. The commercial planes.

Senator BONE. Were they interested only in commercial planes?

Mr. MIRANDA. That is the only thing Lockheed manufactures.

Senator BONE. What would be the difference between a Lockheed engine on a very fast plane, like that, and the engine on a military plane?

Mr. MIRANDA. The difference in the engine?

Senator BONE. Yes, sir. The engine being the heart of the plane, because when an engine fails there is not any plane, and what is the difference between the engine on this very fast Lockheed Electra model and the engine on a military plane?

Mr. MIRANDA. My understanding—and, as I said before, I am not an expert on aircraft matters—

Senator BONE. But your firm is selling these planes and you have to be something of an expert to sell them?

Mr. MIRANDA. But my understanding is that military plane engines are built in such a manner that they will develop their maximum horsepower at very high altitudes, which are the altitudes at which the fighting is mostly done, while commercial engines are built in such manner that the engine's maximum efficiency is reached at 2,000, 3,000, or 5,000 feet.

Senator BONE. That difference in efficiency is due to little gadgets put on the engines, superchargers, and so forth?

Mr. MIRANDA. I would not call a supercharger a little gadget.

Senator BONE. But those are incorporated in the engine and are simply not part of the engine as a usual thing, are they?

Mr. MIRANDA. No; I do not believe so, Senator.

Senator BONE. There is nothing mysterious about a supercharger and everybody knows about it.

Mr. MIRANDA. No. As a matter of fact, the Japanese are making just as good aviation engines as we are making.

Senator BONE. But they would be very much interested in knowing the kind of engines we are making over here?

Mr. MIRANDA. I imagine if they were interested in that they would go to the engine manufacturers over here.

Senator BONE. Does the Lockheed Co. make its own engines?

Mr. MIRANDA. No.

Senator BONE. What engine do they use?

Mr. MIRANDA. Curtiss-Wright or Pratt & Whitney.

Senator BONE. Is there any stock ownership between them or any tie-up between the companies?

Mr. MIRANDA. You mean the Lockheed Co.?

Senator BONE. Yes, sir.

Mr. MIRANDA. No. Lockheed is an independent company.

Senator BONE. Under date of March 17, 1933, which is while you were still operating your own company, before the creation of the American Armament Corporation, a letter was written by I. J. Miranda to Mr. Carl B. Squier of the Lockheed Aircraft Co. at Burbank, Calif. Are you I. J. Miranda?

Senator BONE. No. That is my brother.

Senator BONE. I will offer that letter as "Exhibit No. 247."

(The letter referred to was marked "Exhibit No. 247" and is included in the appendix on p. 662.)

Senator BONE. That letter in part reads as follows:

Don't forget that whatever price you quote to the mission should include an adequate commission for me.

He was covering his own commission in the transaction, if there should be a contract. To what mission is he referring?

Mr. MIRANDA. I do not know, Senator. I was away from this country at the time. If I may read the letter perhaps I can get some information from it.

Senator BONE. I was wondering if that was a Chinese mission, a Japanese mission, or what it referred to. It seems to refer to some mission coming to this country.

Mr. MIRANDA. I am sorry, but I cannot help you, Senator.

Senator BONE. You cannot enlighten us on that?

Mr. MIRANDA. No, sir.

Senator BONE. Can any of the other members of your group here enlighten us on that?

Mr. MIRANDA (examining exhibit). It says here a Chinese Governmental Mission.

Senator BONE. There may have been a little pencil note there. Were the Chinese having a mission here at that time?

Mr. MIRANDA. I think they have been having missions here right along.

Senator BONE. How can you tell what sort of an outfit you are doing business with in China under the conditions that prevail there?

Mr. MIRANDA. It was very difficult in the beginning. Now no shipments can be made to China or no shipment can be made to South America of armament material without a permit from the State Department. The State Department will not grant that permit unless the Chinese Ambassador at Washington requests it.

Senator BONE. How long has that condition existed?

Mr. MIRANDA. I believe about a year.

Mr. SWEETSER. I think that has been in effect for 2 or 3 years.

Senator BONE. We will show you, Mr. Miranda, a letter dated March 20, 1933, addressed to Mr. I. J. Miranda from L. E. Gale, the president of the L. E. Gale Co., at Hankow, China.

(The letter referred to was marked "Exhibit No. 248" and is included in the appendix on p. 663.)

Senator BONE. That letter, "Exhibit No. 248", was in your files, and you are familiar with the letter, in which the writer says:

On March 13 we wired asking for a net price c.i.f. Shanghai on eight standard Wasp Vega Lockheeds.

What sort of plane is that?

Mr. MIRANDA. The Vega Lockheed is a single-engine, high-wing, six-passenger transport plane.

Senator BONE (reading):

This is in response to an enquiry from the Hunan Government.

Evidently those planes were to be used for military purposes in China.

Mr. MIRANDA. They might have been used for the transportation of officials. They have bought a number of fast American transport planes for that purpose.

Senator BONE (reading):

It sounds almost too good to be true, I must say. I doubt if they have the money to buy eight of these planes. However, I understand on pretty good authority that they do have a little money and it seems we should be able to sell at least two or three.

The airplane business in China is more competitive than the motor-car business and every possible nationality is putting in quotations.

In discussing things informally with the military it appears that in order to meet competition in carrying capacity, power and speed pay the necessary squeeze we will have to buy these Lockheeds at about \$14,000 ea. net to us c.i.f.

What was Mr. Gale referring to when he used the term "squeeze"? Do we understand that that is synonymous with "grease" in South America?

Mr. MIRANDA. Or "doing the needful."

Senator BONE. Or "doing the needful" in other places?

Mr. MIRANDA. Evidently.

The CHAIRMAN. Mr. Miranda, you have had contacts in Nicaragua?

Mr. MIRANDA. No, sir; not at all.

The CHAIRMAN. None at all?

Mr. MIRANDA. Not that I remember, Senator.

The CHAIRMAN. Do you know Sandino?

Mr. MIRANDA. No, sir; not at all.

The CHAIRMAN. Do you know anything of the supplies that were sent to him?

Mr. MIRANDA. Not at all, sir.

Senator BONE. What is the plane which may be designated as "T.G.-1's" and "G.L.'s"?

Mr. MIRANDA. Great Lakes trainer and training plane.

Senator BONE. What is "T.G."?

Mr. MIRANDA. It is an index.

Senator BONE. What type of plane does it indicate, and by what company?

Mr. MIRANDA. Great Lakes trainer.

Senator BONE. You had had occasion, or your firm had had occasion, in March 1932, to approach the Japanese Government with respect to the sale of those planes. What company makes those planes?

Mr. MIRANDA. The Great Lakes Aircraft Corporation.

Senator BONE. Was the Japanese Government interesting themselves in those planes at that time?

Mr. MIRANDA. I do not know; sir. I am sorry, but I did not handle that matter.

Senator BONE. I will refer to a letter under date of March 19, 1932, sent by I. J. Miranda to Mr. Edward Rembert, Great Lakes Aircraft Corporation, Cleveland, Ohio, which will be "Exhibit No. 249."

(The letter referred to was marked "Exhibit No. 249" and is included in the appendix on p. 663.)

Senator BONE. This letter, "Exhibit No. 249", calls attention to the fact that your brother and Okura & Co. had approached the Japanese Government "with regards to the new T.G.'s and the two G.L.'s. It states in part;

Captain Sunaga, in charge of aviation matters at the Japanese Government's Inspector's Office here in New York, is very much interested in the G.L.'s. I am endeavoring to get him up to Cleveland so that he may personally examine and if necessary test G.L.'s. His recommendation to headquarters in Tokyo will carry tremendous weight.

Do you know whether any deal for the sale of those planes was subsequently consummated through your firm?

Mr. MIRANDA. I am certain that it was not.

Senator BONE. In this letter you say "a Chinese military mission has just arrived in America, and I shall also contact them on the subject."

This letter was dated 2 days after the one in which the term "Mission" was used, and concerning which I inquired, so that evidently he was referring to the Chinese Mission.

Mr. MIRANDA. It said so in the letter to which you called my attention, in the complete record.

Senator BONE. The letter continues some further references, and then states:

I am intimately acquainted with such well-known fliers and/or executives as Major Aldrin—

This letter being signed by I. G. Miranda, your brother—

vice president, Standard Oil Co. in charge of aviation. \* \* \*

Is the Standard Oil Co. in the aviation game?

Mr. MIRANDA. Not so far as I know, except that they have bought, I think at different times, one or more Lockheeds for the transportation of their officials. I think all the oil companies use plane transportation for their officials.

Senator BONE. Then the use of the term "in charge of aviation" simply means in charge of those planes?

Mr. MIRANDA. No; I think they have an aviation-gasoline department, and I think that Major Aldrin is in charge of that department.

Senator BONE. The writer also states that he's intimately acquainted with Clarence Chamberlain. Is he the flier who flew across the Atlantic with a passenger?

Mr. MIRANDA. Yes, sir.

Senator BONE. Roger Williams—who is he?

Mr. MIRANDA. Another flier.

Senator BONE (reading):

\* \* \* the entire executive personnel of Curtiss-Wright, the entire personnel of Pan-American Airways, including Presster, the chief engineer and Gledhill, the purchasing agent, Ruth Nicholls,\* \* \* \*

Is she the girl flyer that we have read about so much?

Mr. MIRANDA. Yes.

Senator BONE (reading):

Elinor Smith, Amella Earhart,<sup>2</sup> Luther Bell, and Charles Parker of the chamber, \* \* \*

What chamber is that a reference to?

Mr. MIRANDA. I imagine the Aeronautical Chamber of Commerce.

Senator BONE. The Aeronautical Chamber of Commerce?

Mr. MIRANDA. Yes.

Senator BONE (reading):

Bernarr McFadden,<sup>4</sup> etc., etc.

Does Bernarr McFadden fly?

Mr. MIRANDA. He is a flying enthusiast. He has flown several Lockheeds.

Senator BONE. He flies them himself?

Mr. MIRANDA. I believe he is a pilot; yes.

Senator BONE. This Bernarr McFadden is a publisher?

Mr. MIRANDA. Yes.

Senator BONE (reading):

All of these people I know well and I find them most useful in the pursuit of business.

Can you just briefly tell us how they are useful to you in the pursuit of business?

Mr. MIRANDA. I guess most of them are either Lockheed owners or Lockheed users. They maintain their planes in and about New York and when foreign missions come to New York or when foreign customers come to New York, it is possible to show them the private planes of some of these people.

Senator BONE. In other words, these people are willing to say that Lockheed is a very fine plane?

Mr. MIRANDA. Yes. It is.

Senator BONE. Who is Nick Bates?

Mr. MIRANDA. Nick Bates?

Senator BONE. Yes.

Mr. MIRANDA. Nick Bates I think—his official title is assistant to the chief of the military sales division of the du Pont Co.

Senator BONE. Of which?

Mr. MIRANDA. E. I. du Pont de Nemours.

Senator BONE. What are his business activities in South America?

Mr. MIRANDA. I think he travels all over South America as a supervisor for the du Pont Powder Co.

Senator BONE. As a supervisor?

Mr. MIRANDA. Yes.

<sup>2</sup> In a telegram to the committee which was entered into the record of Sept. 11, 1934, immediately preceding the noon recess, Miss Nicholls denied Mr. Miranda's allegations (see pt. IV).

<sup>3</sup> In a telegram to the committee which was entered into the record of Sept. 11, 1934, immediately preceding the noon recess, Miss Earhart denied Mr. Miranda's allegations (see pt. IV).

<sup>4</sup> In a telegram to the committee which was entered into the record of Sept. 18, 1934, immediately preceding the noon recess, Mr. McFadden denied Mr. Miranda's allegations (see pt. VII).

Senator BONE. What do the du Ponts have down there that requires supervision?

Mr. MIRANDA. My understanding is that they do a substantial business in South America and they have representatives in almost every country. Mr. Bates calls on one representative and the other, goes from one to the other.

Senator BONE. Do you know the particular type of their business he supervises, the sale of powder?

Mr. MIRANDA. I think it refers mostly to the military powder.

Senator BONE. Under date of May 27, 1933, writing from Rio de Janeiro to "My dear Frank"—that would be Mr. Johnson, I take it?

Mr. MIRANDA. "My dear Frank?"

Senator BONE. Yes.

Mr. MIRANDA. No; it would be Mr. Sweetser.

Senator BONE. Who was then in your company, which was the Driggs Co.?

Mr. MIRANDA. He was then secretary of the Driggs Co.

Senator BONE. You make reference to some of the matters I want to ask you about. You were at that time in Rio?

Mr. MIRANDA. Yes.

Senator BONE. I will offer this letter as "Exhibit No. 250."

(The letter referred to was marked "Exhibit No. 250", and is included in the appendix on p. 664.)

Senator BONE (reading):

I am glad to say that the patient has taken a turn for the better.

The patient you referred to is your own business?

Mr. MIRANDA. Yes, our negotiations in Brazil.

Senator BONE (reading):

It seems as if we needed just this attack to show us the number of friends that we have in the War Department.

What was the attack being made on you?

Mr. MIRANDA. The attack that was being made on the standing of our company by our European competitors.

Senator BONE. They were challenging your credit and responsibility and the like?

Mr. Miranda. Yes.

Senator BONE (reading):

Again I cannot commend Figueira too highly for his tireless and loyal work.

This Figueira is the lieutenant commander of the Brazilian Navy?

Mr. MIRANDA. Yes.

Senator BONE (reading):

He certainly is a peach and when (notice that I do not say "if") we get an order from this Government, you can become certain that Figa is the best possible agent the company could have in Brazil. Immediately after the attack—because you can bet your life that the rather premature and hasty inquiry into our company's affairs was prompted by the opposition—Figa drew a plan of campaign and we went to work. Jackson, the commercial attaché, and Sackville, the military attaché, who was the respective spokesman for the Embassy here on commercial and military matters, have been 100 percent helpful.

How were they aiding you?

Mr. MIRANDA. The government wanted to get some references of our company. We referred them to the office of the commercial attaché. Mr. Jackson had been acquainted with our work for a

number of years. He had visited with Mr. Driggs when he was up here and had been to our office and heard our story, and so forth and so on.

Senator BONE. How was Nick Bates of the du Pont Powder Co. helpful to you down there?

Mr. MIRANDA. The du Pont Powder Co. has a very large standing there. They set up a powder plant for the Brazilian Government several years ago and they inquired from Bates if he knew the Driggs Co., and he said "yes." They inquired if he thought the Driggs Co. was capable of handling the contracts such as they had in mind and he told them he thought that if we got the contract, we would be able to make the necessary arrangements to handle it satisfactorily.

Senator BONE. When did the du Ponts build this powder plant in Brazil?

Mr. MIRANDA. I believe several years ago.

Senator BONE. Did they retain any interest in it?

Mr. MIRANDA. No; I do not think so. I think they just have a technician there to help the Brazilian Government.

Senator BONE. They have a technician there; in other words, they built the plant for the Government and they have a technician there to show the Brazilian Government how to make military powder,

Mr. MIRANDA. Yes, just to check up.

Senator BONE. Further on in this letter you say that [reading]:

Nick Bates \* \* \* had the opportunity to make an excursion with some of the high ranking officers, led by the Secretary of War, \* \* \*.

What did you mean by that?

Mr. MIRANDA. They made a trip to this powder plant. It is about 200 miles away from Rio. He went up there with the Secretary of War and several other high ranking officers. It was at that time that they questioned him about the ability of the Driggs Co. to handle such contracts.

Senator BONE. There is a reference here to the fact that a number of his officer friends—I take it those were officers in the Brazilian Navy or in the Army—had spent from 6 months to 2 years at the du Pont powder plants, training. What sort of training did these military and naval men get at the du Pont powder plant? Would that plant be the one in America or in Brazil?

Mr. MIRANDA. No, here; training in the manufacture of powder.

Senator BONE. The du Pont Co. have missions of that sort that come up here and take training?

Mr. MIRANDA. If the du Pont Co. or any company—for instance if our company were to sell a plant to the Brazilian Government and install it in Rio for the manufacture of our equipment, unquestionably in the contract would be a provision whereby some of their officers would come up and spend some time in our plant.

Senator BONE. Let me digress for a moment at this point. I should like to ask you whether or not the du Ponts, if you know, have put in powder plants in other sections of the world.

Mr. MIRANDA. I do not know.

Senator BONE. In any other South American country?

Mr. MIRANDA. Possibly Argentina, but I am not certain.

Senator BONE. Do you know whether the du Ponts have put plants in other South American countries?

Mr. SWEETSER. No, sir; I do not.

Senator BONE. Any member of this group?

Mr. BRAYTON. I have not positive information, but I believe they have in certain places in South America.

Senator BONE (reading):

The Chief of Staff, General Andrade Naves, who is Figa's sponsor, and the most highly accredited general in Brazil, also has been helping us. \* \* \*

Does that term "sponsor" imply anything other than merely a good friend?

Mr. MIRANDA. No; General Naves has known Figueira since Figueira was a youngster. He was the one who induced him to go to a military school and he has followed his military career.

Senator BONE. You are familiar with your reference to "coffee" here, without my going into detail. Did anything ever come of that negotiation over coffee? Will you just read those few lines in which that reference is made?

Mr. MIRANDA. I do not think that anything has come out of that, but that is a fact. We buy most of Brazil's coffee. We have felt in this country or rather, firms trying to get business from the Brazilian Government have felt, that it would be only fair to have our Government in some manner indicate to the Brazilian Government that if we are their best customers, they should, in turn, try to give us some of their business.

Senator BONE. There is a statement in this letter—whether it be accurate or not you will probably know—that we buy four times as much from Brazil as they buy from us and that a substantial part of our purchases from Brazil is coffee. So that what Brazil buys from us bears only that ratio to the total amount of the traffic. Is that mostly munitions of war?

Mr. MIRANDA. What they buy from us?

Senator BONE. Yes.

Mr. MIRANDA. No; they have bought no munitions from us.

Senator BONE. Then you were trying to get in on that business which would be built up there by a demand for more war munitions of one kind or another?

Mr. MIRANDA. As a matter of fact, Brazil has had a plan, running into about 50 or 60 million dollars for the purchase of warships, cannon, and so forth. All of that business it was expected would go to Europe.

Senator BONE. You say that she has a plan?

Mr. MIRANDA. A plan.

Senator BONE. Do you mean an appropriation?

Mr. MIRANDA. The appropriation for the purchase of warships has been made; yes. That contract was let to the Vickers Co., I believe, early this year.

Senator BONE. Were those ships to be manufactured in England or in Brazil?

Mr. MIRANDA. I think about 70 percent in England.

Senator BONE. Does Vickers have a plant in Brazil?

Mr. MIRANDA. No; there is no foreign plant in Brazil.

Senator BONE. So, because of what you considered to be an unfair division of this traffic, you were urging the military and naval attachés and commercial representatives of the United States Government to help you with this business down there?



Mr. MIRANDA. To help us to bring part of that business to this country.

Senator BONE. You felt that this country was entitled to get some of that business instead of the English munition makers?

Mr. MIRANDA. It resolved itself into this, that if they were making most of their money by selling their stuff to us, they should spend some of their money here, instead of sending it to Europe.

Senator POPE. You make this statement in this letter. This letter was written by you personally, I believe?

Mr. MIRANDA. Yes.

Senator POPE (reading):

I learn very confidentially that the Minister of Finance here has been able to keep off the American coffee tax by promising the Roosevelt administration that the preference will be given by the Government to purchases from the U.S.A. and General Neves wants to suggest that it would be a fine gesture of friendship to have the orders pending for armament, planes, ships, etc., go to the U.S.A.

How did you get the information that they were having difficulty in keeping the tax off coffee by the United States?

Mr. MIRANDA. May I read that first, Senator, please? I do not remember how I learned about it, possibly through one of the members of the American colony down there.

Senator POPE. That argument to the high officials and responsible people with whom you were dealing was a very effective argument in urging them to buy munitions and guns, was it not?

Mr. MIRANDA. It was not a case of urging them; they had decided to buy them. We were trying or urging them to buy them here. They had a definite plan to buy so much of munitions. All I was trying to do was to bring some of that business to this country instead of having it go to Europe, and particularly using the argument that they were literally going to use the money that they were getting from us from coffee that we were buying from them, to pay for those munitions abroad.

Senator POPE. That is all I have, Senator.

Senator BONE. There have been some military and naval missions from other countries to Brazil in years gone by; have there not?

Mr. MIRANDA. Oh, I should say.

Senator BONE. A great many of them?

Mr. MIRANDA. Well, I dare say that you know the Italians sent a mission down there. They sent General Balbo with 21 planes. Before General Balbo made his flight to this country he made a flight to Brazil, you may recollect, about 2 or 3 years ago.

Senator BONE. He brought his fleet to the World's Fair in Chicago?

Mr. MIRANDA. He came to our World's Fair last year. He went to Brazil from Italy, I think, 2 years previous with 21 planes and he sold 21 planes.

Senator BONE. Do you know whether our Government finally got around to sending a military or naval mission to Brazil?

Mr. MIRANDA. I believe recently the Brazilian Government has obtained from the American Government 2 or 3 officers in a consulting capacity, that is about all.

Senator BONE. Was there a French mission down there?

Mr. MIRANDA. A very extensive one.

Senator BONE. A very large one?

Mr. MIRANDA. Yes; about 30 or 40 officers.

Senator BONE. What were they doing down there?

Mr. MIRANDA. Well, they were doing everything.

Senator BONE. Extolling the virtue of the Schneider-Creuzot guns and the like?

Mr. MIRANDA. They were instructors in almost every military school in Brazil; instructors in aviation.

Senator BONE. The French Government does not manufacture arms and ammunition itself; does it?

Mr. MIRANDA. No.

Senator BONE. So that if they were down there stimulating the sale of firearms, munitions of war, guns, cannons, powder, and the like, they were down there engaged in a business and in promoting a deal which, if successful, would have meant the sale of privately manufactured arms and ammunitions, would it not?

Mr. MIRANDA. Yes.

Senator BONE. So that we may get this picture perfectly plain and clear, they would have been pouring water on the financial wheel of Schneider-Creuzot in France?

Mr. MIRANDA. Yes.

Senator BONE. And that was a French governmental mission?

Mr. MIRANDA. Yes; of course, it is not only Schneider-Creuzot, but other manufacturers of French material—aircraft, and so on.

Senator BONE. Yes; and I am using them as a typical example, taking it by and large.

This letter winds up by saying [reading]:

And if we can do likewise in the other countries, we will have a regular business every year, if not from one place, from another.

So, apparently your purpose was to establish these contacts all over South America so that you would build up particularly a South American business?

Mr. MIRANDA. Yes, Senator; it was not a case of just organizing and promoting a market for armament material. That market has existed for years, year in and year out; sometimes it is larger than at other times. What we have tried to do is to bring some of that business to this country instead of letting it go to Europe entirely.

Senator BONE. Who is Mr. Meeker?

Mr. MIRANDA. Mr. Meeker is the vice president of the Elevator Supplies Co.

Senator BONE. Which company?

Mr. MIRANDA. Elevator Supplies Co.

Senator BONE. That is a concern that does the manufacturing for the American Armament Corporation?

Mr. MIRANDA. That is right, sir.

Senator BONE. Mr. Johnson's firm?

Mr. MIRANDA. Mr. Johnson's firm; yes.

Senator BONE. I call your attention to a memorandum dated January 22, 1934, which I will offer in evidence as "Exhibit No. 251."

(The memorandum referred to was marked "Exhibit No. 251", and is included in the appendix on p. 665.)

Senator BONE. This is a memorandum for Mr. Meeker, signed by you in which this is set forth [reading]:

With reference to Brazil: It is necessary in order to establish our position with the Government and continue negotiating for the artillery business pending from that country that we send them photostatic copies of the letters received by you from the War and Navy Departments. We can do this irrespective of the fact that the War Department does not authorize the release of the drawings for Latin American countries as yet.

Will you give us some light on that statement? What did that actually mean?

Mr. MIRANDA. Yes. It has been the policy of the War Department and the Navy Department to a certain extent to release drawings that are not of a confidential nature to American manufacturers, if it will assist them to obtain substantial orders for this country, for the building up of a private munitions industry in the United States.

When we started the American Armament Corporation, Mr. Meeker and I came down to see the War Department and the Navy Department and told them what we were going to do, and told them that investigation of our efforts would lead them to extend to us that courtesy that they had extended to other companies or seemed to be willing to extend to other companies.

They asked us to write a memorandum on the subject so that they would have it a matter of record. We did so and Mr. Meeker advised me that both the War and Navy officers had been willing to release drawings under certain conditions to us. That is just what I was referring to in that memorandum.

Senator BONE. There is a letter dated April 28, 1934, to Commander Raoul Figueira, by Miranda Bros., Inc., I. J. Miranda. This Commander Figueira is the Raoul Figueira whom we have been discussing.

Certain statements are made therein which I should like to interrogate you about. I will offer this letter in evidence.

(The letter referred to was marked "Exhibit No. 252", and is included in the appendix on p. 666.)

Senator POPE. Senator, may I interrupt you? Were you through with the previous "Exhibit No. 251"?

Senator BONE. Yes. Do you wish to interrogate him on that?

Senator POPE. I want to ask one question or two about it. You make the statement there that you could get these drawings or plans. You say [reading]:

We can do this, irrespective of the fact that the War Department does not authorize the release of the drawings for Latin-American countries as yet.

Mr. MIRANDA. Yes.

Senator POPE. How did you manage to get the release of drawings for the Latin countries, irrespective of the fact that the War Department had not released them?

Mr. MIRANDA. That is not the case, Senator. All I wanted was a copy of the letters from the War and Navy Departments to the Elevator Supplies Co. telling them that they would be willing to release the drawings.

Senator POPE. That you would release them?

Mr. MIRANDA. No; that they would be willing to release the drawings so that we could show that, if a substantial and satisfac-

tory contract was offered us, the War Department would release to us drawings that were not of a confidential nature.

Senator POPE. Did you get the release of these drawings before they were given out generally?

Mr. MIRANDA. No.

Senator BONE. In this letter, which we have marked "Exhibit No. 252", Mr. I. J. Miranda states that you have secured an order from the Colombian Government for a number of these ships, referring to the Seversky amphibians. He says [reading]:

I believe (they) are going to be used up around Laetecia where the Brazilians will be able to have a good look at them.

Do you know whether the ships were actually used in and around Leticia?

Mr. MIRANDA. No; they have not been delivered as yet. The armistice came along, and the Colombian Government stated that they were not in any particular hurry for them, so that they have not been delivered as yet.

Senator BONE. The letter further states [reading]:

The official report which the Air Corps has sent to the War Ministry in Washington regarding the Seversky is one of the finest that I have ever been privileged to look at.

You were privileged to look at a confidential report of the Air Corps?

Mr. MIRANDA. I did not write this letter.

Senator BONE. Well, I. J. Miranda is writing it. Can you explain how he came to look at the confidential report of the Air Corps?

Mr. MIRANDA. I have not the least idea.

Senator BONE. We have not, either, and that is why we want this information.

Mr. MIRANDA. Possibly it is customary for a copy of those reports to be furnished to the manufacturer.

Senator BONE. The confidential reports from the War Department?

Mr. MIRANDA. It is a confidential report of the test. The Seversky Co. submits to Wright Field at Dayton, the Army field, one of their ships for a test. They make a test.

Senator BONE. If you wanted to use that confidential information dealing with Chile or Bolivia or Peru for the sale of your equipment or the sale of airplanes, you would be free to use it, would you not?

Mr. MIRANDA. I would; if the company gave it to me. It would be entirely up to the company.

Senator BONE. And if one of the company representatives got it from the officials of the War Department when they were testing out this equipment, you would feel free to use it?

Mr. MIRANDA. Why not? It is not a unit that has been adopted by the Government.

Senator BONE. What I am getting at is that this information could be siphoned through your firm or through any other firm into foreign countries, if you wanted to use it?

Mr. MIRANDA. Yes; I imagine so.

Senator BONE. The letter says [reading]:

The report is extremely confidential and only with a great deal of trouble I have been able to secure a copy of it, which I am enclosing herewith for your own confidential information.

Obviously the report being highly confidential, you were compelled to assure the gentleman in South America who was the confidant of the Brazilian Government that it was highly confidential and that he must hold it as such. That is right, is it not?

Mr. MIRANDA. Yes.

Senator BONE. Do you know how your brother got a copy of it?

Mr. MIRANDA. I have not the least idea.

Senator BONE. He said he had a great deal of trouble getting a copy of it. How would a private munitions organization get a copy of one of these confidential governmental reports?

Mr. MIRANDA. As I said, the only way I can figure it out is that a copy must be given to the manufacturer of the product that is tested.

Senator BONE. Then all of this talk about being confidential is just so much loose talk?

Mr. MIRANDA. It may be so much sales propaganda.

Senator BONE. Is it a sort of War Department propaganda, or do they really mean it when they say that?

Mr. SWEETSER. Do you not believe that the phrase "confidential" may have referred to its being confidential as far as the factory was concerned rather than the Government?

Senator BONE. There is nothing in this letter to indicate that.

Mr. SWEETSER. Is not that a fair inference?

Senator BONE. You give this gentleman the inference that you have gotten hold of something that is very confidential. Of course, we civilians and laymen and private citizens are told all the time that these are highly confidential matters.

Mr. BRAYTON. Senator, may I offer a thought there? I have had nothing to do with this particular business and therefore any of my remarks would not apply. But I do know from my past experience as a Government man that it was not uncommon for a private manufacturer to submit to the War Department some of his material for test, in which the Department believes that they will be interested; generally that a manufacturer requests the War Department to write a confidential report. In other words, it is a report that would not be published in the Army Ordnance Journal or something of that sort, but the War Department may or may not have an interest in that. They have generally no control over the material. It is generally built under patents of the private manufacturer. The Government could not possibly write anything into that report that would be confidential from the company or the use of the company unless it wanted to obtain exclusive rights and buy all of those rights of that particular article, whether it is a gun or ammunition or what not. So it is possible, if this is marked confidential by the Department, it means that it is confidential to the company and whatever the company wanted to do with it was their own privilege.

Senator BONE. In this particular case your company was the representative of the Seversky Corporation concerning whose product this

statement of this report was made. So manifestly you had all of the low-down, if I may use that term on the Seversky equipment.

Mr. BRAYTON. Not necessarily. These Government tests may have shown up things which the Seversky Co. themselves had not tested.

Senator BONE (reading) :

For goodness sakes, treat this report as confidential and do not let it get out of your hands, although you may, of course, show it to a few chosen people in high official circles.

Who were these chosen people in high official circles, if you know?

Mr. MIRANDA. Well, I would imagine the head of the aviation service or one of the high ranking officers.

Senator BONE (reading) :

I repeat that this is a thoroughly official report rendered by the Air Corps to the War Ministry in Washington.

There is not any further comment to make on that statement; that is plain enough, is it not?

Then there is a quotation on the prices of some land planes. Are those Severskys?

Mr. MIRANDA. Yes.

Senator BONE. In lots of ten, \$32,350, c.i.f. And the price of each set of floats, "amphibian floats", in lots of six, \$6,450. The letter also says:

The above prices are c.i.f. and the accrued commission of 10 percent for yourself.

That means Figueira.

There is then a discussion in the letter as to selling the manufacturer's rights after the Government has placed an equipment order.

Has that proposition been effected yet, or has that arrangement been effected?

Mr. MIRANDA. No; no business has resulted.

Senator BONE. On the next page there is a reference to later improvements to be passed on to the Brazilian Government or the licensees in Brazil. So that any improvements that are not of a United States Army or Navy confidential nature would be passed on to the licensee in Brazil. That would refer, of course, to later improvements that were made, that were not held exclusively by our War Department. Those would be passed on to them?

Mr. MIRANDA. That is correct.

Senator BONE. What concern in this country is called the Federal Laboratories?

Mr. MIRANDA. The Federal Laboratories, Inc.

Senator BONE. Where are they located?

Mr. MIRANDA. Pittsburgh.

Senator BONE. What do they manufacture?

Mr. MIRANDA. As I understand, they manufacture chemical-warfare equipment.

Senator BONE. That would be poison gas.

Mr. MIRANDA. No. Smoke gas, tear gas, police equipment; also they manufacture aerial bombs.

Senator BONE. Are they equipped to manufacture any kind of gas?

Mr. MIRANDA. I do not know. I do not know very much about it. They are one of our competitors, and I do not know very much about them.

The CHAIRMAN. Mr. Miranda, in the letter of May 27, 1933, addressed "To my dear Frank" by Alfred, which has become known as "Exhibit No. 250", there is a reference to one Sackville, military attaché. Who was Major Sackville?

Mr. MIRANDA. United States military attaché to the Brazilian Government.

The CHAIRMAN. Who was it that signed this letter?

Mr. MIRANDA. I signed it.

The CHAIRMAN. You say in the concluding paragraph of this letter:

I asked you to mail me registered on the boat that should sail from N.Y. today or tomorrow \$250 in bunk-notes. The exchange is dropping terrifically and consequently the cost of living is jumping. You appreciate that in negotiations of this nature there are many little extra expenses here and there, this officer for lunch, and the other for dinner, and Sackville for cocktails, etc., etc. and I am trying to get the best exchange possible so that my money will go the farthest possible.

How generally did the agents of the American Government accept this hospitality in your negotiations in South America?

Mr. MIRANDA. There was not very much hospitality as a matter of fact. They were stationed down there, and some of them had their home and had their friends, and when they would invite you out to their homes and take you to dinner, luncheon, and so forth, naturally you had to reciprocate.

The CHAIRMAN. Was that quite an item of expense in South America?

Mr. MIRANDA. No; not the entertaining of Americans down there, but the entertaining of Brazilians or foreigners there was quite an item of expense.

Senator BONE. In a letter bearing date May 13, 1933, I desire to call your attention to certain statements and will first introduce the letter as "Exhibit No. 253."

(The letter referred to was marked "Exhibit No. 253", and is included in the appendix on p. 669.)

Senator BONE. This letter, "Exhibit No. 253", was sent to Urueta & Samper, the agents of the Driggs Ordnance Co. at Bogota, Colombia. There is the statement that Wilcox, who was Mr. Olano, their consular representative at New York, was very much surprised that—

I should have this information about Federal bombs and asked immediately where I had gotten it. I merely told him that, in the same manner as I often secured confidential information for him I was often in a position to know a great many things that he had no idea about.

Was this another one of those cases where information that came to you through business channels was transmitted to the representative?

Mr. MIRANDA. I imagine that must have been the case. This letter was written by my brother when I was away from the United States.

Senator BONE. And the letter further says:

Furthermore I threw a bombshell into Mr. Wilcox's camp by telling him that the large bomb (300 and 600 lb.) which Federal built are no longer in accordance with the latest U.S. Army practice. Very recently it was discovered

that the shaft on which the small propeller operating the rear fuze is mounted is so short that the air stream after passing the bomb body itself does not hit the rear propeller and therefore when the bomb falls the rear fuze still having the propeller attached to it is absolutely useless.

The above fact only came to light some three months ago and a new and longer shaft for the rear fuze propeller was immediately designed by the U.S. Army engineers or to be more specific, by said engineers under the direction of our technical adviser, Major Brayton. It will be months before this development is actually put down on the official U.S. Army drawings which are released to companies such as Federal and ourselves. However, inasmuch as our bombs are built under the supervision of Major Brayton, had we built this new lot of bombs we would have now fitted them with the longer shaft which would allow the rear fuze to operate.

I pointed out to Mr. Wilcox that the fitting of these large bombs with the rear fuze, taken by and large, increased the cost of each bomb by possibly \$75.00 to \$100.00. Federal has supplied the rear fuze but it is absolutely no good because of the facts already mentioned and thus if the nose fuze fails to function the rear fuze which is carried as a safety measure against such an emergency, will also fail to function and your bomb will be a "dud".

Mr. Wilcox was very anxious to learn whether the bomb which we supplied in these larger sizes were fitted with the larger shafts. As a matter of fact they were not, because of the fact that the deficiency had not as yet been discovered at that time. However, I told him that they were and he was tremendously concerned. My thought was that very possibly the ridiculously small number of bombs initially purchased from us may by this time be all used up.

The argument of the longer shaft may very possibly be used by you to excellent advantage in order to point out to your war ministry that when they buy from us they are actually getting the latest developments in the art of bomb making. Naturally such technical advice as we have on the subject is costly; likewise the materials that we use in the making of the bomb are of the finest that money can procure, and consequently our prices are higher than those of the competition. Common sense will tell you that it is decidedly preferable to pay more for these bombs but be sure that they are going to work than to pay less and risk men and equipment to no good purpose.

Was this in connection with this Leticia dispute or just the enlargement of their ordinary defenses?

Mr. MIRANDA. No; I do not think that was in connection with the Leticia dispute, because there was an armistice at that time.

Senator BONE. They were getting ready to call off the peace, were they not?

Mr. MIRANDA. That was right after the armistice was signed, and it had a year to run, and they were just complementing their purchase, whatever it was.

Senator BONE. Do you know whether our Government arsenals had ever manufactured equipment such as ordnance shells and the like for private concerns in this country?

Mr. MIRANDA. I do not believe so, but Major Brayton probably can answer that better.

Mr. BRAYTON. After 15 years with the leading American arsenals, I think I am qualified to answer that. Except during the great war when they manufactured supplies for the small countries like Cuba and those in the Antilles, it has never been the policy for the Government to manufacture for private industry. There is one little exception in the law and that is this, that if a private concern in its development is doing some research and development work mostly of a private nature which when completed the War Department will more likely be interested in, if that concern needs a small amount of material like a half a dozen injectors loaded, the Government will, through the War Department, probably furnish that material in such small amounts.



Senator BONE. I am talking about large amounts being supplied to ship to foreign countries?

Mr. BRAYTON. No, sir.

Senator BONE. There evidently was some thought of that kind in your mind, Mr. Miranda, in writing your brother from Rio in 1933.

Mr. MIRANDA. I think the suggestion was given me by Major Sackville, the military attaché, who thought that this Government might possibly be interested in helping the Driggs Co. to get the order.

Senator BONE. What is his position in the Army?

Mr. MIRANDA. He was a major at that time.

Senator BONE. He was suggesting the possibility of the Government arsenals manufacturing stuff for your company, because it is stated in this letter that the Government arsenals are very hard up for work.

Mr. BRAYTON. The major did not understand the law.

Senator BONE. He might not have understood the law, but he knew that the Government arsenals were hard up for work and that the private plants were beginning to step up production.

Mr. MIRANDA. There was no step up of production.

Senator BONE. You evidently were getting ready to do the type of work done in arsenals?

Mr. MIRANDA. Yes; so Major Sackville thought it would be a help to the arsenals if they could do some private manufacturing and he gave that suggestion.

Senator BONE. And it continues further:

I believe Lewis can tell you of the merits of the suggestion.

Mr. MIRANDA. That is Mr. Driggs, Jr.

Senator BONE. Then further along you say to your brother:

The Government (Navy) decided it needed certain types of ships for the Amazon air-mail work.

That would be in Brazil?

Mr. MIRANDA. Yes.

Senator BONE. And the ship, it says, that answers the need is the Lockheed. Is that right?

Mr. MIRANDA. Yes; that was not a military ship, it was a mailship.

Senator BONE. And then, the letter reads further:

There is nothing that requires expert brains or connections?

Mr. MIRANDA. Yes.

Senator BONE. That is pretty nearly true in all forms of business, it does not require much to arrange about the graft in the business.

Mr. SWEETSER. I am glad you do not confine that to the munitions business alone.

Senator BONE. Unfortunately it is true in all business, but we are trying to find out what part graft plays in the munitions business. This letter then reads further:

I have not discouraged the other applicants, as I do not want to antagonize any firms until the 6-plane order is in the bag, so I tell them to write to you, and you stall along for a while. I want Figueria to handle Lockheed, International Flares, and the Viking amphibians.

Were you of the opinion Figueria could arrange the graft details as well as the others?

Mr. MIRANDA. I did not know anything about the graft, but I believed he was the best qualified representative.

Senator BONE. Just read along and tell me whether or not you thought Figueria could arrange those details as well as anyone else?

Mr. MIRANDA. Yes, I believed if there were such details to be arranged, that he was qualified.

Senator BONE. Sackville in the meantime was suggesting to you that the Government might be helpful in manufacturing articles in the arsenals, but nothing came of that?

Mr. MIRANDA. Yes, that is right; nothing came of that at all.

Senator BONE (reading further from the letter):

It might be helpful if you could reach the right man.

Who was the right man to make the suggestion to?

Mr. MIRANDA. Where is that in the letter?

Senator BONE. That is in the second paragraph, starting with the words:

Since starting the above I have lunched with Major Sackville and Commander Figa. Sackville insists that this new administration will be helpful in remanufacturing in arsenals, etc., if we can reach the right man.

Who would be the right man?

Mr. MIRANDA. I have not the least idea.

Senator BONE. The letter reads further:

He (Major Sackville) suggests we use Sperry's cooperation as he says the Army stands ready to help Sperry, and after all Sperry fire-control apparatus go with Driggs antiaircraft guns.

Who is Sperry?

Mr. MIRANDA. The Sperry Gyroscope Co.

Senator BONE. Going on further the letter says:

After all Sperry fire-control apparatus go with Driggs antiaircraft guns.

That is part of what I just read and I would like to ask if you have any further comment to make on that other than you have made?

Mr. MIRANDA. No, sir.

Senator POPE. The very first part of the excerpt I have here, which I think is the second paragraph of the letter of May 12, 1933, states the following:

Since his return from the Amazonic war zone, Major Sackville, who is American military attaché here and was sent to represent the United States as observer in that region, and I have become very good companions. We lunch and dine together frequently, has had me to play golf with him at the club, etc. He is now pushing 100 percent with us and helping Figueria a lot with additional technical information, inasmuch as he is a first-class United States General Staff officer.

Just what did he do to assist you that 100 percent?

Mr. MIRANDA. He would invite some of the Brazilian officers to his office and go into the technical details with them, on the American guns.

Senator POPE. And was doing all he could to bring about a sale for you?

Mr. MIRANDA. He was doing all he could to make them feel American material is what they should have.

Senator POPE. And your material in particular?

Mr. MIRANDA. It was the only one in this country and it was a case of having to come to us or go to Europe.

Senator POPE. Was there any compensation involved in his case from you to him?

Mr. MIRANDA. Not at all. I felt if the American representative in foreign countries will not help to bring business to this country, from whom can I expect that help?

Senator POPE. The same thing was being done by European representatives.

Mr. MIRANDA. No; the European representatives were doing about a million percent more than that.

Senator BONE. The evidence in here, in our files here, and testimony in the record, is that in Europe private munitions concerns were able to go right up to the very top of the social ladder to get men to help them and to push across deals in Poland, Turkey, and other places. You were aware of the technique in that respect, and you felt your Government representatives in South America should be equally courteous and generous to you?

Mr. MIRANDA. I did not expect that equality, but I wanted some help.

Senator BONE. And you knew, as all other munitions people did, that their governments were helping their plants to get business?

Mr. MIRANDA. Yes.

Senator BONE. That was common knowledge in the munitions game?

Mr. MIRANDA. It was.

Senator BONE. So you felt you were justified in asking your Government military attaché to help you break into this field and get business from them?

Mr. MIRANDA. Yes, sir.

Senator BONE. And you also felt that those representatives in the South American countries could be helpful in that way to private munitions manufacturers?

Mr. MIRANDA. Very helpful.

Senator BONE. I take it some of the representatives in South America had quite a little fun keeping your business negotiations out of some of the other fellows' hands who were making bad boys of themselves. For instance here is a letter signed Joaquin, who would be Samper; is that right?

Mr. MIRANDA. Yes.

Senator BONE. I offer this letter as "Exhibit No. 254."

(The letter referred to was marked "Exhibit No. 254", and is included in the appendix on p. 671.)

Senator BONE. In this letter I read as follows:

Two damned interesting letters from you. I cannot give you the date right now, because they are both, together with the rest of my files, in the safe vaults of my bank, in order to keep 'em away from the Peruvian secret service. You can imagine by that how things are going here with us. To give you a little more information and a better idea as to it, my home was assaulted, gone over by expert hands, everything was emptied on the floor, and since no important papers or documents were found, the valuables were left untouched!

That would indicate what the gentlemen were looking for, which would be your correspondence with whom?

Mr. MIRANDA. Those gentlemen who have various interests in Colombia.

Senator BONE. I read further:

Tell Iggy that I have to wash my hands off with reference to his last letter to me, because I am covered and by that I mean it. It is too damned dangerous for me to undertake that activity.

What activity was being suggested there?

Mr. MIRANDA. My brother was desirous of having handled our Sikorsky account after Mr. Samper, his agent for Curtiss-Wright, got the full lines of all competitors, then he wanted to continue with Curtiss-Wright, so he decided he would not touch the Sikorsky.

Senator BONE. Now, I would like you to give us a little picture of your South American business. You, of course, in the beginning of 1934 established your own business, you had made a contact there which I take it was very satisfactory to you with the Elevator Supplies Corporation, so you had a manufacturing establishment that would give you anything you wanted in your line and you were able to go into South America and offer whatever you felt was desirable to offer that would afford you any profit. Were you able to make contracts outside to handle any outside lines or side lines?

#### RELATIONS WITH SOLEY ARMAMENT CORPORATION

Mr. MIRANDA. Only such line as we handled as the representative of the Soley Armament Corporation.

Senator BONE. That is a name that has been brought into this inquiry and becomes very important. I want you to tell the committee what the Soley Armament Co. of England is, and tell us when you first got in touch with it.

Mr. MIRANDA. Will you repeat that last question; I did not get it all.

Senator BONE. Just tell us for the information of the committee what this Soley Armament Co., Ltd., is, and the scope of its activity.

Mr. MIRANDA. Of course you appreciate my only information is what I have gathered from correspondence. I have never been to the Soley Co. in England and have never met John Ball, the managing director of the company. So, the only information is what I have gathered from their correspondence with me. It is my understanding it is one of the government licensed companies in England to do a munitions business and therefore a company that has had access to the British Government stocks of surplus war materials.

Senator BONE. Captain John Ball, or leave off the "Captain", because I do not know whether he signs his name Captain or not, is the managing director of Soley Armament Co.?

Mr. MIRANDA. That is my understanding.

Senator BONE. You gather that from your correspondence with him?

Mr. MIRANDA. That is right.

Senator BONE. Didn't you contact them first, or did they contact you?

Mr. MIRANDA. No; I contacted them first. I knew that they had available certain quantities of material at the time I first contacted them, when I was planning to offer a gunboat to one of the South

American countries, and I knew Soley Company had available a number of naval guns, so I contacted them, and they sent me the information.

Senator BONE. They were able to furnish naval ordnance of considerable size?

Mr. MIRANDA. I think up to 6 inches.

Senator BONE. They carry their stock in England.

Mr. MIRANDA. I think most of them are in England but I understand some are carried in Belgium.

Senator BONE. They have a depot in Belgium?

Mr. MIRANDA. I believe so; yes.

Senator BONE. Can you tell us when you first contacted Soley?

Mr. MIRANDA. I knew of Soley through the Driggs Ordnance and I first contacted Soley, it must have been December 1933 or early in January following.

Senator BONE. When did you first have knowledge of the operations of the Soley Co.?

Mr. MIRANDA. When they wrote me they more or less explained what they were and what they had.

Senator POPE. They had very large stocks of armaments?

Mr. MIRANDA. Yes; I understand that they have around seven or eight hundred thousand rifles, and I think about fifty or a hundred thousand machine guns and a great amount of other material. I mean, they have access to it, but I do not know whether they own it, or what.

Senator BONE. Now, on January 1, 1934, there is the following letter from the Soley Armament Co., Ltd., addressed to the American Armament Corporation, 6 East Forty-fifth Street, New York, which letter I offer in evidence.

(The letter referred to was marked "Exhibit No. 255" and was read in full by Senator Bone.)

Senator BONE. This letter, "Exhibit No. 255", appears to have been signed by John Ball, director. On the letterhead appear certain statements indicating the nature of the business of the Soley Armament Co., Ltd., director John Ball, so that his name is printed on their stationery and evidently he is the chief executive of the company. Then it states, "Contractors to War Office and Air Ministry." Can you advise to what those terms mean?

Mr. MIRANDA. I do not know just what a British firm would mean by being a contractor to the War Office and Air Ministry.

Senator BONE. They set forth on their letterhead they are specialists for all war material, for gas, or air use, light artillery, machine guns, rifles, revolvers, ammunition, and military equipment and appearing below their statement is some sort of insignia surmounted with a crown.

In this letter, "Exhibit No. 255", they say:

In reply to your cable request of yesterday, asking for details of the 4-inch Q.F. guns.

What are Q.F. guns?

Mr. MIRANDA. Quick-firing.

Senator BONE. They say further:

We send you herewith an Admiralty handbook of the gun and one blueprint.

These are on loan to you for information purposes only as the books are out of print, and we have no negatives of the blueprint.

As probably you are aware, very few handbooks are printed for British naval guns, and the few that are, cannot be got easily.

You will find inserted in the handbook a few typed particulars concerning the guns, which are offered to you subject unsold, but the range tables cannot be given to unless the guns are purchased.

The guns are not "new" but have had very little use. The calculated "life" of this type of gun is 2,000 rounds, before it requires to be retubed, and the two guns offered have only fired 47 and 57 rounds, respectively, so that their remaining life should be about 1,950 each. There is, of course, a special history sheet with each gun, which records every shot fired, and the date of firing.

We regret that we cannot give you more information on the guns, but as you can understand, the British Admiralty is not a commercial firm, and they do not have descriptive catalogs giving details of anything they may sell to us as a favour.

The two 4-inch guns were made in 1915.

The eight 6-inch guns were made in 1914 and are little used. Their "life" is calculated at 700 rounds, and they have all fired less than 100 rounds. No handbooks for the 6-inch gun exist.

The price includes sights, and a few tools and spare parts. We think you can find details of the above guns in the correspondence of Driggs, if you have access to it, and possibly prints and handbooks, for Driggs had them from us, and did not return them, in spite of our requests for them.

We hope the information given will suffice.

Yours faithfully,

JOHN BALL

Now, under date of February 3, 1934, the Soley Armament Co. again writes the American Armament Co. and I am calling your attention to some statements in this letter, which I offer as "Exhibit No. 256."

(The letter referred to was marked "Exhibit No. 256", and appears in the appendix on p. 672.)

Senator BONE. This letter starts with this statement:

We thank you for your letter of Jan. 27th to hand.

Do you know what that letter was referred to, or did you bring down any files with you?

Mr. MIRANDA. No; I thought all the files necessary were in the hands of the investigators. But if you will let me read this letter, it may be that I can enlighten you.

Senator BONE. The next statement in the letter is as follows:

Your requests regarding the 51 carbines, 7.65 m/m will be carried out, and we hope to ship from Antwerp in about 10 days or maybe less.

Mr. MIRANDA. I think that was an order for 51 carbines.

Senator BONE. What caliber is that?

Mr. MIRANDA. It is 7.65 mm.

Senator BONE. About what caliber would that be?

Mr. BRAYTON. A little over three-tenths of an inch.

Senator BONE. Something over .30 caliber.

Mr. BRAYTON. Slightly over; yes.

Senator BONE. Did you buy those carbines?

Mr. MIRANDA. Yes.

Senator BONE. How many?

Mr. MIRANDA. Fifty-one.

Senator BONE. What would they be used for?

Mr. MIRANDA. They were to be used as a sample lot shipped to Bolivia.

Senator BONE. The letter proceeds further [reading]:

Regarding payment: Will you please open a credit for the full amount of the payment, in the Bank of China, Palmerston House, Old Broad Street, London, in our favor, the sum to be paid to us against the presentation of shipping documents and our invoices. The shipping documents and receipted invoices will then be forwarded to you by the Bank of China.

We note your remarks about competition in the U.S.A. from other firms offering our stocks, and on consideration, we beg to place the following suggestions, which you might think over and let us have your views upon:

Do you recall whether you ever ultimately set out your views to the Soley Co. as to the general field of business here?

Mr. MIRANDA. It was not a matter of the general field of business, it was this. For instance, in connection with Bolivia we were offering Soley guns and several others were offering the same guns.

Senator BONE. You were trying to handle this so that you would represent Soley and not somebody else?

Mr. MIRANDA. Exactly. I wrote them that if that is going to be the case we do not want to bother with it.

Senator BONE. You wanted the exclusive representation to sell their stuff in the field you were selling?

Mr. MIRANDA. Yes.

Senator BONE. Do you know who else were handling their stock?

Mr. MIRANDA. The Consolidated Export Co., I believe it is, then the firm of Figorola and the International Ordnance & Instrument Co.

Senator BONE. Put it in this fashion, were there other munitions concerns trying to get the agency for Soley?

Mr. MIRANDA. There were other firms in this country, I would not say trying to get the agency, but offering the same stocks we were offering from Soley.

Senator BONE. And now, Mr. Ball of the Soley Co. goes on further to say in this letter:

As we are really the sole selling channel for small arms, etc., which belong to the British War Office, and as we are to a very great extent controlled by the varying policy of the Government, it is rather difficult to us to enter into firm and fast agreements with other armament firms.

The stocks we control are of such magnitude that the sale of a big block of them could alter the political balance of power of the smaller States, involving corresponding complications from the point of view of finance and industry.

What does he mean by that. Just give us your idea.

Mr. MIRANDA. Your idea is as good as mine, Senator.

Senator BONE. You were called upon to interpret this letter, because it was addressed to you, so what would you feel he meant?

Mr. MIRANDA. I felt they have such large stock of rifles, machine guns, and ammunition that if they are not careful where they sit, they will upset some small government.

Senator BONE. In other words, if they put those large amounts of stuff at the disposal of any small group, they could upset a government.

Mr. MIRANDA. Yes.

Senator BONE. Reading further from this letter, he says:

You will, we are sure, fully appreciate that under these conditions we have to submit to a fairly strict control by the authorities concerned, and we cannot always supply the demands by certain would-be buyers, for political reasons.

However, we think that it might be in our interest to have one single firm in the U.S.A. who would act as our appointed representative, and who deal with all the inquiries we get from the U.S.A.

Yourselves, as the people on the spot, would know the strength of many inquiries and would be promptly able to sift the serious ones from those of the "hot-air" variety, and if you are reasonable regarding profits, we think that the obvious advantages to us would be worth the slight sacrifice of price entailed in covering your firm.

The question now arises as to how we could arrange such a combination, and in a manner which would meet the needs of both sides without interfering with the government control here, which must absolutely be observed.

We suggest the following arrangement:

We would be prepared to appoint you our sole selling agents for the U.S.A. and you would have the handling of all the sales to the State of Latin America only, which would be left entirely to yourselves.

Arms for other destinations, such as China or European States, could not be offered by you without our previous consent, and you would be expected to observe this rule in the very strictest manner.

The CHAIRMAN. Senator Bone, is this a sale of British manufactured material entirely?

Senator BONE. I am coming to that. Let us pause at this point to say that here we are discussing and reading a letter of a firm which probably controls more munitions of war than any private outfit in the world; that is, having the stuff available for immediate sale. Am I correct in that?

Mr. MIRANDA. I think that they probably would be as great; I understand that there are one or two other firms in Europe that are very large.

Senator BONE. And one, I believe, in Germany.

Mr. MIRANDA. And one in Germany; that is the one I have in mind.

Senator BONE. This outfit has all the stuff which the British War Office got rid of at the end of the war and is getting rid of right along?

Mr. MIRANDA. That is my understanding.

Senator BONE (continuing reading).

Now, such an arrangement as is suggested above would have to be what we call here a "gentleman's agreement", that is, one of mutual trust and confidence without any hard and fast legal ties or commitments which would exist in the usual case.

What do you think he meant by that, this term "gentleman's agreement?"

Mr. MIRANDA. I think he meant that we could not enter into a very complicated contract for the reasons that he gave before. For instance, if he offered a lot of merchandise to us and we found an outlet for it and we went back and the British Government would not release that stuff, he felt he was not going to be bound by his agreement with us to supply the material.

Senator BONE. He further states in this letter [reading]:

For instance, we believe that the U.S.A. does not wish arms to be sold to Nicaragua, and therefore we must observe this veto, for if our rifles were sold to this State, and some U.S.A. official saw them there, we should be in serious trouble at once with our own Government, who insist that we must not violate the wishes of other world powers by arming revolutionaries, etc.

Can you tell us where these various revolutionary movements in South America and Central America have gotten their firearms? They all seem to be fairly well equipped.



**Mr. MIRANDA.** I do not know, Senator. There have not been very many revolutions in the last year and a half, which is the time that I have given to the munitions business, and theretofore in our export business we never had that kind of trade.

**Senator BONE.** He goes on to state [reading]:

If you think that you would like to come to some such arrangement with us, we think your desires could be met, but we must be first informed of the ultimate destinations of all quantities of arms which exceed sample quantities, in order that we can submit the name of the purchasing government to the British authorities, and obtain their permission for the arms to be sold to that State, and we suppose that also, before you sell arms from the U.S.A. to a Latin American State, you will obtain the permission of your Government to do so, in order that the policy of the U.S.A. cannot be upset.

Then comes this further statement [reading]:

For your information in confidence, the value of the stocks here under our control is approximately 6 million pounds—

about 30 million dollars in normal times—

so there is no great risk that they will all be disposed of in a short time, but you must remember that in the event of a serious war breaking out anywhere affecting British interests the stocks might be withdrawn from sale.

The principal stocks are as follows:

Rifles, pattern 1914, caliber .303, which we can convert to most of the Mauser calibers—

Quantity 800,000 with enough spares to build up another 200,000.

So that apparently they have a million rifles ready for use in a very short time. [Reading]:

Machine guns, Hotchkiss, 34,000 with spares. These can also be converted to Mauser calibers.

Machine guns, Lewis, 20,000 with spares. These cannot be converted to Mauser calibres except at serious expense and difficulty. These are infantry pattern.

Machine guns, Lewis, aeroplane pattern, 8,000 with spares. These are mobile or "free" guns, for use by the observers. Machine guns, Vickers, infantry pattern, 5,000 with spares. These can be converted to Mauser calibres.

I note the use of the term "Mauser" frequently in this letter, Mr. Miranda. What is the meaning of that? Is that a rather superior type of gun?

**Mr. BRAYTON.** A German type adopted by many smaller states throughout the world, and when a smaller country buys a new lot of rifles or machine guns, they naturally have to buy a type which will take the same cartridge which they are already using, and require them converted to what they have.

**Senator BONE.** Then to continue with the letter [reading]:

Machine guns, Vickers, aeroplane pattern 6,000 with spares. These are "fixed" guns for firing through the propellor of the plane. These can be converted to Mauser calibres.

Revolvers, Webley calibre, .455—

That is a little over a .45-calibre gun—

(takes the American .45 shells), quantity 4,000, length of barrels 4".

Revolvers, Smith & Wesson—

An American manufacturing company—

5,000, calibre .455 takes .45 shells, length of barrels 6½".

How did they get 5,000 Smith & Wesson .45 calibre revolvers?

Mr. BRAYTON. Practically all the stocks of American munitions left in France during the war were left in Europe, and practically nothing returned.

Senator BONE. If they were left in France, how did the English firm get them?

Mr. BRAYTON. They might have been shipped through France to England.

The CHAIRMAN. Might these have been American stocks?

Mr. BRAYTON. No; the American Government does not sell stock. If they have any scrap material, they destroy it.

Senator BONE. (reading):

Revolvers, Colt, calibre .455 (takes .45 shells) quantity 10,000 (9,016 with 5½" barrels.

Quantities of spare parts exist for the Colts and the Smith & Wessons, but no stock of spares for Webleys.

Webley is a British company?

Mr. BRAYTON. Yes, sir; I believe so.

Mr. MIRANDA. Yes, sir.

Senator BONE. (reading):

Ammunitions, none for revolvers, but for rifles and machine guns in calibre .303 there is about 120,000,000 rounds in good condition.

That would stage a pretty good war in any country, 120,000,000 rounds of ammunition, would it not?

Mr. BRAYTON. The chances are that that ammunition was made during the war and none too good.

Senator BONE. How about at fairly close range?

Mr. BRAYTON. Yes, sir; it would kill you.

Senator BONE. You would not want to take a chance on it, would you?

Mr. BRAYTON. I would not bet on it not firing.

Senator BONE. You would not want to offer a "dud" to your South American client?

Mr. BRAYTON. We would have to have assurances about it and probably get it over here and fire it ourselves.

Senator BONE. To be sure that the cartridge would be all right, and "doing the needful" in case of war.

Mr. BRAYTON. All the things which you have read, Senator, are in the small arms category, and no army is complete with small arms unless it is a revolutionary group or a small country.

Senator BONE. That is true, but there are the 4-inch and 6-inch guns.

Mr. BRAYTON. But the quantity of the stuff is very small.

The CHAIRMAN. You do not consider that machine guns fall in the category of small arms, do you?

Mr. BRAYTON. I mean this, Senator: A modern army cannot do anything without artillery, other than go on a raiding party or something. They could not upset the stability of a state without artillery also.

Senator BONE (reading):

The general condition of the arms are "serviceable", which means either quite unused or having had very little use, but the greater portion is "new." Possibly there may be a slight marking or rubbing of the arms while being

re-greased in the stores depots, and if given a little time to deliver, we usually remove all scratches before shipping, and in the case of rifles or M.G.'s converted to Mauser calibres, the entire arm is rebrowned.

Then the letter goes on to state [reading]:

To return to the question of cooperation with you—

If you think that your interests would be served by such an agreement as suggested, you can begin right away and deal with any future enquiries from South America, and we will try out the arrangement with you, and see how it works.

There were not any strings on your right to sell the South American countries? The only exception would be in Nicaragua where we were busy civilizing the natives at that time. Is that not right?

Mr. MIRANDA. That is right.

Senator BONE. Now on February 3, 1934, there was apparently some meeting of the minds and getting together. Did you consummate this agreement?

Mr. MIRANDA. Yes.

Senator BONE. So that you are now their representative?

Mr. MIRANDA. Yes, sir.

Senator BONE. The document to which I referred under date of February 3, 1934, from the Soley Armament Co., Ltd., to the American Arament Corporation will be introduced as "Exhibit No. 257." (The document referred to was marked "Exhibit No. 257" and is included in the appendix on p. 674.)

Senator BONE. Now on February 6, 1934, there appears another letter from the Soley Armament Co., Ltd., signed by John Ball, addressed to the American Armament Corporation, which I will introduce as "Exhibit No. 258."

(The letter referred to was marked "Exhibit No. 258" and is included in the appendix on p. 674.)

Senator BONE. I desire to read certain parts of the letter last referred to [reading]:

We have today received an enquiry for Springfield rifles, cal. .30, from the Export Consolidated Co., whose letter we attach.

That is an American corporation which they are referring to?

Mr. MIRANDA. Yes, sir.

Senator BONE. And they were in the market for Springfield rifles. Do you know where those were going?

Mr. MIRANDA. No, they would not disclose the information to us.

Senator BONE [reading]:

We have informed them that we have no Springfields, but that if the buyer would accept a tolerance in the calibre of three thousand of an inch, and take rifles with a barrel calibre of .303, we could modify the chamber and the magazine of the 1914 rifles we have, in order to use the standard American cartridge in them, and alter sights accordingly. This operation is not very simple, and entails much expense, but if a fair quantity were taken we think we could keep the price of such rifles down to about three pounds seven shillings six pence each.

We shall therefore be obliged if you will get in touch with the Export Consolidated Co., and see what can be done for them.

And then there is some further reference to samples they are sending over.

Proceeding with the letter [reading]:

In view of the expense in your getting the above, we will see if it is possible for us to persuade the authorities to agree to some nominal amount, instead of

the full price (which, is of course returnable if you return the samples) but we have not great hopes of doing this.

Alternatively, you could if you so desire select from the above list the items which you consider essential to you, and leave the samples of the rest until some definite need arises for them, when they could be sent to you.

Please let us have your views on this question.

Among these samples there were the following:

One Lewis machine gun, infantry pattern, calibre .303; one Lewis machine gun of the aeroplane pattern, same calibre; one Hotchkiss machine gun, infantry pattern, calibre .303; one Hotchkiss machine gun, infantry pattern, calibre 7.65 millimeters (or 7 millimeters); one Vickers machine gun, infantry pattern (in either .303 or Mauser calibre); one Vickers machine gun, aeroplane pattern, in either .303 or Mauser calibre; two revolvers, calibre .455 Colt, 5½" barrels; two revolvers, Smith & Wesson, calibre .455, 6½" barrels; two revolvers, Webley, calibre .455, 4" barrels; two rifles, pattern 1914, calibre .303; two rifles, pattern 1914, calibre 7.65 millimeters; two rifles, pattern 1914, calibre 7 millimeters, and two signal pistols, calibre 1".

Those were the samples which you wanted to have so that you could see them and utilize them in promoting South American trade?

Mr. MIRANDA. Yes, sir.

Senator BONE. Mr. Ball goes on to state in that letter:

Another point we should like you to bear in mind: Owing to the financial constipation all over the world, it often happens that the United States require arms badly, but have no cash to pay for them. As it is far too risky to sell arms on credit in these times, some alternative has to be found, and sometimes goods or produce can be accepted in lieu of cash, and the barter converted into cash over a period of time.

Have any deals been consummated so far where they have made that arrangement?

Mr. MIRANDA. No; not at all.

Senator BONE. You, however, were authorized to do so and accept payment in coffee, rubber, timber, and so forth from South American States?

Mr. MIRANDA. I do not think they would authorize us to make a deal, but they would be interested in hearing such a deal could be made.

Senator BONE. He says in this letter [reading]:

For instance, provided that the deal was a fairly big one, we could accept coffee, rubber, timber, etc., in payment.

That means disposing of it through their British connections?

Mr. MIRANDA. Yes, sir.

Senator POPE. Do you know of another armament firm making sales and accepting products like this?

Mr. MIRANDA. I do not believe it would be unlikely for European manufacturers to handle the business that way.

Senator POPE. Do you know of any instances of that kind?

Mr. MIRANDA. I do not know of any instances of that kind, but I have heard that it is not unusual. You see he himself brings up the point in this case.

Senator BONE. Then Mr. Ball goes on to state as follows:

There have also been cases where certain concessions were given, and the concessions sold to interested financiers or companies, but—and this is the snag—we have either got to arrange a definite sale of the product beforehand, or to peddle off the concession to some interested group, beforehand.

What sort of concession will that be?

Mr. MIRANDA. Oil concessions.

Senator BONE. Oil concessions?

Mr. MIRANDA. Timber concessions.

Senator BONE. Do you know whether there have been such concessions offered or sought in the Chaco country in your experience down there?

Mr. MIRANDA. I do not know, Senator.

Senator BONE. Did you hear any discussion of it down there?

Mr. MIRANDA. No; I did not.

Senator BONE. Evidently that is not an unusual situation in South America, that is, the idea of securing concessions from some government, because otherwise Mr. Ball would not have mentioned it so freely.

Mr. MIRANDA. I think probably it is a European practice to some extent.

Senator BONE. Now, he goes on with a still more interesting observation [reading]:

We fully understand that arms deals are not usually done without some officials getting "greased" but if any "palm oil" is required——

Is that another polite term for "grease?"

Mr. MIRANDA. Evidently.

Senator BONE (reading):

but if any "palm oil" is required, it has to be added to the price, and as our prices are at least 50 percent less than factory prices for the same arms, they will stand a lot of "grease" and still be cheaper than the manufacturers' prices.

Do you know whether the British Government, through this semi-official arm of the Government, approves of peddling of "grease" by the organizations?

Mr. MIRANDA. I do not know, Senator. I would have no means of knowing that.

Senator BONE. Of course some of the stuff which comes out of Europe might be in that category, but is it not rather unusual for a semiofficial agent of the great British Government to talk so freely of "peddling grease", "palm oil", and so forth, in, in a sale of arms to other countries? Does it not strike you as being a free way to put it, between ourselves?

Mr. SWEETSER. They are taking conditions as they are.

Senator BONE. I know they are very practical men. Is that not right?

Mr. MIRANDA. They are practical men.

Senator BONE. And being practical men, they are going to do business in a practical way, and if they have to "grease" the boys and girls down there, they are going to "grease" them?

Mr. MIRANDA. There is a condition down there which they recognize, and which they have to give effect to, and they figure if they are going to do business down there they have just got to meet that condition.

Senator BONE. I wish you would amplify the statement you have just made about the condition which all practical men understand exists, and all practical men meet. I am speaking of the condition which exists in South America. Do you mean that the condition which exists requires those people to be "greased"?

Mr. MIRANDA. I guess they have been doing business that way for a great many years, Senator. Maybe the Europeans taught them to do business that way.

Senator BONE. Do you think the Europeans seduced and debauched the South Americans, or were the South Americans willing to meet them more than half way?

Mr. MIRANDA. Let us give them an even break.

Senator BONE. It is 50-50, or something of the sort? Of course we cannot work miracles, but enough "palm oil" and "grease" ought to work miracles, do you not think, if there is enough of it? Can you tell us in this connection whether the European operators down there resort to the use of "palm oil" and "grease?"

Mr. MIRANDA. Probably.

The CHAIRMAN. Taking the Senator's question in a general way, what do you have to compete with in South America?

Mr. MIRANDA. Europeans.

The CHAIRMAN. Do they resort to the same methods pretty much, as you do in getting the business?

Mr. MIRANDA. No; our methods are cleaner.

The CHAIRMAN. Your methods are cleaner than theirs?

Mr. MIRANDA. Yes, sir; infinitely so.

The CHAIRMAN. Are you prepared to advise the committee what some of their methods are?

Mr. MIRANDA. Not now, Senator.

Senator BONE. Have you any reluctance to discuss it with the committee here, or do you feel you should not?

Mr. MIRANDA. I will be very glad to discuss it in executive session. It is a matter of discussing the methods of Europeans. It is a matter of ethics.

Senator BONE. We do not want to insist on the use of names, but tell us the technique of the game. We do not care about indicting any individual.

Mr. MIRANDA. They have gotten the business, and when we try to get the business we find certain conditions which have to be met if we want to touch their business.

Senator BONE. One of the best-known European outfits, knowing full well the European technique, writes over here and tells you to use plenty of "grease" and "palm oil" because he is familiar with the way the thing is operated. Is that right?

Mr. MIRANDA. Evidently; yes, sir.

Senator BONE. Perhaps he is following the Zaharoff technique, where he refers to the necessity of "doing the needful." That would be its equivalent, would it not?

Mr. MIRANDA. Yes, sir.

Senator BONE. We will leave the Soley matter for the moment and take up another matter.

Under date of June 9, 1934, which was only a few weeks ago, you wrote your agents in Bolivia, at La Paz, Webster & Ashton, being your agents, did you not?

Mr. MIRANDA. That is right.

## STATE DEPARTMENT AND EMBARGO ON ARMS TO BOLIVIA AND PARAGUAY

Senator BONE. I offer that as "Exhibit No. 259."

(The letter referred to was marked "Exhibit No. 259" and is included in the appendix on p. 675.)

Senator BONE. This letter was directed to your agents, written by Mr. A. J. Miranda, Jr., in which you were discussing the so-called "embargo" resolution which had been passed by the Congress of the United States, and you were concerned, of course, as all munition companies were, with the effect that that embargo would have on your business. Is not that correct?

Mr. MIRANDA. Yes, sir.

Senator BONE. And in this letter I call your attention to some paragraphs on page 3, which I will read, the letter being written by you for the American Armament Corporation. There you state [reading]:

The State Department would issue no permits, recognized no exceptions, would not attempt to interpret what was war material and what is not war material, nor would it give an opinion as to the time of action covered by the President's proclamation, that is, whether the proclamation embodied or not sales made previous to May 28th, the day of the Presidential decree. The State Department's attitude was:

"Try to ship your stuff and if the Government's agencies (presumably the customs) block your way, hire the best lawyer available and get an injunction against the Government."

Then, proceeding further, you say:

This, of course, was rather unsatisfactory. So, I again held additional conferences with the Minister,—

Is that the Brazilian Minister?

Mr. MIRANDA. Yes.

Senator BONE (continuing reading):

pointed out to him that the attitude of the Government towards American corporations is going to be, in my opinion, rather dictatorial and that the best protection of his Government's interests would be to strictly carry out the terms of the contracts; that is, we would deliver the material here, as agreed, and the consul general, acting as the commercial representative of Bolivia, would seek to clear the material in question.

Then there is some further discussion as to this material.

Does this statement here fairly and accurately reflect your understanding with the Department?

Mr. MIRANDA. Yes, sir.

Senator BONE. There is nothing further to add to it except that that seemed to be their attitude?

Mr. MIRANDA. No, sir. That was their attitude?

Senator BONE. Was their attitude one of direct advice?

Mr. MIRANDA. I beg your pardon?

Senator BONE. How was that communicated to you? By letter?

Mr. MIRANDA. From the State Department?

Senator BONE. Yes.

Mr. MIRANDA. I was there myself.

Senator BONE. You went up to see them?

Mr. MIRANDA. Yes, sir; I went up to see them.

The CHAIRMAN. Did the State Department advise you precisely in the manner which you have outlined in this letter?

Mr. MIRANDA. Yes, sir.

Senator BONE. Did your firm hire counsel at the time?

Mr. MIRANDA. No, sir; not at the time.

Senator BONE. You subsequently hired counsel?

Mr. MIRANDA. Yes.

Senator BONE. Do you mind telling the committee whom you hired?

Mr. MIRANDA. No. Mr. Edwin W. Sims.

Senator BONE. Where does he practice law?

Mr. MIRANDA. From Sims, Stansky & Brewer, of Chicago.

Senator BONE. Why did you happen to hire a Chicago firm of attorneys?

Mr. MIRANDA. Because Mr. Sims has been Mr. Johnson's attorney for 20 years.

Senator BONE. That is, the Elevator Supplies Co.?

Mr. MIRANDA. The Elevator Supplies Co.; and he is a director in the Elevator Supplies Co.

Senator BONE. He is a director in the Elevator Supplies Co.?

Mr. MIRANDA. Yes, sir.

Senator BONE. Naturally he would throw the business that way?

Mr. MIRANDA. As a matter of fact, he had nothing to do with it. Mr. Johnson just called Mr. Sims into the picture.

Senator BONE. Why did you turn that particular business over to Mr. Johnson, when it affected your business and not his, except indirectly through the firm?

Mr. MIRANDA. It affected his business also. They do the manufacturing for us.

Senator BONE. I understand that. You just stepped aside and let him take care of it?

Mr. MIRANDA. Yes.

Senator BONE. Were they the only attorneys which were retained and hired?

Mr. MIRANDA. Yes.

Senator BONE. You paid no attorney's fees to anyone else?

Mr. MIRANDA. Not to anyone else.

Senator BONE. Or brought any other lawyers into the business at all?

Mr. MIRANDA. No, sir.

The CHAIRMAN. Mr. Miranda, will you just stand aside long enough so that we may hear a representative of the State Department at this time?

Mr. MIRANDA. Yes, sir.

(Witness excused.)

#### TESTIMONY OF JOSEPH C. GREEN

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Proceed, Senator Bone.

Senator BONE. You are a representative of the State Department of the United States, Mr. Green?

Mr. GREEN. Yes, sir.

Senator BONE. What is your official connection there, Mr. Green?



Mr. GREEN. I am an officer in the Division of Western European Affairs.

Senator BONE. As such, do you have direct charge of the activities of this particular thing?

Mr. GREEN. In the matter of arms exports?

Senator BONE. Yes, sir.

Mr. GREEN. Yes, sir.

Senator BONE. So that you, of all men down there, would know more of just what has happened, in connection with which we have been having this discussion, than anybody else in the Department?

Mr. GREEN. Yes, sir.

Senator BONE. Have you any comments to make on the testimony given by Mr. Miranda as to the matter of an embargo and the attitude of the Department toward it?

Mr. GREEN. Yes, sir; I think I can express the attitude of the Department in a very few words. During the war which has been raging in the Chaco for approximately 4 years, the Department of State has been consistently opposed to the shipment of arms and munitions of war from the United States to either of the belligerents. The Department made every effort over a long period to secure legislation which would enable this Government to put an end to those shipments. The necessary legislation was approved on May 20 of this year, and although the proclamation which made that legislation effective empowered the Secretary of State to make exceptions to the general prohibitions contained therein, the Secretary of State has made no exceptions except those announced on July 27. The reasons for those exceptions were set forth in the public announcement made at that time. At the same time it was announced that no further exceptions would be authorized.

Now, immediately upon the signature of the President's proclamation and for some weeks thereafter, interested companies wrote to the Secretary of State and their representatives called at the Department requesting an interpretation of the joint resolution of Congress and of the President's proclamation. The Department uniformly refused to exceed its authority by attempting to interpret the joint resolution. The interpretation of this joint resolution, like that of any other statute, is a function, in the first instance, of the Department of Justice which is charged with the prosecution of offenders and, in the last analysis, of the courts of the United States before which cases arising under it would be tried. The companies which wrote to the Secretary of State and the representatives who called at the Department were so informed.

Senator POPE. Among those representatives who called upon you, representatives of armament makers, was Mr. Miranda?

Mr. GREEN. Mr. Miranda called upon the Department, but not upon me personally. He called upon the officer who was in charge, one of the officers in charge of Latin-American affairs.

The CHAIRMAN. Did you, Mr. Green, give any of those making inquiries the advice to engage counsel and bring an injunction against the Government?

Mr. GREEN. I gave them the first advice, that they might engage counsel in order to get legal advice explaining how this resolution

should be interpreted, but I never advised anyone to bring an injunction against the Government in this connection.

Senator BONE. Your Department was not giving legal advice to anyone?

Mr. GREEN. No, sir; they were consistently refusing to do so.

The CHAIRMAN. Mr. Miranda's direct testimony was that he had been directly advised to engage counsel and institute injunction proceedings. To your knowledge then, that was not done?

Mr. GREEN. No, sir.

The CHAIRMAN. Might it have been done by others in the State Department?

Mr. GREEN. Not without my knowledge, sir.

The CHAIRMAN. And such was not done, to your knowledge?

Mr. GREEN. No.

Senator BONE. Your idea, of course, was that the quickest way to determine just exactly what this resolution of Congress meant was to have it tested in the courts.

Mr. GREEN. Yes, sir.

Senator BONE. Which, of course, would necessarily have to be done before any of us would know exactly where we stood with respect to it.

Mr. GREEN. Yes, sir.

Senator POPE. The question was as to what constituted a sale under the act passed by Congress.

Mr. GREEN. There was that question and there was another question, sir. There was always the question of what were arms and munitions of war and how were they to be defined? That we also refused to attempt to interpret.

Senator BONE. Can you tell the committee whether the United States has treaty relations with both Bolivia and Paraguay?

Mr. GREEN. Yes, sir.

Senator BONE. Do those treaties contain restrictive provisions which might circumscribe the powers of Congress with respect to the passage of this kind of legislation?

Mr. GREEN. Yes, sir.

Senator BONE. Will you explain to the committee, so that the record may show, just what those restrictions are? I think it is well to have that explanation, because there are a lot of folks in this country who are wondering what this is all about. You, as a representative of the State Department, can tell the country now just what those restrictions are, if there are restrictions, in the treaties.

Senator POPE. And why the term "sale" of munitions is used rather than "export."

Mr. GREEN. Yes, sir; the treaties with Bolivia and Paraguay both contain similar provisions to the effect that neither party to the treaty will prohibit the export from its own territory to the territory of the other, of any commodities unless that prohibition is made general to all nations. For that reason it would have been impossible without a breach of the treaty to prohibit the export of arms and ammunitions from this country to those particular countries without making that a general prohibition on the exports to all countries.

Senator POPE. And that is why the term "sale or sales" was used in the embargo act?

Mr. GREEN. Yes, sir; it is not, strictly, an embargo act. It is simply a resolution authorizing the President to prohibit the sales to the Governments of the two specified countries or to any person or corporation acting in their interest.

Senator BONE. Mr. Green, I wonder if you would do this for the committee: The treaties themselves are probably rather lengthy documents?

Mr. GREEN. Yes, sir.

Senator BONE. I wonder if you could have your secretary strike off those provisions of the treaty between the United States and Paraguay which are involved in this matter, so that we may, at a point after your testimony has been concluded, insert that in our record? I am referring to just those parts that we have been discussing.

Mr. GREEN. Yes, sir.

Senator BONE. I think it would be illuminating and those who read this record later will understand what you have been discussing. True, you have explained it, but I think it would be wise to have those provisions shown in the record. If you will do that, we should appreciate it.

Mr. GREEN. I shall furnish them to the committee at the first opportunity.

The CHAIRMAN. Let us have an understanding now that that memorandum that Mr. Green furnishes will be put in the record at a point following his testimony.

Senator GEORGE. Mr. Green, did the first resolution or bill introduced in the Congress provide against exports directly and in terms?

Mr. GREEN. The first bill which was introduced some years ago?

Senator GEORGE. Yes, sir.

Mr. GREEN. Yes, sir; but it was a general bill. It did not apply specifically to these two countries.

Senator GEORGE. I know. But the joint resolution to which you referred and which was passed and approved in May of this year, was that preceded by another bill somewhat more drastic?

Mr. GREEN. Yes, sir.

Senator GEORGE. Which had some consideration at the hands of the Foreign Relations Committee, I believe.

Mr. GREEN. Yes, sir.

Senator GEORGE. The final legislation was in the form of a joint resolution which merely prohibited the sale in this country—

Mr. GREEN. It authorized the President to prohibit the sale.

Senator GEORGE. It authorized the President to prohibit the sale in this country?

Mr. GREEN. Yes, sir.

Senator BONE. You may proceed now with your statement, Mr. Green.

The CHAIRMAN. Had you finished, Mr. Green?

Mr. GREEN. Yes, sir.

The CHAIRMAN. If there are no further questions, you may be excused with the thanks of the committee.

Mr. GREEN. Thank you.

(The following letter and memorandum are included in the record at the direction of the chairman. See proceedings of Sept. 12, in Part V:)

DEPARTMENT OF STATE,  
Washington, September 11, 1934.

GERALD P. NYE,  
*United States Senate.*

MY DEAR SENATOR NYE: In compliance with the request expressed to Mr. Green when he appeared as a witness before the Special Committee Investigating the Munitions Industry on September 10, I take pleasure in enclosing, for the information of the committee a memorandum in regard to those portions of our treaties with Bolivia and Paraguay which were referred to in Mr. Green's testimony.

Sincerely yours,

CORDELL HULL.

Enclosure: Memorandum.

#### MEMORANDUM

Article 6 of the treaty of 1858 with Bolivia contains the provision that—  
“\* \* \* nor shall any prohibitions be imposed on the exportation or importation of any articles the produce or manufactures of the United States or of the Republic of Bolivia, to or from the territories of the United States, or to or from the territories of the Republic of Bolivia, which shall not equally extend to all other nations.”

Article 4 of the treaty of 1859 with Paraguay provides, in part, that—  
“\* \* \* No prohibition shall be imposed upon the importation or exportation of any article of the growth, produce, or manufacture of the territories of either of the two contracting parties into the territories of the other, which shall not equally extend to the importation or exportation of similar articles to the territories of any other nation.”

#### TESTIMONY OF ALFRED JOSEPH MIRANDA, JR., HAROLD MORGAN BRAYTON, AND FRANK ELLIOT SWEETSER—(Resumed)

Senator BONE. Do you recall whom you contacted in the State Department, Mr. Miranda?

Mr. MIRANDA. I do not remember the name of the gentleman. May I say a word in connection with that?

Senator BONE. Yes.

Mr. MIRANDA. The reason we did not write in was that we had two shipments which were about ready at that time. So I felt that the best thing for me to do was to come down here and see the State Department and try to get some interpretation, try to get some ideas as to what had to be done.

Senator BONE. To what extent has this prohibition against the sale to these belligerent countries involved your firm financially?

Mr. MIRANDA. You mean in dollars and cents?

Senator BONE. In dollars and cents.

Mr. MIRANDA. \$1,600,000. That is exclusive of the contracts that had been accepted by the State Department already.

Senator BONE. In other words, in addition to the contracts already accepted, and which probably will go through, there were munitions of the value of \$1,600,000 that are now involved in this misunderstanding?

Mr. MIRANDA. That is correct.

Senator BONE. Has that stuff been shipped?

Mr. MIRANDA. No; that stuff has not been shipped.

Senator BONE. In a letter dated March 24, 1934, from the Soley Armament Co., Ltd., to your firm, there is a reference to Figuerola, which I should like to ask you about and I will first offer this letter in evidence as "Exhibit No. 260."

(The letter referred to was marked "Exhibit No. 260" and is included in the appendix on p. 678.)

Senator BONE. Was Figuerola your representative in South America?

Mr. MIRANDA. Figuerola?

Senator BONE. Yes.

Mr. MIRANDA. No.

Senator BONE. Where was he operating?

Mr. MIRANDA. I believe that he operates all over South America. But he is not connected with us. He is a competitor of ours. You will see from this letter that he had called in the Soley Armament Co. in connection with a price or a quotation that he wanted on rifles and he was referred to us; that is all.

Senator BONE. In other words, when they got this inquiry they simply sent Figuerola around to see your company?

Mr. MIRANDA. Because we had already made the arrangement with them.

Senator BONE. On March 13 Figuerola had cabled Soley for a quotation on 200,000 khaki uniforms; no destination is mentioned, but presumptively they were for South American use. Further down in that reference to Figuerola & Co., Soley says:

Now for your private information, the biggest stock of complete uniforms available is held by the U.S.A. War Department and consists, we believe, of about 400,000 jackets and breeches, only no trousers.

By breeches, they mean those pieces of apparel that have the leggings laced upon them?

Mr. BRAYTON. They are pants.

Mr. MIRANDA. What is the difference between pants and trousers?

Mr. BRAYTON. Well, the breeches will lace down so that they take in the puttees.

Senator BONE. What I had in mind was that they were used in connection with puttees; yes. They say, continuing:

We did hear a short time ago that a London firm of Army clothing dealers either actually had or were trying to get an option on the stock, and we are at present investigating the position, but in any case—well, use your own judgment as to what you can or what to do.

Further on the letter says:

We have of course heard from several sources that Bolivia wants AA guns quickly.—

That is a reference to anti-aircraft guns, I suppose.

But we do not think for a moment that a shipment or a sale to Bolivia could be made direct, while that country is at war.

What does Mr. Ball mean by underlining that word "direct" so as to emphasize that it cannot be shipped direct. How would they ship to Bolivia indirectly?

Mr. MIRANDA. Well, as you see in the paragraph following that—

Senator BONE. Does that illuminate the thought?

Mr. MIRANDA. Well, that is the interpretation.

Senator BONE. They say:

If, however, an American armament firm of some standing bought the guns, for eventual resale, things might be easier \* \* \*

How would things be easier?

Mr. MIRANDA. He means that the British Government was not giving any license for material to be shipped to Bolivia.

Senator BONE. So, if the British Government, using this semi-official agency could sell to a responsible and reputable American firm, its conscience would be easy, it could wash its hands of the transaction and forget it; is that right?

Mr. MIRANDA. I can only interpret what you see there, Senator.

Senator BONE. Is that a fair interpretation, the suggestion that I have made? That is what it says in practical effect, is it not?

Mr. MIRANDA. Surely.

The CHAIRMAN. Why could not they sell direct to them?

Mr. MIRANDA. To Bolivia?

The CHAIRMAN. Yes.

Mr. MIRANDA. Because the British Government has a policy of having to license every shipment and they have, I believe, stopped licensing shipments to Bolivia for the last year or so.

The CHAIRMAN. Resulting to what amounts to an embargo against shipments to Bolivia?

Mr. MIRANDA. Yes.

Senator BONE. So the Soley Co. accomplishes or suggests the accomplishment by indirection of what cannot be done directly.

Mr. BRAYTON. Another interpretation can be put on that. It might mean that the British Government were sympathetic toward the other side, Paraguay. Of course, we do not know that.

Senator BONE. Is there anything in the picture in South America that leads you to believe that might be the case?

Mr. BRAYTON. Nothing except the natural feeling of friendship between the British Empire and Argentina and Paraguay.

Senator BONE. What does this natural feeling of friendship arise out of?

Mr. BRAYTON. They are not competitors in the world's market like the United States and Argentina are.

Senator BONE. They might feel, then, that the United States was taking a more friendly interest in Bolivia?

Mr. BRAYTON. The embargo would not indicate that, sir.

Senator BONE. There would be nothing in the attitude of the United States that would tend to make England or the British Empire hostile to Bolivia, would there?

Mr. BRAYTON. No.

The CHAIRMAN. Senator Bone, if you are about to leave the subject of that letter, I should like to make an inquiry. It was suggested here in this same paragraph from which you have been quoting, revealing that [reading]—

If, however, an American armament firm of some standing bought the guns for eventual resale things might be easier—or if the Colombian Government, who are not at war, bought the guns they could no doubt have them. We are investigating the question with the war office here regarding a direct supply to Bolivia through yourselves, and will inform you of the results as soon as we can, but in principle we are not so hopeful of permission being given.

What follows?

Mr. MIRANDA. Nothing. We never heard anything.

The CHAIRMAN. Did you carry out any one of these suggestions?

Mr. MIRANDA. No; we never heard anything further from Soley.

The CHAIRMAN. Do you know whether or not Bolivia was supplied directly or indirectly?

Mr. MIRANDA. I do not believe they were, sir.

Senator BONE. Mr. Ball, in this very interesting letter, it goes on to say this [reading]:

Before we close, there is another matter which may one day be of interest to you. It is rather a lengthy one, but we will condense it as follows:

As you are no doubt aware, China consumes a vast quantity of small arms per year, and they have bought large quantities of rifles from us, mainly Mausers (over 100,000 in 1931-32) but have slacked off lately owing to the loss of Manchuria, and the shortage of ready money in the south, i.e., Canton and Nanking. In spite of all the dreams of the idealists, who imagine that homo sapiens is filled with honor, justice, love, and self-sacrifice, Japan is going to take a still larger slice of China, and comparatively shortly, while the getting is good. To place herself in a favorable position, Japan must either buy over the Soviet or fight them—and Japan will do one or the other, before attending to some more of China.

Such a move on Japan's part would seriously affect the U.S. interests in China, and we think that the U.S. would under the above circumstances support the Chinese, supply them with arms, etc. In such an eventuality, something might be done with the big stocks of rifles here, also M.G.s, and we think it might be very advisable for you to approach the U.S. Dept. for Foreign Affairs and the War Dept., and hand them a list of what stocks there are over here, informing the Depts. at the same time that you are the sole representative for the U.S.A.

Did you find it desirable to tell the Department that Soley could supply the Chinese with plenty of firearms in case we wanted to get into that mess over in the Orient?

Mr. MIRANDA. You see, Senator, this letter reached my office while I was in South America. When I got back I was so busy with our other affairs that I never followed Mr. Ball's suggestion.

Senator POPE. Do you know whether anyone representing your firm did so?

Mr. MIRANDA. No; I am sure no one did.

Senator BONE. The letter goes on as follows [reading]:

This is only our suggestion to you, and you may possibly have other ideas of your own as to how such a matter should be handled—for instance, it might be better to bring the stocks to the notice only of some of the "big business" gentlemen, \* \* \*

You do not know to whom he might be referring as the "big business" gentlemen?

Mr. MIRANDA. I have not the least idea.

Senator BONE. Do some of our big business gentlemen arrange these wars that are going on around the world?

Mr. MIRANDA. I do not know, Senator.

Senator BONE. Have you any idea what he meant by that?

Mr. MIRANDA. I have not the least idea.

Senator BONE. Evidently he had some very definite purpose in suggesting the "big business" gentlemen. Continuing, he says [reading]:

\* \* \* and leave any possible angles to them, for they even might see quicker possibilities in such a stock? Nothing would surprise us, but bear in mind that the world's stocks of small arms have shrunk very much during the last

three years, and we certainly think that our stock is the only one left of any importance.

It is doubtful if your authorities are aware of the stocks here, for the U.S. does not ferret around with spies or "intelligence" people to the extent that Europe does; and if some sudden emergency did arise in the Far East, there would be a big rush for serviceable material for immediate delivery, and not many firms could produce about 700,000 rifles, about 50,000 machine guns, all of the same calibre, with spare parts and ammunition for immediate delivery, delayed by only the time to pack and put on the steamers.

The idea may be a trifle problematical, but it might arise one day, and if you had already "sowed the seed"

What sort of sowing of seeds would this semiofficial British munitions agency have in mind when they suggested that?

Mr. MIRANDA. Maybe bringing the matter to the attention of the War Department or the State Department.

Senator POPE. Which might have the effect of stirring them up to buy some of these guns?

Mr. MIRANDA. It might.

Senator BONE. This letter continues [reading]:

The Japanese Naval Department have lately bought large quantities of Lewis guns, in our calibre .303, for their Hotchkiss and similar types are not equal to the Lewis for aero use by the observer, neither has the 6.5 bullet as much effect as the .303 armour piercing type, or the incendiary or "tracer" type.

What is a tracer type bullet?

Mr. BRAYTON. A tracer type bullet is one which permits the gunner to follow the flight of the bullet. It has loaded into its interior exposed to the rear a mixture which burns while the bullet is in flight and some types give off just a trail of smoke. But most of them, and the better types, give a spot of light.

Senator BONE. They are called "incendiary bullets" because they will set fire to anything that they strike?

Mr. BRAYTON. The incendiary bullet is a somewhat different type; but anything that has a material that is burning will set fire to a highly inflammable thing, like a gas balloon or dry wheat fields or buildings, thatched huts, and so forth.

Senator BONE. If it hits the gasoline tank of an airplane, it would explode it or set it on fire?

Mr. BRAYTON. It is doubtful that it would. It would probably go right through it.

Senator POPE. This tracer type would not be technically an incendiary type, which is prohibited?

Mr. BRAYTON. The tracer type is also incendiary, but the better types of incendiary are not the tracer. They would have some material like white phosphorous in them which, when they struck something, would break up and give a big flame. The tracer bullet is also incendiary, but that is not its main function.

Senator BONE. Mr. Ball is a very practical gentleman, as he indicates in his very free use of the term "palm oil" and "grease." He goes on, does this very practical gentleman, to add this thought:

As you know, "incendiary" bullets are prohibited, so they have become "tracers"—what is in a name?

So a tracer bullet is, according to Mr. Ball, about as effective as the incendiary bullet.

Mr. BRAYTON. That is news to me. As a matter of fact, I did not know that the incendiary bullet had been banned by anybody anywhere. They are very ineffective.



The CHAIRMAN. When by treaty or understanding there is accomplished the elimination of some particular instrument used in war, to get around that, all you need to do is change the name of the thing that has been barred from you. Is that the remedy?

Mr. BRAYTON. I do not know.

The CHAIRMAN. It seems to be here.

Mr. BRAYTON. As a matter of fact, incendiary bullets were developed by all nations during the war, but were found to be very ineffective.

Senator BONE. Here is Mr. Ball, chief executive officer of the concern that has the largest stock of small arms in the world—private stock. So when he says that, “as you know, ‘incendiary’ bullets are prohibited”, that means by international treaty, does it not?

Mr. BRAYTON. I did not know that.

Senator BONE. He evidently knows it. So he says, “So they have become ‘tracers.’” He evidently knows what he is talking about.

Mr. BRAYTON. The tracer and incendiary are two different things.

Senator BONE. But he makes it quite plain that in his own mind there is not much difference.

Senator POPE. They may be two different things in the interpretation placed upon them.

Mr. BRAYTON. The incendiary bullet is not a tracer. A tracer is to a small extent an incendiary also.

Senator POPE. A tracer bullet in fact would be an incendiary bullet?

Mr. BRAYTON. It is a very poor incendiary. A tracer bullet is a very poor incendiary. If you fired it through an inflammable gas like hydrogen mixed with sufficient oxygen, you would get an explosion.

Senator BONE. Mr. Ball, in this letter which I will offer as “Exhibit No. 261”, refers to their Liege branch. That is another Belgium branch of the firm, I suppose. I will offer this letter as “Exhibit No. 261.”

(The letter referred to was marked “Exhibit 261”, and is included in the appendix on p. 681.)

Senator BONE. He says:

We also hear that Vickers-Armstrong are much annoyed by the persistent competition of Mr. Miranda, Jr., in Bogota, and that he has delayed certain orders for Vickers material. We suppose this will be the question of the Vickers aircraft pilots guns, and you may be sure that Vickers-Armstrong will do all possible to spoil Mr. Miranda's efforts in that direction.

Did you run across the gentleman in the Vickers-Armstrong Co. down there in your business relations?

Mr. MIRANDA. Yes, sir.

Senator POPE. What did they do? What was the nature of their operations against you there?

Mr. MIRANDA. I do not know. They were just fighting very hard for the business.

Senator POPE. How were they fighting you—through their agents?

Mr. MIRANDA. Through their agents.

Senator POPE. What were they doing, or what were their agents doing?

Mr. MIRANDA. They were trying to convince the officials that the business should go to Vickers.

Senator POPE. What did they do to try to convince them?

Mr. MIRANDA. I do not know.

Senator BONE. You remember what was said about the Vickers firm in one letter, in connection with Turkey, do you not?

Mr. MIRANDA. Yes. I have had similar experiences.

Senator BONE. Where they were using women of doubtful character freely?

Mr. MIRANDA. Yes.

Senator BONE. Do they use women of doubtful character in South America?

Mr. MIRANDA. They do sometimes.

Senator BONE. Are the women effective?

Mr. MIRANDA. Not with me.

Senator BONE. I mean, with certain folks in South America?

Mr. MIRANDA. Yes; they seem to be.

The CHAIRMAN. The committee will now take a recess until 2 o'clock.

(Whereupon, at 1 p.m., the committee took a recess until 2 p.m.)

#### AFTER RECESS

(The committee met at 2 p.m., pursuant to the taking of recess.)

#### TESTIMONY OF ALFRED JOSEPH MIRANDA, JR., AND HAROLD MORGAN BRAYTON—Resumed

##### COMPETITION IN SOUTH AMERICA FOR MUNITIONS BUSINESS

The CHAIRMAN. The Committee will be in order. Senator Bone, you may proceed.

Senator BONE. Going back to this letter of March 25, 1934, from Soley, he says:

We have also heard from Figuerola of the International Ordnance and Instrument Company that he might be able to sell about 100,000 rifles, herewith extract from his letter.

And the extract referred to is as follows:

In reference to the rifles I have a certain plan with one of my government connections which might materialize into real business and if this does happen it is probable that a large amount of your rifles might be used, something between 100,000 and 150,000. Of course the price you have quoted me I have taken into consideration, but I would like to ask you in a confidential way not to be passed on to anyone else, how far can I go in a transaction of this magnitude as to price.

Would that be for South American consumption?

Mr. MIRANDA. I do not know, Senator.

Senator BONE. Where was Figuerola operating?

Mr. MIRANDA. He operates out of New York.

Senator BONE. In what countries was he?

Mr. MIRANDA. I think he operates mostly in Central and South America.

Senator BONE. This refers to the use of 100,000 to 150,000 rifles, would that be Central or South America?

Mr. MIRANDA. It would seem to me too large an amount for South America. I would think it would be for the Orient.

Senator BONE. Further along he says:

For your further information we hear that Brazil has just placed an order for 100,000 Mauser rifles from the factory in Czechoslovakia.

What factory would that be?

Mr. MIRANDA. That would be the Skoda Works.

Senator BONE. Mr. Miranda, who is Senor F. Prado Uchoa?

Mr. MIRANDA. I do not know. The only time I ever saw his name was in that Soley letter you have before you.

Senator BONE. He is a Bolivian?

Mr. MIRANDA. So I understand from that letter.

Senator BONE. Reading from the letter of March 24, 1934, which is already in evidence as "Exhibit No. 260", Mr. Ball has to say, on page 6, the following:

We have been approached here by certain people interested in 3" A.A. guns for Bolivia. The principal person appears to be Senor F. Prado Uchoa, and we think he is connected with the Bolivian diplomatic service. He began by saying that he wanted 12½% on anything the Bolivian Government bought from us, and that he was the only person who could put through such deals, etc.

And can you enlighten us as to just what his connection was with that government?

Mr. MIRANDA. I don't know, Senator. All I know is what is in this paragraph. I never heard anything further from Soley, and evidently this gentleman was discouraged.

Senator BONE. Mr. Ball, speaking further, says:

We informed him that we should require official confirmation of his authority to negotiate, etc., and that although certain 3" A.A. guns were in stock (about 10 with a possible 15 more) we did not think we could help him as regards Bolivia, for the A.A. guns were really property of British War Office, and a sale of material emanating from a British official dept.

What does he mean by the British official department, the Soley outfit?

Mr. MIRANDA. No; I imagine he means guns as come from the British Government.

Senator BONE. They would come through Soley?

Mr. MIRANDA. Yes.

Senator BONE. So that would be carrying on the negotiations with the British Government.

Mr. MIRANDA. He would be trying to get the guns from the British Government.

Senator BONE. Continuing this letter he says:

And a sale of material emanating from a British official department to a Latin-American country then at war, might lead to some diplomatic shindy, for it might be said that Britain was supporting Bolivia against Paraguay.

Can you tell us anything about the relations of the British Government with Bolivia?

Mr. MIRANDA. I do not know anything about the relationship.

Senator BONE. Has the Government made a survey of your plant and facilities, including the Elevator Supplies Co.?

Mr. MIRANDA. And the Elevator Supplies Co., yes.

Senator BONE. How does the United States Government make a survey of a plant of the type of yours, or what does that survey consist of?

Mr. MIRANDA. Will you answer that, Major Brayton?

Mr. BRAYTON. It has been the policy of the United States Government ever since the National Defense Act of 1920 to survey all of the plants of any importance in the United States to determine just what that plant can make in the line of munitions in the event of emergency. The plant with which we have the tie-up in Hoboken has been surveyed as has been many others, to determine just what type of war orders the plant ought to take care of with its line of equipment and the type and condition of it, the floor space, the number of men they can employ, about the amount of the particular article they were the best equipped to make, and how many of them could be turned out working 24 hours a day.

Senator BONE. Does that examination have to do with possible sales abroad, does the Government interest itself in sales abroad?

Mr. BRAYTON. None whatever.

Senator BONE. Is that only in national defense?

Mr. BRAYTON. Only for national defense.

Senator BONE. In the letter to the Soley Armament Co. from Mr. Miranda dated February 22, 1934—and I now offer that letter in evidence.

(The letter referred to was marked "Exhibit No. 262", and is included in the appendix on p. 682.)

Senator BONE. In this letter, "Exhibit No. 262", from Mr. Miranda in which he is discussing the standing of the American Armament Corporation, he says:

In addition to referring you to the War and Navy Departments of the United States for information regarding our company, if you so desire we beg to refer you to the following:

American Ordnance Association, Washington, D.C.

Guarantee Trust Co., Fifth Avenue and Forty-fourth Street, New York City.

Title Guarantee & Trust Co., 6 East Forty-fifth Street, New York City.

Does the War Department authorize you to refer possible purchasers to them, and likewise the Navy Department of this country?

Mr. BRAYTON. I imagine what was meant there, if anyone wanted to refer to the War or Navy Departments regarding the standing of the American Armament Corporation, and the Elevator Supplies Co. tied up with them, they would learn that the Elevator Supplies already had done a good deal of work for the Navy in nonmilitary things and that they have had numerous contracts over the past years with the Navy and had very excellent records as manufacturers. The American Armament Corporation has had no United States Government orders. We have not solicited them.

Senator BONE. Manifestly you would not make reference to the Navy Department unless you had some authority for it?

Mr. BRAYTON. We knew then, as now, that they had been friendly to us; they believed we have the proper set-up and that we are an asset to the problem of national defense in the United States, and would therefore give us a good recommendation.

Senator BONE. On the 18th of February 1934, the American Armament Co. cabled Soley & Co., saying, among other things:

Please cable quotation c.i.f. New York Hotchkiss and Vickers machine guns infantry pattern calibre seven point six five lots fifty guns.

Did you have inquiry or possible sale for machine guns?

Mr. MIRANDA. Yes; we had inquiry from the Bolivian Government.

Senator BONE. The cable proceeded further:

If you have ready stocks seven point six five ammunition in good condition please quote five million rounds and rush us some samples.

Did you have inquiry or possible sale for five million rounds of ammunition?

Mr. MIRANDA. Yes.

Senator BONE. Who was that for?

Mr. MIRANDA. It was for the same country.

Senator BONE. For Bolivia?

Mr. MIRANDA. Yes.

Senator BONE. In this letter, "Exhibit No. 262", you further say:

We have been manufacturing artillery material and ammunition and aerial bombs for this government in very large quantities.

You meant Bolivia?

Mr. MIRANDA. Yes.

Senator BONE. Is that a part of the order you referred to this morning?

Mr. MIRANDA. Yes.

Senator BONE. And so Bolivia had been purchasing very liberally from your firm?

Mr. MIRANDA. That is right.

Senator BONE. You further say in this letter, "our representative in La Paz"—that is a Bolivian city; is that the capital?

Mr. MIRANDA. That is the capital; yes.

Senator BONE. This letter further reads:

Our representative in La Paz informs us that in the Chaco region where the material is being used the temperature at night is 110 degrees.

What is it in the daytime? Something like Washington?

(No answer given.)

Senator BONE. Clearly all of this material going in there is being used in the Chaco region warfare being carried on there?

Mr. MIRANDA. It is.

Senator BONE. Reading further, the letter says:

For instance, we have been asked on a pure barter basis.

What was it that involved?

Mr. MIRANDA. I do not remember what they wanted to barter.

Mr. SWEETSER. I don't remember, either.

Senator BONE. Further the letter says:

With this plan we might be able to dispose to the Government 15,000 or 20,000 rifles, several hundred machine guns and a few million rounds of ammunition. We will endeavor to get something concrete to place before you in this matter. Peru offers us guano; would that interest you? Colombia might work out a deal on the basis of emeralds because they do not wish to disturb their coffee prices in foreign countries by releasing the Government stocks of that produce.

Did anything come of this barter suggestion?

Mr. MIRANDA. No.

Senator BONE. Going further in the letter which you wrote to the Soley people, directed to Mr. Ball's attention:

Your remarks anent greasing the wheels that make the deals go around are very true and we fully appreciate that very often oil must be added to your quotations.

So there is no question about that?

Mr. MIRANDA. No question about it.

Senator BONE. And you say further:

In this connection will you make it a point to always quote us your prices net to us c.i.f. New York unless we specifically make a different request.

That would be their prices without the oil and grease?

Mr. MIRANDA. Yes; and what we would do, we would add the commission, and the commission would take care of the expenses.

Senator BONE. You were down in Brazil in June of 1933, at the time you were with the Driggs concern?

Mr. MIRANDA. That is correct.

Senator BONE. You were representing the Driggs Co. in Brazil at that time?

Mr. MIRANDA. That is correct.

Senator BONE. From Rio or whatever point you were, on June 10, you wrote your brother who goes under the nickname of Iggy, or is that an abbreviation?

Mr. MIRANDA. His name is Ignatius.

Senator BONE. So I imagine as boys you learned to call him Iggy?

Mr. MIRANDA. That is right.

Senator BONE. This letter starts off in this way:

My ALWAYS DEAR IGGY. This letter will not be very long. I have written a lot today, including the letter for Frank that I am sending within this one for you.

Frank referred to is Mr. Sweetser?

Mr. MIRANDA. Yes.

Senator BONE. Then the letter continues:

Nothing much more I can say re Driggs business except that any time one goes out to get a \$5,000,000 order with the lack of financial background that Driggs has one is looking for trouble and embarrassment—plus.

Then again it says [reading]:

The rage for planes and aircraft material is such that the ministries are besieged with proposals from would be agents, which is the reason they now require a certificate to be filed proving genuine representation authorization.

I take it at that time there was a great furore over airplanes in Brazil.

Mr. MIRANDA. Yes; I believe they purchased about 200.

Senator BONE. And there was a great amount of competition then in the attempt to sell these airplanes?

Mr. MIRANDA. Yes, sir.

Senator BONE. Reading again, the letter says:

Now as to our participation in this business—

That was the airplane business; is that right, you are referring to mostly in this letter?

Mr. MIRANDA. No, sir; that was the Driggs business.

Senator BONE. Now, I read again:

Now as to our participation in this business if it comes thru I don't think we should worry. Frankly, my work here has been so patent that no company could overlook my remuneration. The same thing applies to your work there, so that I think when the time comes we will be able to make the master see the light.

You were referring to Mr. Driggs there in connection with work you were doing for the firm?

Mr. MIRANDA. Yes; you see, I had not had a definite understanding of what I should get.

Senator BONE. In other words you were figuring that he would understand you had done a good piece of work in getting orders and recognize that fact?

Mr. MIRANDA. That is so.

Senator BONE (continuing reading):

What our profit should be is hard to determine, because it all depends on how large the order will be. Bear in mind that Figas——

Who is that?

Mr. MIRANDA. Figueira, he is our representative.

Senator BONE. That is Raoul Figueira?

Mr. MIRANDA. Yes, sir; Commander Figueira.

Senator BONE. Lieutenant commander in the Brazilian Navy?

Mr. MIRANDA. No, sir; he had been.

Senator BONE. He had been?

Mr. MIRANDA. Retired.

Senator BONE. "And Meyrinks"——

Who is Meyrinks?

Mr. MIRANDA. The firm of Meyrinks Vega & Co. The representation was here jointly by Meyrinks Vega and Figueira, Figueira being the technical end of the representation and Meyrinks Vega being the commercial end of the representation.

Senator BONE (continuing reading):

they are one in this deal) profit is not coming from the price quoted—that is the prices quoted are net to them and had to add the terrific profits from everyone from Minquerra down——

Who is Minquerra?

Mr. MIRANDA. That would be the Secretary of War.

Senator BONE. That would be the Secretary of War. Then in brackets it states:

[The President, Secty. of Finance, etc.] You don't think that the Gov.——

To whom does that refer? The Government?

Mr. MIRANDA. Yes, sir; the Government.

Senator BONE. Does that refer to the Government or the Governor?

Mr. MIRANDA. The Government.

Senator BONE (reading):

You don't think that the Gov. is going to hand out a contract for five or six millions of dollars and not dig in deep?

Let us have a little light on that. What does that mean, "dig in deep"?

Mr. MIRANDA. Our agents were getting a net price. They were asking for a net price. They claimed that they would have to have some expenses in connection with the obtaining of the order. What those expenses would be, they were unable to tell us at the time. They did like agents often do, say, "Oh, we may have to take care of everyone from the President down." That was for the sake of emphasis. I do not think that the President, or anything like that, would be taken care of. That is merely for the sake of emphasis.

Senator BONE. It is all very plain in the record now, as you have put it. They take care of everybody from the President down?

Mr. MIRANDA. I do not know whether they were going to take care of everybody from the President down, but that is just the way they put it to us.

Senator BONE. Is it fair to say that the boys starting at the top and working down would take care of everybody they had to take care of?

Mr. MIRANDA. That is the expression they used.

Senator BONE. They had to do it, did they not? Everybody understood, that is, in the vernacular in South American business they had to take care of everybody from the top to the bottom, and had to take care of everybody, as suggested in this letter, through "grease", "palm oil", or what is called "commissions" in this country?

Can you add anything to that, Mr. Sweetser? Maybe you better tell us, if you have any suggestions to offer, just what you think about this matter.

Mr. SWEETSER. My only thought on this is that it is roughly comparable to letters from Mr. Joyner, that he wrote up to his chiefs in the Electric Boat Co. He made several statements that were manifestly exaggerations, to say the least.

Senator BONE. It might perhaps be well for Mr. Miranda to give his views of it now, because he wrote this letter and he of all people would be best qualified to do so.

Mr. MIRANDA. Absolutely. Senator, some times the agents will build up so-called "palm oil" requirements for their own use, we will say, with a manufacturer. "We have to take care of so and so and so and so and so and so and so, and it is going to cost a lot of money. Ten percent is not going to be enough, and 15 percent is not going to be enough." Maybe they have to do it and maybe they do not. After all, we only have their word for it.

Senator BONE. In June 1930 you wrote that the Chefe—what is that?

Mr. MIRANDA. Chief.

Senator BONE. You wrote "Chefe de Cabinit." Who was he?

Mr. MIRANDA. He was the—I do not remember who he was—but he is called the Chief of Cabinet.

Senator BONE. What is that position in Brazil? What would it be equivalent to in this country? Chief of Staff of the Army?

Mr. MIRANDA. No, no; it has nothing to do with the Army.

Senator BONE. Secretary of War?

Mr. MIRANDA. No.

Senator BONE. What would be the equivalent of that here? Secretary of State?

Mr. MIRANDA. No, he is in the President's office.

Senator BONE. Is he a sort of close advisor to the President?

Mr. MIRANDA. He might be that; yes, sir.

Senator BONE. In other words, he is a confidante of the President?

Mr. MIRANDA. He is a confidante of the President and the Secretary of War and the Ministers.

Senator BONE. In other words, very closely tied into the whole political set-up in the country?

Mr. MIRANDA. Yes.



Senator BONE. Now you say in your letter as follows:

The Chefe de Cabinit will come in for fifty grand \* \* \*

What do you mean by that?

Mr. MIRANDA. Fifty grand?

Senator BONE. That is a sort of Chicago expression.

Mr. MIRANDA. I understand "fifty grand" means 50 thousand dollars.

Senator BONE. So that the Chefe de Cabinit would come in for 50 thousand dollars [reading]:

that I know of \* \* \*

Did you know of it?

Mr. MIRANDA. I was told that; yes, sir.

Senator BONE (reading):

so you can imagine.

Mr. MIRANDA. In other words, that was the only instance where they set a definite amount. But, as I said before, Senator, you must remember that we have nothing but the word of our agents for these stories. That may be all right and that may be merely building up an extra fund for themselves.

Senator BONE. But if the deal goes through, however, you send along the money "to do the needful", if it is necessary?

Mr. MIRANDA. If the deal goes through, we have sold our material for a net price.

Senator BONE. That is right.

Mr. MIRANDA. And anything over the net price is turned over to our agents, and it is their commission. What they do with it is something over which we have no control.

Senator BONE. They indicate to you how much will be necessary over the net price to put the deal through?

Mr. MIRANDA. And you admit that it will be advantageous to them to indicate as much as possible.

Senator BONE. That is right [continuing reading]:

So that the best is to say—we have to get so much, now, you talk it over with your friends, determine what the contract will be written for and the difference is yours.

Then later you state:

\* \* \* and if we have sold Cox Sharples the idea that the Co. can be made to pay, they will help to carry on \* \* \*

What does that mean?

Mr. MIRANDA. That was written to my brother. Cox and Sharples are two of the directors of the Driggs Co.—or one a director of the Driggs Co., Mr. Sharples, and Mr. Cox was a representative. We sold them the idea.

Senator BONE. You sold them the idea that the company can be made to pay to take care of the necessary things?

Mr. MIRANDA. No, sir; that the company can be made to be profitable—the Driggs Co. can be run profitably.

Senator BONE (continuing reading):

\* \* \* can be made to pay, they will help to carry on—with Luis in the background. \* \* \*

Mr. MIRANDA. Yes, sir.

Senator BONE. Luis was young Mr. Driggs?

Mr. MIRANDA. Yes, sir.

Senator BONE (reading):

\* \* \* and really no reason why the company should not pay, and pay well, if the sales and financing ends are properly organized.

I think it might be well merely to put in the record these extracts which I have read. There are some personal, family allusions there which are perfectly harmless and they have no business in the record; they do not reflect on anyone, they are purely family references.

Mr. MIRANDA. That refers to confidential letters exchanged between two brothers, and I think they should be respected to some degree.

Senator BONE. I can understand you would be somewhat reluctant in that regard.

Mr. MIRANDA. Yes, sir.

Senator BONE. Now, who is Jose Merla?

Mr. MIRANDA. Merla is our agent in Cuba.

Senator BONE. Your Cuban agent?

Mr. MIRANDA. Yes, sir.

Senator BONE. He writes you under date of June 28, 1934, a letter describing Cuban business and prospective business. We will have that marked "Exhibit No. 263."

(The letter referred to was marked "Exhibit No. 263" and is included in the appendix on p. 685.)

Senator BONE. Mr. Merla in that letter has this to say to you, in part:

For your information, to your quotations we shall add 15 percent. \* \* \*

That would be an arrangement similar to the one about which you have just told us?

Mr. MIRANDA. Yes, sir.

Senator BONE. To make a net price, and the agent adds what is necessary for taking care of anybody to get the business?

Mr. MIRANDA. Including his commission; yes, sir.

Senator BONE (continuing reading):

which will cover the "graft" that is supposed to be distributed down there among the various interested parties—

The word "graft" is in quotation marks, and the letter proceeds [reading]:

and I request that this information you keep confidentially, and if you write to S. D.—

Who would that be?

Mr. MIRANDA. Santo Domingo.

Senator BONE. Santo Domingo. [Continuing reading:]

do not mention in your letters as there is censorship in the mail, all letters going there are opened and read and it will not do us any good if this information will be known down there.

So that Mr. Merla recognizes, apparently, the necessity for some graft in Cuba.

Mr. MIRANDA. This was referring—yes, sir; Cuba.

Senator BONE. Now, there is one thing which has been interesting to me, as we went through this record, Mr. Miranda, and there is

possibly some information which you can give to the committee which may be helpful. Can you tell the committee whether the Argentinians, either officially through governmental agencies or through private agencies, were giving arms and munitions or making them available to Paraguay?

Mr. MIRANDA. I do not know, Senator. Of course, one hears all sorts of rumors, and it is a fact that Paraguay is practically a Province of Argentina. It is also known that—or so I have been informed—that there are Paraguayan recruiting agencies in Buenos Aires, but all that I am saying is merely hearsay.

Senator BONE. But there is apparently, however, a rather friendly feeling in the Argentine toward Paraguay?

Mr. MIRANDA. So I understand.

Senator BONE. Now, I have been reading in the newspapers of late stories about soldiers in the Chaco dispute being found on the field in American uniforms, or representations being made with respect to that, with the question raised as to how American uniforms got down into that country and were being utilized. Can you inform the committee how that might have happened?

Mr. MIRANDA. My idea is that these American uniforms are merely part of the surplus war supplies sold by the Government to the surplus war supply dealers, and they in turn never took the trouble to take off the buttons. Bolivia has been buying a fair amount of uniforms, blankets, shoes, and so forth, in this country. As a matter of fact, they are an excellent customer of the United States. So that is the way that those uniforms would have found their way down to the Chaco.

Senator BONE. Is there anything further that you can add with respect to this general South American business, Mr. Miranda? You may be able, and I feel sure that you can, enlighten the committee as to the general situation in South America, with respect to this whole munitions business.

Mr. MIRANDA. My thought, Senator, is that—

Senator BONE. You may be helpful to us in arriving at some conclusions.

Mr. MIRANDA. The business exists down there and has for years, and it will probably continue to exist for many, many years to come, because they are, as a rule, not arms-producing nations. They will have to buy their arms somewhere. Heretofore they have gone to Europe to buy them. I have tried to bring some of that business to this country. I feel that unless there should be an absolute and foolproof agreement between the larger countries, such as the United States, England, France, Germany, Italy, and so forth, that will control—that will effectively control—the munitions trade in South America, the best thing that this country can do is to go in and try to get its share, because maintaining itself away from the rest is not going to improve the picture.

Senator BONE. How long have you had fairly close touch with the munitions business?

Mr. MIRANDA. In South America?

Senator BONE. Yes; and in your own experience elsewhere?

Mr. MIRANDA. Perhaps 2 years; 1½ years.

Senator BONE. Prior to that time had you come rather closely in touch with the munitions business?

Mr. MIRANDA. No; I had been in touch with the Government business and machinery, and general foreign business in Latin America, both from the export and import viewpoint.

Senator BONE. Have you observed anywhere in your South American or Central American experience where this man Zaharoff gets in the picture down there?

Mr. MIRANDA. No; I have never run across him.

Senator BONE. You know his connections, of course, with Vickers?

Mr. MIRANDA. Yes; and Vickers are very strong in South America.

Senator BONE. And probably with other great armament concerns in Europe?

Mr. MIRANDA. I think that Skoda and Vickers get most of the business in South America.

Senator BONE. Those two combinations being almost one?

Mr. MIRANDA. Yes.

Senator BONE. Closely allied and tied together, with bond and stock ownership. Is that true?

Mr. MIRANDA. I understand that there is such an alliance.

Senator BONE. I do not care to prolong the examination unduly, and perhaps one question might cover the matter on which I desire you to enlighten us. From your testimony it appears that there is a very, very vigorous competition in South America for the munitions business and that representatives of all prominent armament firms in the world are in there, and that a lot of high-pressure stuff is being put over. That is correct, is it not?

Mr. MIRANDA. That is correct.

Senator BONE. Every possible effort is being made to sell those South American countries all the munitions and armaments that can be sold to them, is it not?

Mr. MIRANDA. Yes.

Senator BONE. These foreign munitions combines are being given thorough and whole-hearted cooperation from their governmental representatives in South America?

Mr. MIRANDA. Unquestionably.

Senator BONE. Now, getting down to another practical thing, where do you think this armament race is going to lead South America?

Mr. MIRANDA. I do not believe there is an armament race. I believe that they are just beginning to arm themselves.

Senator BONE. Let us confine it for a moment to the financial aspects of the situation. Peru had a very unhappy financial experience with Juan Leguia and others down there in the flotation of several large bond issues. Would you say that South American countries are in a financial position today to go into excursions in the realm of bigger and better armies and navies?

Mr. MIRANDA. With the exception of Peru, I believe that the other countries are not either overarmed or in a position to conduct a national defense program similar to the one we have conducted over a period of years.

Senator BONE. Why does Argentine want more battleships or submarines, more machine guns, more rifles, more bombs? What is the purpose of Argentine getting more of those things?

Mr. MIRANDA. They probably imagine that there is a certain degree of national defense that they must have, and they want to obtain it.

Senator BONE. Against what other countries?

Mr. MIRANDA. Against Brazil and Chile.

Senator BONE. Do the Brazilians hate the Argentinians in such a way as that?

Mr. MIRANDA. No; but, Senator, why do we do it ourselves?

Senator BONE. This committee is trying to find out why civilized governments do those things. Why certain portions nurture the sort of attitude that they do among the peoples of the earth. Now, when Argentina gets one thousand machine guns, the fact of course is promptly communicated to the Brazilian Government. Would you say, then, that the Brazilian Government feels the impulse moving strongly within its official breast to get more machine guns for itself?

Mr. MIRANDA. I do not think it is quite like that, sir.

Senator BONE. Tell us the picture.

Mr. MIRANDA. I think the general staff of each country arms itself to the degree of armament that that country must have in order to take care of its defensive requirements. I do not think that they ever attain those defensive requirements. It may be, as the years go by, they grow larger.

Senator BONE. And they try to make financial arrangements for that.

Mr. MIRANDA. That is what they are striving at.

Senator BONE. About the only hurdle they have to make is the financial hurdle.

Senator POPE. These naval missions have a good deal to do with determining that matter, that is, the missions from Europe and from the other countries?

Mr. MIRANDA. That would be my opinion.

Senator POPE. In other words, if the naval missions of these countries prepare defense plans, as they call them, and present them to the heads responsible for the welfare of the people of that country, that would constitute a means of determining what defense they would actually need, would it not?

Mr. MIRANDA. Yes, sir; to encourage it.

Senator POPE. And these naval missions, on the other hand, of course, work in very close cooperation with the munitions manufacturing concerns of that country?

Mr. MIRANDA. You can say of Europe. We have not really had any missions.

Senator POPE. We had one to Brazil and one to Peru.

Mr. MIRANDA. Yes.

Senator POPE. Did not the naval missions from the United States to Peru and Brazil follow the same sort of general activities that the European naval missions did?

Mr. MIRANDA. I do not know. I do not imagine so. From what I have seen of the representatives of our Government, they are more or less restrained, probably by Government regulations.

Senator POPE. And it is your idea that we ought to have naval missions from this country down there to give assistance to our own

munitions manufacturers, the same as the European naval missions are giving assistance to armament firms in Europe?

Mr. MIRANDA. Yes, my idea is, the traffic cannot be controlled otherwise, and if we are going to be the losers and let the traffic go to Europe, we should try to get a share of it.

Senator POPE. Have you given any thought as to what should be done to control that business?

Mr. MIRANDA. Major Brayton has prepared a series of ideas that he would like very much to have you listen to, Senator, if you will give him the opportunity.

Senator BONE. There can be no doubt in your mind, I take it, from what you have told me at the beginning of the inquiry, that the presence of these military and naval missions in South America, sent there by European governments, has had a tendency to greatly stimulate the interest of people in the preparation for war and the expansion of their military and naval machinery?

Mr. MIRANDA. I believe so.

Senator BONE. You made it very plain in the beginning, and I just wanted to get it in the record so that no one can possibly misunderstand it.

If these great major powers of the world continue deliberately to stimulate militarism in the smaller countries so as to secure the business, then of course we can expect the smaller countries to continue their attitude toward increased armies, and this race for better preparation for national defense continues right along. Is not that a fair assumption?

Mr. MIRANDA. I feel that way about it.

Senator BONE. Then, unless there is a change in the attitude of the national governments, the big governments and the people of the world generally toward this armament race, it will continue in its present form. That is right, is it not?

Mr. MIRANDA. I believe so.

Senator BONE. Just as a business man, divorcing, if you can, yourself from your own business, and just limiting it to that and talking to the men on this committee who are trying to find out all they can about this matter, to recommend or suggest to the people of this country what should be done—what in your opinion is going to happen if this race continues throughout the world? You do not have to confine your answer to the United States or any country, but just tell us what you think will happen to the world if this continues?

Mr. MIRANDA. I think an armament race naturally leads into war. After that, when they are thoroughly armed, they want to try it out.

Senator BONE. In other words, when the boys and girls are all ready, they want to go out and see what the thing they have got can do. Is not that right?

Mr. MIRANDA. That is the way I would understand it.

Senator BONE. The world was pretty thoroughly prepared in Europe in 1914, and they had to try it out. The world, of course, as you are aware, is now spending more money than it ever did in preparation for war. Just as a business man, Mr. Miranda, do you think that that can continue and leave a fair margin of economic and financial security for the nations of the world?

Mr. MIRANDA. I do not think so.

Senator BONE. Would you think that there was a margin of danger and a very great element of insecurity in that sort of thing for the various governments of the world?

Mr. MIRANDA. It is logical that there should be.

Senator BONE. Have you any suggestions or can you make any suggestions to the committee as to what you think might be done toward curbing this international traffic in munitions, not applying it to your own business but just taking the problem in its general aspects? What do you think, if anything, should be done toward curbing this traffic, changing its character, or whether anything should be done with it?

Mr. MIRANDA. I have had Major Brayton prepare some ideas on the subject as to the effect of the armament business in this country and in foreign countries. If you will allow him to read them to you, I would appreciate it.

Senator BONE. May I ask if it is a very lengthy statement, Major?

Mr. BRAYTON. No.

Senator BONE. I will pass that for a moment. One of our staff wants to ask you about your financial operations, and we will let Major Brayton make his statement later.

Mr. WEMPLE. Mr. Miranda, in schedule no. 1 there is shown the balance sheet which was prepared by Mr. Mitchell, and I believe your Mr. Kaplan has looked it over too.

Mr. MIRANDA. Schedule no. 1; yes, sir.

Mr. WEMPLE. That will be offered as an Exhibit.

(The schedule referred to was marked "Exhibit No. 264" and is included in the appendix on p. 686.)

Mr. MIRANDA. You say that Mr. Kaplan has agreed?

Mr. WEMPLE. Mr. Kaplan has looked it over.

Mr. MIRANDA. That is all right.

Mr. WEMPLE. Schedule no. 2 is a statement of profit and loss, December 29, 1933, to July 31, 1934, which sets forth the various contracts and the amount of business that you have done in the 7 or 8 months; that is, that the American Armament Corporation has done when it has been in business. It shows a gross profit of \$161,249.09. There were certain deductions entered in your books at that time which should be applied to it, I believe, covering commissions due Bolivian agents, in the amount of \$6,500.35; commissions due Major Brayton, \$17,948.28; cash discount on sales, \$6,540.25; and additional ocean freight due under Barr Shipping Co. agreement, \$34,250.81. Is that correct?

(The schedule referred to was marked "Exhibit No. 265" and is included in the appendix on p. 686.)

Mr. MIRANDA. That is correct.

Mr. WEMPLE. One more exhibit, schedule 9, which we find in the last schedule is "Details of shipping charges by Barr Shipping Corporation, 25 Beaver Street, New York City."

(The schedule referred to was marked "Exhibit No. 266" and is included in the appendix on p. 688.)

Mr. WEMPLE. This sets forth various shipments that have been made, which the Barr Co. have handled for you, the amount of freight, insurance, notary fees, and other items which have been paid.

According to that statement, you have a differential or some sort of working agreement with the Barr Co.?

Mr. MIRANDA. That is correct.

Mr. WEMPLE. Would you explain just what that working agreement is?

Mr. MIRANDA. The quotations that the Government has requested have been c.i.f. Arica, Mollendo, and Antofagasta, in as much as the major part of this material has not been built in this country before, and many of the items would be difficult of shipment, particularly the ammunition—

Mr. WEMPLE. You might explain those abbreviations "c.i.f."

Mr. MIRANDA. C.i.f. means cost, insurance, and freight. In other words, the Government wanted to know for how much we would place a shell or a mortar or some other items at a point of destination on the West Coast of South America. All of our selling prices are figured at our plant in New Jersey. The shipping of this material is from our plant either to the Atlantic or the Pacific Coast, wherever it might be necessary for us to obtain the cargo boats to take this material down.

Senator BONE. Most of the contracts were made f.a.s. in New York.

Mr. MIRANDA. In the case of these contracts, all of them have been made c.i.f., but we do not care to ship c.i.f., because we then have the danger of the rising costs of freight, particularly in the shipment of explosives and the rising costs of insurance and other expenditures. We feel that while we want to take a commercial risk on the cost of our material and the manufacture of it, we do not want to take a risk on matters that are really beyond our control on which we are not specialists.

For that reason we made an arrangement with Mr. Barr to the effect that we would give him the approximate weights and measurements of this material as it would be when packed for export shipment, bearing in mind that it had not been manufactured before, so that we were guessing at the weights and measurements and the approximate date of shipment; and he would try to determine for how much he would take this material from our plant to the port in South America where the Government wanted this material placed.

Senator BONE. In other words, that permitted you literally to make delivery at your own plant?

Mr. MIRANDA. Exactly. As a matter of fact, our contracts with the Bolivian Government, copies of which I believe are in your possession, state that, although we quote c.i.f. the west coast of South America, we deliver the material at our plant. Of course, we realize that Barr would have to more or less take a gamble on this thing. We did not want to take a gamble. We felt that we had enough gamble as it was in designing this material and making it and getting it down. Therefore, in each instance when we had our selling price at our plant and I gave Barr the approximate weights and measures of the material, I asked him to give me a differential in exchange for which he agreed to assume the responsibility of taking the material from our plant to the Government port



of destination. And then that differential added to the selling price and the price c.i.f. arrived at offered to the Government and when the Government accepted our contracts, the Government was accepting that differential that we had with Barr.

Senator BONE. Have you ever crossed the Schneider concern's operations in South America?

Mr. MIRANDA. Schneider and Creuzot?

Senator BONE. Yes.

Mr. MIRANDA. Very little. My understanding is that the Schneider company is especially engaged in manufacturing material for the French Government and that they preferred to get such material as they sell in South America from the firm of Skoda.

Senator BONE. Let us take this subsidiary or affiliate of Schneider's called Skoda. Do they operate in South America?

Mr. MIRANDA. Yes.

Senator BONE. Fairly large field of operations?

Mr. MIRANDA. Yes. I say fairly large; they deal generally with the larger countries like Brazil, Chile, Argentine.

Senator BONE. Have you had occasion to run up against any of their operations down there?

Mr. MIRANDA. Not directly; no.

Senator BONE. Well, indirectly?

Mr. MIRANDA. Yes; indirectly.

Senator BONE. Are they putting high pressure on their sales, too?

Mr. MIRANDA. They all do.

Senator BONE. Have you run across cases where they are using women in their operations?

Mr. MIRANDA. Yes.

Senator BONE. Women who are a bit careless in their methods?

Mr. MIRANDA. A bit.

Senator BONE. These European munitions concerns do not seem to be very careful about business matters or very ethical in getting business?

Mr. MIRANDA. Well, as you said the other day, Senator, the aim is to get the business.

Senator BONE. In other words, it all goes back to this Knight of the Bath of England who says he is willing "to do the needful" to get the business; is that right? Is that a fair assumption?

Mr. MIRANDA. Well, I would not charge it off against Sir Basil.

Senator BONE. No. We just take the gentleman at his own word, "to do the needful."

Mr. MIRANDA. They go out after the business and if there is a certain way in which those people expect to do business, they just cater to it.

Mr. WEMPLE. Mr. Miranda, according to this statement, the total amount of the differential is \$68,686.13; and the disbursements that were made by Mr. Barr, covering freight, insurance, and other items, amount to \$27,781.26. Because of this arrangement, he has made a profit of \$40,904.87.

Against that, I understand there were some certain items of unpaid inland freight which have not been set upon your books yet which may run to 8 or 10 thousand dollars, or possibly less.

Mr. MIRANDA. You see, Mr. Wemple, if he has made a profit of \$30,000 on shipments aggregating between \$700,000 and \$800,000, he has made a profit of about 3½ percent. We are perfectly willing to pay 3½ percent not to have that risk.

Mr. WEMPLE. The ordinary brokerage fees, the regular rate that a shipping company works on, is usually 1¼ percent?

Mr. MIRANDA. The ordinary broker would not undertake the responsibility of a commitment of that nature. They will say, "Well, when you get the stuff ready give it to us and we will ship it down to you."

We were committing ourselves to deliver this material to the Bolivian Government 7,000 miles away from our factory for so much and we just did not want to take the responsibility of those expenses between our plant and the port of destination.

Mr. WEMPLE. From your angle it is, of course, a very good arrangement. But from Mr. Barr's angle it is an even better arrangement than he would ordinarily run up against in the ordinary course of business.

Mr. MIRANDA. Yes; it is.

Mr. WEMPLE. In other words, he would exhibit a great deal more interest in handling shipments of this kind just as a salesman operating on a commission would probably do a much better job than where he is just on an ordinary salary basis.

Mr. MIRANDA. That is correct.

Mr. WEMPLE. He has more than interest in the whole thing.

Mr. MIRANDA. That is correct.

Mr. WEMPLE. I wish now you would refer to schedule 4, which I will offer as an exhibit also.

(The schedule referred to was marked "Exhibit No. 267", and is included in the appendix on p. 689.)

Mr. WEMPLE. This is a statement of contracts and shipments December 1933 to July 31, 1934. I will not bother to read it in detail. It shows the total amount of business which you have done to date and it amounts to—or rather the total of the contracts—amounts to \$2,902,277. Against that, shipments have been made to the extent of \$707,125.50 in two large contracts. The remaining contracts which were secured from Bolivia and which have been held up under the arms embargo, I believe, numbered 1,321 and 1,322, are one for \$97,000 and the other is for \$2,043,562.50; is that correct?

Mr. MIRANDA. Yes, sir.

Mr. WEMPLE. Was a portion of that latter contract shipped?

Mr. MIRANDA. No; none of that stuff has been shipped.

Mr. WEMPLE. None of it?

Mr. MIRANDA. No; not at all.

Mr. WEMPLE. So, the embargo has held up business to that extent?

Mr. MIRANDA. To that extent and more.

Senator POPE. Do you recall the Pan American Conference last December at Montevideo?

Mr. MIRANDA. Yes.

Senator POPE. You attended that conference?

Mr. MIRANDA. No, sir; I was in New York at the time.

Senator POPE. Did some representative of your company attend the conference?

Mr. MIRANDA. No; not at all. As a matter of fact, my company had not been organized at that time. What was the date of it—December what?

Senator POPE. December of last year.

Mr. MIRANDA. We only organized the company on December 15. I was here from August 1933 until March 1934, in this country.

Senator POPE. Do you know of any other representatives of arms manufacturers who attended that conference?

Mr. MIRANDA. I do not know, sir.

Mr. WEMPLE. I notice, Mr. Miranda, with reference to Major Brayton's commissions, it states that you owe him commissions in the amount of \$17,948.28. Would you give us briefly the details of Major Brayton's arrangement with you?

Mr. MIRANDA. Yes; Major Brayton's arrangement with us is that he draws a nominal salary, so much per week.

Mr. WEMPLE. How much per week?

Mr. MIRANDA. \$60 per week. Then he gets a commission of a sliding scale, so much of a percentage on the first \$100,000 and according to a sliding scale.

Senator BONE. That is on all your munitions business?

Mr. MIRANDA. Only the ammunition part of it, not the guns.

Mr. WEMPLE. According to the information I have before me, he received a commission ranging from 4 percent on the first \$100,000 of sale each year to 1 percent on all sales over \$750,000 each year, is that correct?

Mr. BRAYTON. That is correct.

Mr. WEMPLE. Then the amount due you to July 31 is approximately \$18,000, the figure mentioned before.

Mr. KAPLAN. Let me correct that. That includes all of the commissions on all of the shipments that have been made.

Mr. WEMPLE. That includes the commission on all of the shipments that have been made?

Mr. KAPLAN. Yes.

Mr. WEMPLE. But not on any of the shipments which have not been made as yet?

Mr. KAPLAN. No.

Senator BONE. Those commissions are paid on consummated business, when the transaction is completed?

Mr. MIRANDA. Oh, yes.

Senator POPE. And the money collected?

Mr. MIRANDA. And the money collected, yes.

The CHAIRMAN. Mr. Miranda, when you were approaching governmental agencies respecting the embargo, do we understand that Mr. Johnson came to Washington?

Mr. MIRANDA. Mr. Johnson came to Washington—let me recollect for a minute—a few days after the Presidential proclamation and in view of the fact that we had a shipment ready to go forward, I came to Washington and I went to the State Department and I was told at the State Department what I testified to before, that if we

had something to ship to go ahead, to try to get it out and if the Government stood in our way that we should take recourse to legal action.

I went back to Washington. Before going back I advised the Bolivian Minister here on the subject. He was endeavoring to get an exception from the Government on all orders that had been placed by his Government in this country prior to May 28. About 3 or 4 days later we received word from the Bolivian Minister through the consulate that we should see Mr Martin Conboy, the Federal attorney in New York, because it seems that the State Department had referred the matter to the Department of Justice. The Department of Justice had referred the matter to Mr. Conboy. We saw Mr. Conboy and he examined our contracts, made photostatic copies of them.

I called at his office a number of times accompanied by the Bolivian consul and he then took the matter under consideration. Several days later he rendered a decision as to what constituted a sale and on the basis of his decision it was possible for us to make the shipments that we had ready. However, that would not cover other shipments that were going to be ready.

So Mr. Conboy said to us that the thing for us to do was to get an attorney and try to obtain from the State Department an exception on these contracts, as indicated in the President's proclamation, that the Secretary of State would have the right to make exceptions.

Then Mr. Thomson and our attorney, Mr. Sims, came to Washington to see the State Department and told them why we were asking for an exception. I understand that they saw Mr. Welles and Mr. Welles requested written memoranda on these various contracts, which Mr. Sims prepared and submitted and in due time we received word from the State Department——

Senator BONE. Who is Mr. Welles?

Mr. MIRANDA. Mr. Sumner Welles, the Assistant Secretary of State.

The CHAIRMAN. Mr. Miranda, when was this that Mr. Johnson and Mr. Sims came to Washington on that mission?

Mr. MIRANDA. I should say around the third week of June.

The CHAIRMAN. Around the third week of June?

Mr. MIRANDA. About that time, wouldn't you say so?

Mr. SWEETSER. I should think so.

The CHAIRMAN. Did they seek any aid of any member of Congress to impress upon the State Department the need for expedition in action on this matter?

Mr. Miranda. I do not know if they were seeking aid. I know Mr. Britten accompanied them to the State Department.

The CHAIRMAN. Congressman Britten?

Mr. MIRANDA. Congressman Britten accompanied them to the State Department; yes. But whether he was Mr. Sims' personal friend—I was not present and all I can say is that Mr. Johnson told me that Mr. Britten had accompanied them.

Senator BONE. Mr. Miranda, were any commissions paid anyone in the Bolivian Legation at the time that you took the big order amounting to \$1,600,000?

Mr. MIRANDA. No; not at all. We paid a small commission to a man that occasionally acted as—well, he used to be connected with the Bolivian Legation and I paid him a small commission because he originally tried to introduce our line in Bolivia, prior to the appointment of our present agents. The commission was very small and it had nothing to do with it, and I did it after consulting with the consul and the legation, because I did not want to have any misunderstanding on the subject.

The CHAIRMAN. Gentlemen, I think that is all, and you may understand yourselves to be excused. I think in fairness to you, though, you should be advised that the committee has been advised that Mr. Driggs, who has remained over, wants to be heard a little further. Whether his testimony is in conflict with yours, I do not know. If you want to remain and hear what he has to say, you are welcome to do so.

Mr. MIRANDA. Thank you very much.

The CHAIRMAN. We will hear Mr. Driggs.

### TESTIMONY OF LOUIS L. DRIGGS—Recalled

The CHAIRMAN. Mr. Driggs, the committee has been given to understand that there was some additional testimony that you felt would be helpful to the committee. We hope, bearing in mind—you undoubtedly do, that we have dropped somewhat behind in our schedule today, you will be as brief as you can.

Mr. DRIGGS. I shall be very brief.

The CHAIRMAN. Thank you.

Mr. DRIGGS. There is only one thing I would like to clear up and that is some of this correspondence that apparently is to us and from our office, but not from our files.

For instance, there is a letter from Ecuador addressed to the Driggs Ordnance & Engineering Co., March 25, 1933, that has been introduced here. It is not in our files. Apparently it was in the files of the other company.

Then also there was some correspondence around April 26, 1933, with regard to certain accounts with Commander Strong, and that apparently was to our office or from our office, but that I know nothing about.

Also there were some accounts of methods of doing business down in Brazil, and so forth, that were written in May 1933 with Ureta & Samper in Colombia. Those we have not any connection with and know nothing about them.

The CHAIRMAN. Does that finish the explanation you wanted to offer, Mr. Driggs?

Mr. DRIGGS. Yes; I want to disclaim any connection with them. They are being pinned on us.

The CHAIRMAN. Very well, thank you, Mr. Driggs.

I understand Mr. Brayton has something he wants to present. Mr. Brayton, you have presented to the committee a written statement having to do with, among other things, what you have put up in the form of recommendations that present-day developments might reveal to be worth following. Do you want to leave this statement with the committee? <sup>5</sup>

<sup>5</sup> The statement offered by Mr. Brayton is on file with the committee.

Mr. BRAYTON. I was going to read it, but I did not get an opportunity.

The CHAIRMAN. After the committee has had a chance to read it, it will probably make it part of the record in connection with your testimony.

Mr. BRAYTON. This is the only copy I have.

The CHAIRMAN. Would you like to take it and have it typed and return it to the committee?

Mr. BRAYTON. No, I shall leave it with you.

The CHAIRMAN. Very well.

Mr. BRAYTON. I just thought to read it into the record.

The CHAIRMAN. Very well, thank you, Mr. Brayton.

(This concludes the record of the American Armament Corporation. The committee at this point took up the case of the Curtiss-Wright Export Corporation, which is printed in part IV.)

## APPENDIX

### EXHIBITS

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EXHIBIT No. 236

[Excerpts]

HAVANA, April 10, 1934.

Mr. I. J. MIRANDA, *New York.*

DEAR MR. MIRANDA:

(Two paragraphs omitted.)

My patron here is the Paymaster General. He told me that as soon as you will send the information in regard to the cartridges there is a great opportunity to do business in this matter. They are paying \$21 for the cartridges while the price which your brother quoted them is \$15 and they think this offer very attractive but they must be sure that the ammunition will be useful to them and that it fits their Springfield model 1906. This price is a bargain all down the line.

(One paragraph omitted.)

As soon as you send the information in regard to the rifles I will then proceed with my friend the Paymaster General, see the colonel who is charged with the purchasing of this material and to arrange matters with him. As for this information in regard to the Paymaster, which I give to you in strictest confidence, he is the one who must provide the money for every purchase made and his position as money man is very excellent.

(One paragraph omitted.)

I am, your very dear friend,

(Sgd.) JOSE MERLA.

(Postscript omitted.)

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EXHIBIT No. 237

[Excerpts]

(The following is the first four paragraphs of letter under the date of Dec. 4, 1933.)

VICTOR MENOZZI,  
RAME AVIACION,  
Lima, December 4, 1933.

Mr. A. J. MIRANDA,  
6 East 45th Street, New York, N.Y.

DEAR SIR:

(Two paragraphs omitted.)

I must beg a thousand pardons for writing to you in Spanish since as you say English is neither my language nor yours, and Spanish is not my language either. For I am an Italian residing in Peru these many years. I do not carry any prejudices into my business because I know all of the people of South America, and I have been on this continent now a good many of years, and I realize that in this country there is a good field for foreigners. I find myself in a very advantageous position for a foreigner because from the very first I move in the best Peruvian social circles. I have many personal friends, and so has my wife, who is a Peruvian, niece of the ex-President of the Peruvian

Republic, Don Nicholas De Pierola, who, no doubt, was the best President Peru ever had since the period of independence.

As I told you previously, it was for this reason I have entree to all the Ministers of the Government and it is always very easy for me to enter certain circles and to deal with a certain type of person. I say this for your own knowledge in order that you may have all information in regard to the possibilities for business which I may be able to turn your way. \* \* \*

Very truly yours,

(Sgd.) V. MENOZZI.

EXHIBIT No. 238

[Excerpts]

FRANCISCO SEFZIC, EXPORTER,  
Guayaquil (Ecuador), Box 368, March 25, 1933.

Cable address, "Sefzic Guayaquil"

Codigos en uso: (A.B.C. 5th Ed. (Lieber's Code, (A. I. Code.

Engl. Telephone y Nacional Representaciones.

DRIGGS ORDNANCE AND ENGINEERING CO., INC.,  
19 West 44th Street, New York.

GENTLEMEN: The Bethlehem Steel Company of Bethlehem, Pennsylvania, has been so kind to give me your address and stating that your firm are engaged in the manufacturing and selling of war material. In view of this I desire to bring the following facts to your attention with the object of offering you my personal services as exclusive indent agent.

Doubtless you know the international situation in South America is not very peaceful and that Colombia and Peru are more or less even, though officially no war has been declared, are fighting. Unfortunately Ecuador is in between two fires and it feels the necessity of preparing itself for armed neutrality.

During the last local revolution all available useful ammunition has been used and there is a total shortage of rifles and artillery projectiles. Moreover, all their defense material is obsolete and inadequate for proper preparedness. To be short, I may tell you that a great amount of ammunition, anti-airguns, machine guns, light and heavy artillery, ordnance material, et cetera, will be needed and bought within a short time by the Ecuadorian Government. It may interest you that I have very good contacts with the Ecuadorian Government officials and the General Staff of the Army and may frankly state will be secretly connected with the commission to be appointed in buying the necessary requirements. I do not know if your company is already represented in this territory, but I feel convinced that your present agent, if any, does not represent you for war and army material in general and it would not jeopardize his interests if you could commission me for this particular purpose as a special agent for military armament supplies and equipment in Ecuador. Inasmuch as the matter is urgent it is suggested that you cable me your acceptance and my appointment upon receipt of this letter and your decision.

I may add that you write or ask by cable the American consul general at Guayaquil who knows me personally and also knows that I have supplied upon former occasions armaments to the Ecuadorian Government. As soon as I receive the appoint I will forward by air mail a confidential list of materials and equipment needed, which was secretly submitted to me by the Ecuadorian War Department.

(Two paragraphs omitted.)

Awaiting the courtesy of an early reply, I am.

Very truly yours,

(Sgd.) F. SEFZIC.



## EXHIBIT No. 239

[Excerpts]

NOVEMBER 4TH, 1932.

MESSRS. URUETA & SAMPER,  
*Bogota, Colombia.*

(Confidential.)

DEAR SIRS: Our mutual friend, Mr. Owen Shannon, of the Curtiss-Wright Export Corporation has been kind enough to give us your name and recommend your firm to look after our negotiations in Bogota with the Government of Colombia. Accordingly we took the liberty of cabling you on October 29th, as per copy enclosed and are pleased to acknowledge your cable reply of November 2nd, reading: "Accept. Await full details. Ursan."

(Two paragraphs omitted.)

At present our guns are standard with the United States Army, Navy, and Marine Corps in all the sizes in which we manufacture them. They also have been adopted and are being used by a number of foreign governments. We feel that no better recommendation can be offered for the efficiency of our material.

(Five paragraphs omitted.)

In view of the publicity attendant to the international situation between Colombia and Peru, the Colombian consulate here has been deluged with proposals for all kinds of war material, mostly second-hand, obsolete material, offered by brokers. To safeguard the interests of the Colombian Government and save the time of the consulate and of the War Ministry in Bogota, the United States Government has "loaned" to the Colombian consulate one of its naval officers, to act as advisor on the merit of the material offered.

The officer in question is Commander James Strong, U.S.N. Inasmuch as our guns have been the standard used by the Army and Navy for more than forty years, and their efficiency has been amply demonstrated in past wars (particularly the World War), Commander Strong is thoroughly acquainted with our equipment. Not only has he approved our proposals but strongly recommended the acquisition of our material as being the finest obtainable. Consul General Olano has conveyed that recommendation to the President.

(E) and (F)

The Colombian Government has purchased here a freight ship, the ex S/S *Bridgetown*, now the S/S *Boyaca*, to use as a troop ship. While the vessel was here we could have mounted on it two (2) 3-inch semiautomatic naval guns, which are the ideal guns for that boat, and are of the type used by the U.S. Navy for that purpose. We have the guns in stock so there would have been no delay.

(One paragraph omitted.)

Setting aside the fact that the efficiency of the guns we offered *cannot* be matched by any similar guns built in Europe, it seems to us that in this particular case, with the boat anchored within 400 yards of our plant, and the guns being ready (and the installation of the *Boyaca* not being of the easiest), it would have been advisable to have favored us with an order for two (2) guns, and taken advantage of our knowledge and experience allowing us to install them so that the *Boyaca* be complete upon arrival at Colombia.

(Two paragraphs omitted.)

As you will see, the amount of material required by the Government makes a substantial business. We have no competition here. We are the only manufacturers of artillery and the only ordnance engineering company in the U.S.A. The material we offer your country is the latest type, used by the U.S. Army and Navy. Our only competition is from Europe; however, that competition is only in the matter of price, *not* in design and efficiency of equipment. We produce the most advanced, the most efficient material in the world.

(Eight paragraphs omitted.)

Up to the present time we already have been favored by the consul with several small orders for material for a bombing plane, purchased here by your Government. This material we have had to design and produce exclusively for the Government; that is, it was not for sale anywhere else and we undertook the designing, engineering, and production of same more as an accommodation to the consul and the Government than as a commercially profitable transaction.

(One paragraph omitted.)

Very sincerely,

DRIGGS ORDNANCE AND ENGINEERING CO.  
pp. A. J. MIRANDA, JR.

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EXHIBIT No. 240

[Excerpts]

File: Urueta & Samper H.

DECEMBER 4, 1933.

(Air Mail)

Mr. JOAQUIM SAMPER H. *Apartado Aereo, #3600, Bogota, Colombia.*

MY DEAR WACO:

(Three paragraphs omitted.)

In the meantime, Commander Strong came to town and contacted me. As you know, Strong and I are very, very good friends; we understand each other perfectly, and he will do everything possible to throw the business our way. I want you to bear this in mind and remember that he is one of our strongest allies, and, therefore, whenever possible boost his stock with the Government. He told me that he has been in conference with the minister at Washington (Lozano) for two weeks, and that the Government now realizes the negotiations at Rio are getting nowhere and are being used by your enemies as a breathing spell to adjust their finances and obtain additional military equipment. Accordingly, the Government has decided to renew buying and now is going "American." They are trying to arrange for the U.S. Navy to release Commander Strong so that he can go to Colombia as an advisor to your Government. Let me say this—that he is a very competent man with a splendid record in the American service, one of the youngest full-fledged commanders in the Navy, and I am certain that if he goes to Bogota for a while and you people give him decent support that he will be able to organize matters for you along modern lines.

Now, Commander Strong is here for conferences with Goulding of Curtiss, Bell of Consolidated, and with me. The business that he is pushing hard is the purchase of either a cruiser or a gunboat and two torpedo boats besides a good supply of airplane guns and aerial bombs. So, you keep on pushing all you can with the new ministry along these lines. With you down there pushing for the business; with Strong here recommending our material and also pushing for the acquisition of that material; and, furthermore, we being the only outfit in this country that can furnish that material, there is no reason why we should not crash through with something substantial.

I am going to give you another piece of news in the understanding that it will not go beyond you and Don. General Cortes Vargas is leaving by plane almost any day now. The Government had an idea of making him the adviser here and inspector of purchases but the minister prevailed with the President to appoint Strong. Nevertheless, Cortes Vargas and I, personally, are on very friendly terms. I believe that he is going to be given some sort of military position in Colombia. After the last campaign he certainly deserves an A-1 rating and will be a good leader for your troops. Possibly you feel antagonistic towards him but do not let that mar the business possible. Cortes Vargas and I have threshed our differences and we are on very friendly terms and I know that he will recommend our equipment. You will see that I have tried to cover myself by every possible means, that is to make certain that this time substantial business available will come to this country and will come to us.

(Two paragraphs omitted.)

Keep on pushing, and keep me thoroughly posted and do not forget that the "Sucre" needs a range finder and additional ammunition.

With kindest regards.

Very sincerely yours,

for AMERICAN ARMAMENT CORPORATION,  
A. J. MIRANDA, JR.

## EXHIBIT No. 241

ESTABROOK & Co.,  
40 Wall Street, New York.

Mr. I. J. MIRANDA,  
6 East 45th Street, New York City.

We confirm having sold for you 100 New York Shipbuilding @ 21½, \$2,150.00. Taxes \$4.05. Commission \$12.50. Total \$2,133.45. Payable Aug. 8, 1933. Received Aug. 9, 1933. 31475.

Pencil memo—bought for Jim July 17 @ 19½, \$1,133.45 1,912.50

1,962.50

220.95

Gain to Jim----- 170.95

("EXHIBIT No. 242" appears in text on p. 579)

## EXHIBIT No. 243

DRIGGS ORDNANCE & ENGINEERING COMPANY, INC.,  
19 West 44th Street,  
New York, N.Y., April 26, 1933.

MY DEAR ALFRED: I have just received your cable regarding parachutes and Lockheed amphibian.

Time is too short for me to write me on the parachutes. I shall get a hold of Switlok and cable you on the subject. They have an agent over there and the present set-up is that they will only give us a 10% commission which of course would make business very difficult.

Lockheed amphibian.—There is no such a thing. Try to trace where this information came from and let me know. The factory is playing very close with me and I do not believe that we need fear any direct quotations or double-crossing.

I don't know whether I told you before that Strong got wind of the fact that Colombia was asking for quotations on 20 Bellancas of a semimilitary type similar to ones recently bought by the Brazilian Government. Jim got Bellanca to let me handle the deal in Colombia, which I am doing. At the same time I am also quoting on Lockheeds of the same type. Aside from that we have in prospect an order for 2 Lockheeds from Switzerland and a Wing from Japan so that all in all the factory would be very foolish to try any double-crossing. As a matter of fact they have cooperated with me 100% and even referred to me an inquiry which they received through Washington from Ancomat Rio for the 6 Lockheeds which we are negotiating through Lamb.

It occurs to me because of the hooks-up between Lockheed and Groes (Viking) someone got their signals mixed.

Incidentally, who are you working this business through?

Now, aside from business—I am very happy to tell you that we are all well and hope that you are "ditto John."

There is a lot of commotion around here regarding the proposed inflation and it will interest you to know that you are again dabbling in the stock market—by proxy if you wish. Thus far we are a few hundred ahead of the game and if inflation materializes which, in my humble opinion is practically certain, we will not fare at all badly.

Jack Bergen finally landed the Continental Motors account. A very dear little lady in his office made it possible for us to get in 500 shares at 1¾; its now a ½. E. A. Pierce & Co. are working with Jack on this and it is very likely that the stock will appreciate very materially. Let's hope.

Mostly alright, old pal; I am constantly bombarded with questions emanating from the fair sex as to when you are going to be back. My answer is invariably "yes." When, if, and as you have any idea on this particular point, please let me know. Please don't think I am trying to rush you, for this is not at all the intention.

Love.

(Sgd.) IJM.

IJM Nk.

P.S.—As suggested I have sent a pair of Sportaculares to Colonel Escallon and a pair of Waco. We have gotten very clubby over the air mails. I'm iggy and he's Waco, what do you think of that? That's all.

(Sgd.) IJM.

## EXHIBIT No. 244

APRIL 8, 1933.

MESSRS. URUETA & SAMPER H.,  
*American Commercial Attaché,  
 Bogota, Colombia.*

(For the attention of Mr. Samper.)

*Excerpt, Paragraph 7.*—I have just communicated to Mr. Wilcox the confidential information that Peru has ordered 7 Hawks from the Curtiss-Wright Co. Aside from this they have bought about half that many to be delivered from the Curtiss plant in Chile.

## EXHIBIT No. 245

Seversky amphibian 1933-34

MARCH 28, 1934.

SEVERSKY AIRCRAFT CORPORATION,  
 570 Lexington Avenue,  
 New York City.

(Attention of Mr. F. L. North.)

MY DEAR MR. NORTH: The last couple of weeks have been rather hectic; our affairs in both Colombia and Brazil look extremely promising and I would like, at this time, to review the situation in these two countries for you as follows:

## COLOMBIA

As you know, the armistice with Peru comes to an end in about 60 days; both Peru and Colombia are making great preparations and a big time is expected by all.

It being impossible to sell both to Peru and Colombia, because one would not buy from you if the other one did, we have chosen Colombia, first and foremost, because they have money (which Peru has very little of) and, then, because of the fact that our connections in official circles in Colombia are just made to order.

I cannot in a letter tell you just what our set-up is. However, you well know that we have had the technical adviser to the Colombian Government down to College Point to inspect your ship; outside of a few extremely minor details the Seversky has met with his most enthusiastic approval, which is of the utmost importance for us inasmuch as he is the one who will determine what is going to be purchased.

Aside from that, the writer's brother is down in Bogota where we are negotiating sales of war material running into several millions of dollars. By the very nature of our business we find it necessary to contact the very highest government officials. The President, the Financial Minister, the War Minister, and Chief of Staff of the Colombian Army have also approved the Seversky and are in full accord with our view to the effect that this type of ship is eminently suited for their local conditions.

Mr. Miranda, Jr., during his stay in Bogota, has lined up for us a contract for 18 Severskys. Numerous cablegrams have been exchanged with regard to price, terms of payment, and delivery. Mr. Miranda, Jr., has told us what the Government's thoughts were regarding these various points and with your whole-hearted cooperation we have been able to meet all of their requirements. All of this is not ancient history but something which has been transpiring from day to day; at the present moment the status of the matter is this:

The purchase of Seversky equipment has been approved; the unofficial requests as to prices, terms, and delivery have been met and, according to the latest advices just received from Bogota, contracts are now being written which we hope will result in our prompt receipt of an order for 18 ships. This we feel would be a very good start.

## BRAZIL

You will recall that some time ago we demonstrated the Seversky to the members of the Brazilian Army Aviation Mission. The members of the Mission flew in your ship, saw it land and take off both from land and water, and were tremendously impressed; their report to the War Ministry was more than

excellent. This we have followed up through our representative in Brazil, a high naval officer, retired, who is on the most intimate terms with the Chief of the Air Service, the Chief of Staff, and the War Minister.

He has followed up our work beautifully; he has had wholesale copies made of the photographs which we have sent him, printed the Seversky specifications on the backs and distributed them to all Army and Navy aviators. He has published featured articles in Brazilian newspapers with large photographs of the Seversky and detailed transcriptions as to performance, specifications, and background of experience of Major Seversky.

With the representatives of other manufacturers of amphibians throughout the world, official proposals on Seversky have been made to the Brazilian Government; these proposals have been studied by the General Staff which has awarded a preferred position to our ship.

An appropriation of \$3,000,000 was recently made by the Brazilian Government for the purchase of aircraft, divided into four classes; i.e., amphibians, trainers, pursuits, and bombing aeroplanes. Confidential advices from the War Office are to the effect that the first item to be purchased will be the amphibians, the expectation being that this business will be forthcoming in the very near future.

The Government of Brazil has also been extremely interested in the possibility of acquiring the Seversky manufacturing rights. After conferring with you on the subject we have told them that subject to their initial order for 20 aeroplanes to be built by us, we will be glad to negotiate with them to the end that additional Seversky aeroplanes may be built in Brazil on the basis of certain royalties being paid to us. We have outlined the proposition to them so that a certain minimum royalty will be guaranteed us per year for 5 years. Although all the definite figures have not been quoted to them as yet, the proposition in principle has already been outlined to the War Minister who has expressed great interest in it and has requested for a more concrete proposal.

During your various visits to my office it has been my privilege to show you in black and white the amount of business that we are doing with various foreign governments, amongst them Colombia and Brazil and which business amounts to many hundreds of thousands of dollars. Present indications are to the effect that in the very near future, possibly well within the next 30 days, the Colombian order will have been secured whilst the Brazilian order will follow not long thereafter.

I am trying to give you, in this letter just the bare facts as developed up to date, based on these facts I feel that our hopes of very substantial orders in the very near future are indeed well founded.

Before closing I would like to express to you and other members of your organization our sincere thanks for the wonderful cooperation that you have given us. If, as expected, we crash through with the orders above mentioned, the credit will be just as much yours as ours.

With kindest personal regards, believe me

Very sincerely,

I. J. MIRANDA.

IJM/NK.

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EXHIBIT No. 246

File: Okura Comp. 1933-4

JUNE 13, 1934.

LOCKHEED AIRCRAFT CORP.,  
Burbank, California.

GENTLEMEN: We have had the great pleasure of having secured an order for the Japanese Navy for one (1) complete set of your Electra Model 10-A and the order has been placed through Mr. A. J. Miranda, Jr., who is your representative in this city for the Far East.

We trust that this matter is now having your kind attention and hope that this order will be executed to entire satisfaction to our naval clients in Japan.

In the meanwhile we were advised by our head office in Tokio to the effect that the following naval officers are coming to the States very shortly and that they have recommended them to visit your plant on their way to the East. These officers accompanied by our Mr. T. Imai, who is also arriving per S.S. *Chichibu Maru*, which is due at Los Angeles on June 29th are: Capt. M. Hirose, Engineer Mr. K. Saneyoshi, Comm. J. Okamura, and Lt. Comm. Y. Yamada.

We shall, therefore, be very much obliged if you will be good enough to receive these officers and do your utmost in demonstrating in every way possible your products, inasmuch as these officers are very important to us for the sake of future business.

It is the first trip for our Mr. T. Imai to visit the States, but as he will stay in our New York office for some years on this line, we hope you will give him necessary instructions in handling your products in the future.

Apart from the above, we are very much anxious to get a good opportunity of introducing Mr. Stearman, your president and other executive officers to our military and naval officers in New York and shall be very much pleased if one of those gentlemen comes to this district, will you kindly let us know beforehand so that we can make some arrangement to meet altogether.

Thanking you in anticipation for your kind attention, we remain

Yours very truly,

OKURA & COMPANY,  
J. MIYATA.

M: S

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EXHIBIT No. 247

Lockheed Aircraft Corp. file—1933.

March 17, 1933.

Mr. CARL B. SQUIER,  
*Lockheed Aircraft Co.,  
Burbank, Calif.*

MY DEAR CARL: This is something more than important which merits your personal attention.

A Chinese governmental mission has just arrived at the Pacific Coast and is at present either in Los Angeles or in San Francisco. The mission consists of a general and three or four other officers who are here on behalf of the army air corps for the purpose of buying one hundred (100) pursuit aeroplanes.

Right now the business lies between Boeing and Curtiss. As you know, neither of these companies can offer the Chinese Government any of the new-type pursuits because of the fact that it is against Army regulations. For this reason it is my impression that the only ships that either of the two companies can offer to the Chinese Government will be of rather inferior performance as compared with the up-to-the-minute equipment.

As I understand it, you have either complete or practically complete data covering a military ship on which you have no commitment with the U.S. Government and I can see no reason why if said ship is of higher performance than the old Curtiss and Boeing pursuits, we should not go after this business hot-foot. If need be, I suppose that you can change the specifications of the U.S. Army ship sufficiently so that whilst not being identical, the ships that you will offer to the Chinese mission will have the same performance. As a matter of fact I understand that your standard "Altaire" can give as good if not better performance than the special military ship.

I am sure that if you can contact the mission you can interest them on the basis of delivering to them without a specified period of time an aeroplane with such and such specifications to have a guaranteed performance of so much and so much. You can secure from them a very substantial deposit on the order (which will enable you to go ahead with your engineering and manufacturing work on these ships), and you can put up a bank guarantee, surety, or performance bond to the effect that if you fail to fulfill your commitment as to performance or time of delivery, their cash deposit is returnable in its entirety.

One hundred aeroplanes with a substantial deposit would just about put you on Easy Street at the present time. You certainly can offer a better aeroplane than our competitors, so hop to it and let me know the result so that I can carry on for you when the mission comes East.

Don't forget that whatever price you quote to the mission should include an adequate commission for me.

Sincerely,

I. J. MIRANDA.

## EXHIBIT No. 248

The L. E. Gale Company File of 1933.  
From L. E. Gale Company, Hankow, China.

*Lockheed Airplanes,  
March 20, 1933.*

Mr. I. J. MIRANDA,  
6 East Forty-fifth Street, New York, N.Y.

DEAR IGGY: On March 13th we wired asking for a net price c.i.f. Shanghai on eight standard Wasp "Vega" Lockheeds. This is in response to an inquiry from the Hunan Government. It sounds almost too good to be true, I must say. I doubt if they have the money to buy eight of these planes. However, I understand on pretty good authority that they do have a little money and it seems we should be able to sell at least two or three.

The airplane business in China is more competitive than the motor-car business and every possible nationality is putting in quotations. In discussing things informally with the military, it appears that in order to meet competition in carrying capacity, power and speed, pay the necessary squeeze, we will have to buy these Lockheeds at about \$14,000 each net to us c.i.f.

I acknowledge your cable of the 15th in reply quoting \$17,700 each c.i.f. and advising shipment could be made in ninety days of the whole lot. We have made quotation based on this price, but I must say that I fear it is too high. At any rate you may be sure that we will follow it up because we sure need the business. Will keep you advised. Please be sure and send plenty of catalogues, especially the small red leaflets. One or two good photographs of the Lockheed would be very useful and effective.

Sincerely yours,

(Signed) L. E. GALE,  
President.

## EXHIBIT No. 249

Great Lakes Aircraft Corp. file—1932.

MARCH 19, 1932.

Mr. EDWARD REMBERT,  
Great Lakes Aircraft Corporation, Cleveland, Ohio.

DEAR MR. ROBERTS: Many thanks for your letter of the 16th and for the blue-prints, which were just what I needed. These, together with photographs already received, place me in a position to carry on.

Together with my good friends, Okura & Co., I have approached the Japanese Government with regards to the new TG-1's and the two GL's. Captain Sunaga, in charge of aviation matters at the Japanese Government's inspector's office here in New York is very much interested in the GL's. I am endeavoring to get him up to Cleveland so that he may personally examine and if necessary test the GL's. His recommendation to headquarters in Tokyo will carry tremendous weight. Hope to let you know next week whether or not I can take him to Cleveland. Possibly he may wish to wait until show time (when he has to go to Detroit anyway) so as to kill the two birds with one shot. I will keep you advised.

I have also written to Lloyd Gale in great detail presenting the entire picture to him and offering him the two GL's. Have asked him for a cable reply. A Chinese military mission has just arrived in America, and I shall also contact them on the subject.

Likewise, Colonel Leon is due from Argentine early next month and no effort will be spared to get him interested.

With regards to ships for the sale of which I have been responsible, I give you the following list:

China, L. E. Gale & Co., 8 Ryans; Japan, Okura & Co., 1 Ryan; Japan, Okura & Co., 1 Lockheed; Mexico, Col. J. Carranza, 1 Ryan; Mexico, Col. R. Fierro, 1 Lockheed; Guatamala, Col. Garcia Granados, 2 Ryans; Argentina, Nyrba Airlines, 2 Lockheeds; Argentina, New York Steel Exp. Co., 1 Eastman amphibian; Argentina, New York Steel Exp. Co., 2 gliders; England, Commander Glen Kidston, 1 Lockheed; Switzerland, Swissair Traffic Co., 2 Lockheeds.

Aside from the above, and in the capacity of eastern sales manager for Detroit Aircraft Corp., I was also instrumental in the sale of the following Lockheeds:

Air Express to Pete Brooks; Speed Vega to Miss Elinor Smith; Altaire to Jimmy Hall; Altaire to Bernarr McFadden; 2 used Lockheeds to Pan American Airways.

I am intimately acquainted with such well-known fliers and/or executives as Major Aldrin, vice president Standard Oil Co. in charge of aviation; Clarence Chamberlain; Roger Williams; the entire executive personnel of Curtiss-Wright; the entire personnel of Pan American Airways, including Presster, the chief engineer, and Gledhill, the purchasing agent; Ruth Nicholls; Elinor Smith; Amelia Earhart; Luther Bell; Charles Parker, of the chamber; Bernarr McFadden etc., etc. All of these people I know well and I find them most useful in the pursuit of business.

I may say that outside my efforts on foreign fields I shall be happy to assist you in or with any transactions which you may have in this neck of the woods.

If you need any added information, please feel free to ask for it. I am sure I can do considerable good and by the same token feel that a connection between us will be mutually satisfactory and profitable.

With kindest regards, I am,

Sincerely,

I. J. MIRANDA.

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EXHIBIT No. 250

RIO, May 27, 1933.

MY DEAR FRANK: I have received your cable of the 23rd reading as follows: "Master approves return via Colbdesa Ursam. Stop. Has sent you plan presumably enhancing possibility securing Figa business. Requests you delay departure until plan received and submitted. Stop. Switlik et. etc." in answer which I wired you: "Rotel willing remain longer. Stop. Writing Colbdesa Ursam Insue visit merits expenditure. Stop. Imperative hurry me company history references requested. Stop. Outlook still quite hopeful. Stop. Mail me registered steamer twenty-seventh two hundred fifty in banknotes."

I will be glad to await Mr. Driggs' plan and follow the suggestions that he may have to make. I want you to understand however, that the point at issue right now is the standing, organization, experience, and responsibility of the company. When I cabled you last week, things looked quite discouraging. I am glad to say that the patient has taken a turn for the better. It seems as if we needed just this attack to show us the number of friends that we have in the War Dept. Again I cannot commend Figueira too highly for his tireless and loyal work. He certainly is a peach and when (notice that I do not say if) we get an order from this Government, you can become certain that Figa is the best possible agent the Co. could have in Brazil. Immediately after the attack—because you can bet your life that the rather premature and hasty inquiry into our Co.'s affairs was prompted by the competition—Figa drew a plan of campaign and we went to work. Jackson, the commercial attaché and Sackville the military attaché, who are the respective spokesmen for the embassy here on commercial and military matters, have been one hundred percent helpful. Nick Bates also has been very helpful; he had the opportunity to make an excursion with some of the high-ranking officers, led by the Secretary of War, and many of the officers whom he knows well put it up to him and, needless to say, that he gave us a wonderful send-off. Bear in mind Bates has been coming to Brazil for 8 years, also that many of his officer friends are officers that have spent from 6 months to 2 years at the Dupont powder plants, training, so that they are duly impressed by the information given out by a Dupont representative. The Chief of Staff, General Andrade Naves—who is Figa's sponsor, and the most highly-accredited general in Brazil—also has been helping us and this afternoon he is talking—himself—to the Minister of Finance because, as you may know, the Brazilian Govt. is scared stiff that we are going to tax the importation of coffee and inasmuch as we buy five-eighths of their coffee the Govt. is very worried. Bear in mind that we buy four times (approx.) more than Brazil buys from us. The balance of trade is all in their favor and, finally, the U.S. has gotten wise and they have told this Govt. that unless Brazil buys more from the U.S.A. we will have to tax coffee and we are the only nation of importance that does not tax coffee. I learn very confidentially that the Minister of Finance here has been able to keep off the American coffee tax



by promising the Roosevelt Administration that the preference will be given by the Govt. to purchases from the U.S.A. and General Neves wants to suggest that it would be fine gesture of friendship to have the orders pending for armament, planes, ships, etc. go to the U.S.A. I assure you that all that can be done is being done, but it will help tremendously when I receive the report of activities and references that I have requested. For this reason I mentioned in my cable the importance of having it as soon as possible. I also informed you that I was writing to Santa Anna and to Samper in re my visit to them. It seems as if the Colombian-Peru embroglio is finished, thanks to the good sense of Peru's new president. I have written Samper today and he will have my letter in 10 days, then the situation as to the status of the war will be better cleared up and he can cable me whether or not I can do some definite good by calling again at Bogota. I have done the same with Santa Anna, and I should hear from him. Santa Anna is easier to reach than Bogota. Also much cheaper to get there. I can take one of the Prince liners to Port of Spain and fly to La Guaira in one day, spend about a week with Santa Anna and then fly back to Trinidad and take the boat to N.Y. Anyhow, when the time is ripe—about the 10th of June, supposing that by then we will have had the references and the master's report—I will let you know what I am going to do. The one encouraging feature here is that things are so well organized that even after I leave, our interests will be very well attended to. My work has been to get all our collaborators pulling together towards one definite objective that is now very clear in our minds and the Government's. I do wish that sometime later, when we put over this deal, the company will allow me to go to Argentina, Chile, Peru, Ecuador, etc. The time, money, and effort spent on this trip will certainly bear fruit later on and if we can do likewise in the other countries, we will have a regular business every year, if not from one place from another.

I asked you to mail me registered on the boat that should sail from N.Y. today or tomorrow \$250 dollars in banknotes, the exchange is dropping terrifically and consequently the cost of living is jumping. You appreciate that in negotiations of this nature there are many little extra expenses here and there, this officer for lunch, and the other for dinner, and Sackville for cocktails, etc., and I am trying to get the best exchange possible so that my money will go the farthest possible. I can get almost one milreis more for banknotes than for checks, so we might as well take advantage of that.

Well, my dear friend, that is all for today. Let us hope I will soon have good news for you. Kindest regards to all at the office.

(Sgd.) ALFRED.

(Received Friday, June 2nd, 1933.)

#### EXHIBIT No. 251

#### ELEVATOR SUPPLIES

JANUARY 22, 1934.

(Memorandum for Mr. A. M. Meeker)

With reference to Brazil: It is necessary in order to establish our position with the Government and continue negotiating for the artillery business pending from that country that we send them photostatic copies of the letters received by you from the War & Navy Departments. We can do this irrespective of the fact that the War Department does not authorize the release of the drawings for Latin American countries as yet.

When I invited Commander Figueira, our representative in Rio, to join us and to act for us there we promised him these documents. They are the only means he has of proving to his Government that the continuance of his efforts is in behalf of a thoroughly reputable American concern. He already has written and cabled for these documents and now that they are in your hands I will appreciate your having two copies of each made. One I will send to Figueira by air mail this week; the second I will keep for our files.

With reference to the salary of the draftsman that is assisting Joyce: You already have reimbursed me for \$52.00 that I advanced him. I still have coming to me the sum of \$20.00 covering salary paid him for the week of January 7th to January 13th. I did not pay him for last week, that is the week ending on the 20th. Please take care of that and his weekly salary henceforth.

Our verbal arrangement in this matter is that these salary payments are to be charged against the Figuerola ammunition order. Before that order is completed we will have orders on hand the cost prices of which include drafting expenses against which this draftsman's salary can be charged after the completion of the Figuerola order.

Again I would like to point out to you that we should have copies of the letters that you sent to the War & Navy Departments, and replies to you. Not having had any information on this matter I had asked Higgins to look into it when he was in Washington the week before last. Captain Stott told Captain Higgins that they already had written to you, and so did Captain Crawford. Probably they were both surprised that we did not know about it. You appreciate this does not give the idea to the War and Navy Departments that your work and ours is as closely coordinated as it should be. Certainly you can appreciate our viewpoint in this matter.

I enclose a copy of a memorandum, contents of which speak for themselves. What do you think?

for AMERICAN ARMAMENT CORPORATION,  
A. J. MIRANDA, JR.

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EXHIBIT No. 252

[Air Mail]

File: Figueira.

APRIL 28, 1934

COMMANDER RAUL ANDRADE DE FIGUEIRA,  
*Avenida Rio Branco No. 93, Rio de Janeiro, Brasil.*

Dear COMMANDER FIGUEIRA: This will acknowledge receipt of your cable of the 27th instant reading as follows:

"Seversky order expected any moment. Demonstration New York with landing gears very important—urgent. Quote best terms delivery ten ships six pairs floats."

to which we immediately replied also on April 27th:

"Retel deliveries first three four months balance one weekly terms preferably thirty-five percent deposit balance on shipment but if indispensable and you willing await profit until final payment will accept last thirty percent equally divided thirty sixty ninety days."

I am very much afraid that Brasil has lost the distinction of being the first foreign government to buy Seversky amphibians; confidentially, please be advised that we have secured an order from the Colombian Government for a number of these ships which, I believe, are going to be used up around Laetecia where the Brasilians will be able to have a good look at them. In any event this sale, ahead of Brasil, will not materially affect things; on the contrary it will enable to allow Seversky to get into production which is always to be desired.

Lest you should wonder why Seversky has not gone into production as yet, let me tell you that his efforts have been confined entirely to the United States Army and Navy. Major Seversky has spent the last month at the Army field in Dayton, Ohio, Wright Field, where all the testing of aeroplanes is done. The official report which the Air Corps has sent to the war ministry in Washington regarding the Seversky is one of the finest that I have ever been privileged to look at. The report is extremely confidential and only with a great deal of trouble I have been able to secure a copy of it, which I am enclosing herewith for your own confidential information. For goodness sakes, treat this report as confidential and do not let it out of your hands, although you may, of course, show it to a few chosen people in high official circles. I repeat that this is a thoroughly official report rendered by the Air Corps to the war ministry in Washington.

If you know anything about Army tests you will realize that Army test pilots always consider it their duty to "knock" the product that has been submitted to them as much as possible and it is very remarkable that the only deficiencies which they have found in the Seversky are of the most minor nature, and according to the report itself, can be easily remedied. I

hope and expect that copy of this report will be of tremendous assistance to you.

Regarding demonstrations in New York of the Seversky with the wheel landing gear: I am advised by Major de Seversky that the wheel landing gear will be fitted on the demonstrator surely within the next ten (10) days. When that is done I shall contact Captain Murici or Captain Wanderley and shall make every effort to bring them out to the field to see a demonstration. Both the captains have been spending much of their time away from New York and I only hope that I succeed in catching them here in order to make the demonstration.

Now, as regards best terms and delivery on the ten (10) ships (which I have taken to mean ten ships with wheel landing gear) and six pairs of floats. Prices were already quoted to you on February 27th as follows:

Price of each land plane, in lots of ten (10)-----	c.i.f. \$32,350.00
Price of each set of floats (amphibian floats) in lots of six (6)--	6,450.00

Also the above prices are c.i.f. and include a commission of 10 percent for yourself.

In my cable of yesterday I have told you that the best delivery we can make at the factory is of the first three (3) ships in four (4) months, the balance of the order at the rate of one (1) aeroplane per month; the same delivery applies to the floats.

Terms of payment: As I have explained to you in previous correspondence, it is to our mutual advantage that if at all possible the sales be made on a cash basis, i.e., with a 35 percent cash deposit together with the order, balance to be paid in full when each aeroplane is ready for shipment.

In the event that it is absolutely impossible to secure these terms, the best we can offer you is as follows: 35 percent cash deposit with the order; 35 percent cash payment when the aeroplane is ready for shipment; and the balance of 30 percent payable in three equal installments, 30, 60, and 90 days after date of shipment. This balance to be guaranteed fully, both by the Government and the Banco do Brasil, and should bear interest at the rate of 4 percent per annum.

Please understand that on the basis of the last 30 percent being payable at 30, 60, and 90 days, all of us will have to wait for our profit until the last payment is received, this being due to the fact that the 70 percent which is paid when the aeroplane leaves the country (35 percent with the order and 35 percent upon shipment) does not quite cover the anticipated cost of production and we cannot very well expect the factory to lay out their own money to pay our profit.

A few words about the three weeks which Major Seversky has spent at Wright Field. His aeroplane was flown by about ten (10) different Army pilots, each and everyone of whom was most enthusiastic about the ship. As you will read in the report, the Seversky amphibian, with floats, is said by the Army to "handle like a land plane" which is about the highest compliment that could possibly be paid to an amphibian. Every one of the pilots who has flown the ship, as well as the high officers in the Army have all personally complimented Major Seversky on the aeroplane and told him that they will use their best efforts in order to see that the Army adopts this aeroplane quickly. The adoption of the Seversky is a foregone conclusion but as usual, when selling to the United States Government, a great deal of red tape has to be gone through, hence the delay in securing a sample order from the Army. The situation with the Navy is practically the same.

As a matter of fact it is lucky for us that neither the Army nor the Navy have as yet placed a sample order for, as before explained, this might lead to their clamping down and prohibiting the exportation of the Seversky.

An interesting side light of the recent demonstration is the particular attention that the Army engineers have given to the Seversky Monocoque wing of "multibox" construction. After thoroughly testing the extreme rigidity of this wing and convincing themselves that for military use it is the finest thing they have seen because of the fact that it may be riddled with bullets without appreciably losing its structural strength, they wondered what the condition of the wing on the inside would be.

In order to answer this question in a practical, visual manner, the cover of the wing was taken off and found to be in absolutely perfect condition. When it is considered that this cover was put on just about one year ago when the demonstrator was finished, and when it is considered that the aeroplane has been flown in all kinds of climate, landed and taken-off repeatedly both from fresh water and salt water, it is no wonder that the Army engineers were so astounded at the perfect condition in which the inside of the wing proved to be.

**Manufacturing rights:** As I told you previously, we are only interested in selling either to your group or else directly to the Brazilian Government the manufacturing rights of the Seversky *after* they placed an initial order with us for no less than ten (10) aeroplanes. Tentatively we offer you the following terms and conditions:

The Seversky Company will grant the exclusive right for the manufacture of the SEV-3 both as an amphibian and as a straight land plane, together with four (4) full sets of blue prints and drawings for a cash payment of \$55,000.00.

In addition, the following royalties will be paid to the Seversky Company:  
On the manufacture of the first ten (10) planes per year, \$1,200.00 for each aeroplane.

On the manufacture of the second ten (10) planes per year, \$1,000.00 for each aeroplane.

On the manufacture of all planes above twenty (20) per year, \$700.00 each.  
The Seversky Company will be guaranteed a minimum production of ten (10) of these aeroplanes, per year, for a period of five years, i.e., a minimum royalty of \$12,000.00 per year.

It is understood that any improvements (which are not of a U.S. Army or U.S. Navy confidential nature) which the company may make in the aeroplane during the 5-year contract will be passed on to the licensee in Brazil.

The Seversky Company will supply a chief engineer to get the manufacture started in Brazil at the rate of \$1,000.00 per month.

They will also furnish an assistant chief engineer who will be employed permanently by the licensee all during the term of production, and paid at the rate of \$500.00 per month.

The company will also be glad to furnish other proper personnel at salaries to be agreed upon. The transportation for all personnel to Brazil and back home to America will be for account of the licensee.

The figures above quoted both as the price for the license and drawings, and for royalties, are net to the Seversky Company and you will have to add to them your own profit; thus the difference between the prices herein quoted and the prices which you may secure will represent your profit in the transaction.

In view of the fact that the Seversky Company has spent about \$250,000.00 in the development of the Seversky amphibian we feel that the terms above outlined are fair and equitable and we suggest that you carry your negotiations using the figures above given as the basis letting us have your reaction to them as soon as possible.

It is of course understood that the license will only authorize the Brazilian licensee to manufacture Seversky aeroplanes for use in the Republic of Brazil and not for sale outside of said Republic to any South American country.

The information give in your cable to the effect that you are momentarily expecting an order for ten (10) Seversky land planes and six (6) sets of floats is, of course, most encouraging and we certainly hope that this order comes through as you expect. After the tests at Wright Field, which as before stated were only completed on the 21st of April, we are more confident than ever of the fact that the Seversky is not only all that we have claimed for it, but considerably better than we have ever claimed it to be and will prove most satisfactory to your Government, a credit to you, to us and to the Brazilian Flying Corps itself.

With kindest regards and best wishes believe me, as ever,

Very sincerely,

MIRANDA BROTHERS INCORPORATED,  
I. J. MIRANDA.

IJM:IM

P.S. Alfred is still in South America that being the reason why he has not written to you recently, kindest regards.

## EXHIBIT No. 253

MAY 13, 1933.

Messrs. UBUETA &amp; SAMPER H.

*Care of American Commercial Attaché,  
Bogota, Colombia.*

Attention of Mr. Joaquin Samper H.

MY DEAR MR. SAMPER: This refers to that portion of your letter of May 5 which treats on the matter of bombs.

Promptly upon receipt of your letter we went to the trouble and expense (to which your Government is always welcome) to design a 12-lb. fragmentation bomb particularly suited to your purposes as outlined in your letter under review. We then quoted your consul general a price of \$15.95 per bomb on a lot of 500 of these bombs for delivery in 4 or 6 weeks.

The quotation was taken to the consul personally by the writer but the consul being out of the office it was left there for his attention. Not having heard from him I called on him personally yesterday to ascertain the status of this particular order. Very much to my surprise I was advised by Mr. Wilcox to the effect that the order was placed almost 2 weeks ago.

I expressed distinct surprise at the fact that we had never even received an inquiry for these 500 bombs from the consul, our quotations having been made at your request and not at the consul's request.

The consul was rather embarrassed and explained that he had given the order to Federal Laboratories because of the fact that Federal had lost so much money on the order for large bombs which they took away from us some two month's ago.

I didn't hesitate to tell the consul that such an action on his part was a decided surprise to us. I told him that we knew perfectly well that Federal would lose money on that order and that we had so advised him at the time of placing the order. I further told him that in view of the fact that about 50% of Federal's bombs, as originally supplied by Federal, had proved to be "duds" I couldn't see the wisdom of continuing to use the same purveyor. I pointed out that that type of bomb wouldn't be cheap even if it was given to your Government entirely free of charge. Your airmen risk their lives and risk tens of thousands of dollars to reach their objective and drop their bombs. It is seldom enough that aerial bombs actually hit the mark for which they are intended and then if the bomb proves to be a "dud" I emphatically claim that it is expensive to use even if they give it to you for nothing or even if they pay you for using it.

Wilcox was very much surprised that I should have this information about Federal bombs and asked immediately where I had gotten it. I merely told him that in the same manner as I often secured confidential information for him I was often in a position to know a great many things that he had no idea about.

Furthermore, I threw a bombshell into Mr. Wilcox's camp by telling him that the large bomb (300 and 600 lb.) which Federal built are no longer in accordance with the latest U.S. Army practice. Very recently it was discovered that the shaft on which the small propeller operating the rear fuze is mounted is so short that the air stream after passing the bomb body itself does not hit the rear propeller and therefore when the bomb falls the rear fuze still having the propeller attached to it is absolutely useless.

The above fact only came to light some 3 months ago and a new and longer shaft for the rear fuze propeller was immediately designed by the U.S. Army Engineers or to be more specific, by said engineers under the direction of our technical adviser, Major Brayton. It will be months before this development is actually put down on the official U.S. Army drawings which are released to companies such as Federal and ourselves. However, inasmuch as our bombs are built under the supervision of Major Brayton, had he built this new lot of bombs we would have now fitted them with the longer shaft which would allow the rear fuze to operate.

I pointed out to Mr. Wilcox that the fitting of these large bombs with the rear fuze taken by and large increased the cost of each bomb by possibly \$75 to \$100. Federal has supplied the rear fuze but it is absolutely no good because of the facts already mentioned, and thus if the nose fuze fails to function the rear fuze, which is carried as a safety measure against such an emergency, will also fail to function and your bomb will be a "dud."

Mr. Wilcox was very anxious to learn whether the bomb which we supplied in these large sizes were fitted with the larger shafts. As a matter of fact they were not, because of the fact that the deficiency had not as yet been discovered at that time. However, I told him that they were and he was tremendously concerned. My thought was that very possibly the ridiculously small number of bombs initially purchased from us may by this time be all used up.

The argument of the longer shaft may very possibly be used by you to excellent advantage in order to point out to your War Ministry that when they buy from us they are actually getting the latest developments in the art of bomb making. Naturally such technical advice as we have on the subject is costly; likewise the materials that we use in the making of the bomb are of the finest that money can procure, and consequently our prices are higher than those of the competition. Common sense will tell you that it is decidedly preferable to pay more for these bombs but be sure that they are going to work, than to pay less and risk men and equipment to no good purpose.

As a point of interest I would like to tell you that in the bombs manufactured by Federal over 30% of the bomb bodies were rejected, over 60% of the fuze parts were rejected, and 100% of the tail fins were rejected. Here again we have become indirectly of tremendous assistance to your Government inasmuch as you know or can imagine the reason for those objections. It is very evident that on bombs previously furnished, and likewise on bombs which may be furnished in the future by other purveyors, this very strict inspection may be carried through. Frankly, we cannot constitute ourselves the watchdogs for your Government to see that the other fellow supplies what we would have supplied and all of this results in such a large percentage of competitive bombs failing to do the work for which they were intended.

We feel particularly badly about not even having been requested to quote on the five hundred 12-pound bombs. On this business we were deliberately ignored and weren't even given a chance to put in a price. These are facts that should be known by you and passed along as you may judge convenient.

Awaiting further news and with kindest regards, we remain

Very sincerely,

DRIGGS ORDNANCE & ENGINEERING CO., INC.  
I. J. MIRANDA.

IJM NK

Re: Price 12 fragmentation bombs:

*P.S. no. 1.*—Since writing the main body of this letter we find that the order for 500 of these bombs was actually placed on Wednesday May 10th. We also find that the order was placed at a price of over \$16 per bomb. Inasmuch as our quotation was of \$15.95 you will see that we were entitled to this order even on a purely price basis. We feel that a grave injustice has been done us in this particular matter and we hope that you will pass this information along to whom it may concern. We, admittedly, furnish better material but now it seems that even when in addition we quote lower prices we are discriminated against. Do your stuff.

Re: Tail fuses on large bombs:

*P.S. no. 2.*—Since writing the body of this letter we find that our competitors discovered that the tail fuses as originally planned, i.e., with the short shafts, were useless. Accordingly they placed sheet metal wings crosswise between the fin surfaces with the idea of directing the air stream to the fuse propeller. This change, in accordance with our technical advisor, is something which has never been tried and it is very doubtful if it will accomplish the purpose. Furthermore, the addition of these wings between the vanes will prevent the air flow from surface. It is believed that the stability of the bombs in flight will be seriously affected and if so it will not follow a true trajectory and it will be impossible to hit a target with them.

Sincerely,

## EXHIBIT No. 254

URUETA & SAMPLER H. (SUCESTORES)  
JOAQUIN SAMPLER H. NEGOCIOS Y REPRESENTACIONES  
BEGOTA, COLOMBIA, S.A.,

Received Dec. 21, 1933.

December 16, 1933.

Mr. A. J. MIRANDA,  
American Armament Corp.,  
6 East 45th Street, New York, N.Y.

MY DEAR ALFRED: Two damned interesting letters from you. I cannot give you the date right now, because they are both, together with the rest of my files, in the safe vaults of my bank, in order to keep 'em away from the Peruvian secret service. You can imagine by that how things are going here with us. To give you a little more information and a better idea as to it, my home was assaulted, gone over by expert hands, everything was emptied on the floor, and since no important papers or documents were found, the valuables were left untouched!!

Well, things are going on fairly well. I had a very nice but short conference with the "chief" and I am looking forward for news from you, since from this end it is practically impossible to disclose anything. Even the cable is not safe. Besides, there is a new decree in force, prohibiting the private codes and also one has to practically decode the cables sent in code to the "exterior." That's that.

If you remember correctly, your mail comes care of ———. Well, you better begin using two envelopes, but none of them can bear any indication of your firm, specially the one on the outside which must come addressed directly to the party in care of whom my mail was coming. Don't forget that; it is important.

Now, as to cables, you better rake out a new cable address and a new address to have the cable company take the cables to. There are no chances to be taken with that. Should there be in due time, any information which I can send, it will go through the same party I am getting my mail. You understand, of course.

(Tell Iggy that I have to wash my hands off with reference to his last letter to me, because I am covered and by that I mean it. It is to damned dangerous for me to undertake that activity.) However, there is a gentleman going tomorrow to New York who is taking a letter to Iggy. That man will handle the proposition for him, but tell him to please count me out. I am, of course, doing all I can for him, regardless of business. The name of the gentleman in question is C. Kendrick Mac Fadden. He is already working for him here.

If the man in question mentions anything about me to Iggy, tell him to forget it for the time being which I have a chance to explain things to Iggy. However, the man is already working, and working forcefully and well. Results are expected. He will act as his distributor for Colombia. See?

Well, old boy, in spite of the fact that you will get little news from this friend of yours, we are working here to beat the band! We are very hopeful and specially regarding the W.V. on which we have had a lot to do. They will take a few off your hands. In as far as the other material is concerned, don't worry that there will also be something to do. In spite of all that, keep us posted, specially if you feel that in your opinion we are to push in some definite way or do something which you think we have not done.

This letter will reach you just before Xmas and all we hope and wish is that you may have a real merry one, and lots of prosperity in the New Year, which will bring quiet a few surprises for this sincere and true friend of yours and his country.

Yours affectionately,

WACO.

P.S.—Kindest regards to Iggy and best wishes for him too. I hope you will succeed in getting the whale for your boy this Xmas, though St. Nicholas will have a whale of a time carrying it to him.

("EXHIBIT No. 255" appears in text on p. 613)

EXHIBIT No. 256

Director: John Ball

THE SOLELY ARMAMENT CO., LTD.,  
February 3, 1934.

THE AMERICAN ARMAMENT CORPORATION,  
6 East 45th Street, New York, U.S.A.

DEAR SIR: We thank you for your letter of Jan. 27th to hand.

Your requests regarding the 51 carbines, 7.65 mm will be carried out, and we hope to ship from Antwerp in about 10 days or maybe less.

Regarding payment, will you please open a credit for the full amount of the payment, in the Bank of China, Palmerston House, Old Broad St., London, in our favour, the sum to be paid to us against the presentation of shipping documents and our invoices. The shipping documents and receipted invoices will then be forwarded to you by the Bank of China.

We note your remarks about competition in the U.S.A. from other firms offering our stocks, and on consideration, we beg to place the following suggestions, which you might think over and let us have your views upon:

As we are really the sole selling channel for small arms, etc., which belong to the British War Office, and as we are to a very great extent controlled by the varying policy of the Government, it is rather difficult for us to enter into firm and fast agreements with other armament firms.

The stocks we control are of such magnitude that the sale of a big block of them could alter the political balance of power of the smaller states, involving corresponding complications from the point of view of finance and industry.

You will, we are sure, fully appreciate that under these conditions we have to submit to a fairly strict control by the authorities concerned, and we cannot always supply the demands by certain would-be buyers, for political reasons.

However, we think that it might be in our interest to have one single firm in the U.S.A. who would act as our appointed representatives, and who would deal with all the inquiries we get from the U.S.A.

Yourselves, as the people on the spot, would know the strength of many inquiries and would be promptly able to sift the serious ones from those of the "hot air" variety, and if you are reasonable regarding profits, we think that the obvious advantages to us would be worth the slight sacrifice of price entailed in covering your firm.

The question now arises as to how we could arrange such a combination, and in a manner which would meet the needs of both sides without interfering with the Government control here, which must absolutely be observed.

We suggest the following arrangement:

We would prepare to appoint you our sole selling agents for the U.S.A. and you would have the handling of all the sales to the states of Latin America only, which would be left entirely to yourselves.

Arms for other destinations, such as China, or European states could not be offered by you without our previous consent, and you would be expected to observe this rule in the very strictest manner.

Now, such an arrangement as is suggested above would have to be what we call here a "gentleman's agreement"—that is, one of mutual trust and confidence without any hard and fast legal ties or commitments which would exist in the usual case.

Our undertaking would be to the effect that we would refer all enquiries coming from the states of Latin America and the U.S.A. to your corporation, and you would be fully responsible to us to observe all the regulations controlling the sale of military armament, etc., and to prevent the arms being sold to undesirable destinations.

For instance, we believe that the U.S.A. does not wish arms to be sold to Nicaragua and, therefore, we must observe this veto, for, if our rifles were sold to this state and some U.S.A. official saw them there we should be in serious trouble at once with our own Government, who insist that we must not violate the wishes of other world powers by arming revolutionaries, etc.

If you think that you would like to come to some such arrangement with us, we think your desires could be met, but we must be first informed of the ultimate destinations of all quantities of arms which exceed sample quantities.



in order that we can submit the name of the purchasing government to the British authorities, and obtain their permission for the arms to be sold to that state, and we suppose that also, before you sell arms from the U.S.A. to a Latin American state, you will obtain the permission of your government to do so, in order that the policy of the U.S.A. cannot be upset.

We should like you to inform us upon this point, as we are not familiar with the U.S.A. regulations.

We should under the above suggested arrangements supply you with a complete set of samples of all the arms we have for disposal (small arms, etc., only, not ordnance) for which you would have to pay, but your payment would be refunded on your returning the samples to us. We are not allowed to supply samples except against payment, as the government here does not give credit to anyone.

We should supply you with illustrated leaflets, catalogs, blueprints, free.

For your information, in confidence, the value of the stocks here under our control is approximately £6 millions, so there is no great risk that they will all be disposed of in a short time, but you must remember that in the event of a serious war breaking out anywhere affecting British interests the stocks might be withdrawn from sale.

The principal stocks are as follows:

Rifles, pattern 1914, calibre .303, which we can convert to most of the Mauser calibres: Quantity 800,000, with enough spares to build up another 200,000.

Machine guns, Hotchkiss, 34,000, with spares. These can also be converted to Mauser calibres.

Machine guns, Lewis, 20,000, with spares. These cannot be converted to Mauser calibres except at serious expense and difficulty. These are infantry pattern.

Machine guns, Lewis, aeroplane pattern, 8,000, with spares. These are mobile or "free" guns, for use by the observers. Machine guns, Vickers, infantry pattern, 5,000, with spares. These can be converted to Mauser calibres.

Machine guns, Vickers, aeroplane pattern, 6,000, with spares. These are "fixed" guns for firing through the propellor of the plane. These can be converted to Mauser calibres.

Revolvers, Webley, calibre .455 (takes the American .45 shells), quantity 4,000, length of barrels 4".

Revolvers, Smith & Wesson, 5,000, calibre .455, takes .45 shells, length of barrels 6½".

Revolvers, Colt, calibre .455 (takes .45 shells), quantity 10,000 (9,016 with 5½" barrels).

Quantities of spare parts exist for the Colts and the Smith & Wessons, but no stock of spares for Webleys.

Ammunition, none for revolvers, but for rifles and machine guns in calibre .303 there is about 120,000,000 rounds in good condition.

There are, of course, considerable other stocks, but above are the principal ones.

The general condition of the arms are "serviceable", which means either quite unused, or having had very little use, but the greater portion is "new." Possibly there may be a slight marking or rubbing of the arms while being regreased in the stores depots, and if given a little time to deliver we usually remove all scratches before shipping, and in the case of rifles or M.G.'s converted to Mauser calibre, the entire arm is rebrowned.

To return to the question of cooperation with you:

If you think that your interests would be served by such an agreement as suggested, you can begin right away and deal with any future enquiries from South America, and we will try out the arrangement with you, and see how it works.

As every sort of agreement must have a time attached to it, we enclose a formal letter agreeing to refer all South American enquiries to you for a period of six months from date, which agreement will be extended if the results are found to be mutually satisfactory, and we hope this will meet with your wishes.

Yours faithfully, for and on behalf of

THE SOLEY ARMAMENT CO., LTD.,  
(Sgd.) JOHN BALL, Director.

## EXHIBIT No. 257

The Soley Armament Co., Ltd., director, John Ball, Contractors to War Office and Air Ministry.

Address your reply to The Secretary, 8 Park Village East, London, N.W.I.  
February 3, 1934.

Our Ref. JB/JG.

MESSRS. THE AMERICAN ARMAMENT CORPORATION,  
6 East 45th Street, New York, U.S.A.

DEAR SIRS: Further to our letter of even date:

We agree to the appointment of the American Armament Corporation as our sole sales representative for the disposal of the stocks of military arms held by us, in all the countries of Latin America, and we undertake to refer all enquiries coming from Latin America to the American Armament Corporation. This arrangement is for a minimum period of six months from date, and the agreement, if desired by both parties shall be extended at the expiration of the period mentioned. It is distinctly understood between us that the American Armament Corporation shall observe all the regulations governing the sales of arms from Great Britain and the U.S.A. and that they shall under no circumstances attempt to sell British armament to illegitimate destinations, or to parties who may be working against the state interests of the U.S.A. or Great Britain.

No offers of our stocks shall be made by the American Armament Corporation to any other countries outside Latin America except by our express permission in writing.

Yours faithfully, for and on behalf of

THE SOLEY ARMAMENT CO., LTD.  
(Sgd.) JOHN BALL, Director.

## EXHIBIT No. 258

The Soley Armament Co., Ltd., director, John Ball. Contractors to War Office & Air Ministry.

FEBRUARY 6, 1934.

Our Rf JB/JG.

MESSRS. THE AMERICAN ARMAMENT CORPORATION,  
6 East 45th Street, New York, U.S.A.

DEAR SIRS: We have today received an enquiry for Springfield rifles, cal. 30, from the Export Consolidated Co., whose letter we attach.

We have informed them that we have no Springfields, but that if the buyer would accept a tolerance in the calibre of three thousand of an inch, and take rifles with a barrel calibre of .303, we could modify the chamber and the magazine of the 1914 rifles we have, in order to use the standard American cartridge in them, and alter sights accordingly. This operation is not very simple, and entails much expense, but if a fair quantity were taken we think we could keep the price of such rifles down to about £3-7-6 each.

We shall therefore be obliged if you will get in touch with the Export Consolidated Co. and see what can be done for them.

Regarding samples of the small arms for your office:

We suggest that you have the following:

- One Lewis M. G. infantry pattern, cal. .303.
- One Lewis M. G. Aeroplane pattern, cal. .303.
- One Hotchkiss M. G. infantry pattern, cal. .303.
- One Hotchkiss M. G. infantry pattern, cal. 7.65 M/M (or 7 M/M).
- One Vickers M. G. infantry pattern (in either .303 or Mauser cal.).
- One Vickers M. G. Aeroplane pattern (in either .303 or Mauser cal.).
- Two revolvers, cal. .455 Colt, 5½" barrels.
- Two revolvers, S. & W. Cal. .455 6½" barrels.
- Two revolvers, Webley cal. .455 4" barrels.
- Two rifles, Pattern 1914, cal. .303.
- Two rifles, Pattern 1914, cal. 7.65 M/M.
- Two rifles, Pattern 1914, cal. 7. M/M.
- Two signal pistols, cal. 1".

In view of the expense in your getting the above, we will see if it is possible for us to persuade the authorities to agree to some nominal amount, instead of the full price (which is, of course, returnable if you return the samples), but we have not great hopes of doing this.

Alternatively, you could if you so desire select from the above list the items which you consider essential to you, and leave the samples of the rest until some definite need arises for them, when they could be sent to you.

Please let us have your views on this question.

Another point we should like you to bear in mind:

Owing to the financial constipation all over the world, it often happens that the United States require arms badly, but have no cash to pay for them. As it is far too risky to sell arms on credit in these times, some alternative has to be found, and sometimes goods or produce can be accepted in lieu of cash and the barter converted into cash over a period of time.

For instance, provided that the deal was a fairly big one, we could accept coffee, rubber, timber, etc., in payment.

There have also been cases where certain concessions were given, and the concessions sold to interested financiers or companies, but—and this is the snag—we have either got to arrange a definite sale of the product *beforehand*, or to peddle off the concession to some interested group, beforehand.

However, provided that the proposal put up to us is serious, and there are reasonable prospects of doing a deal, we are good listeners to anything, but we absolutely refuse to go into any "hot air" schemes, or any which are against an established government in the same state.

We are always having doubtful or tricky propositions put up to us, but no matter how tempting the profit may be, we always turn them down on the principle, for under no circumstances could we be mixed up in intrigues.

We fully understand that arms deals are not usually done without some officials getting "greased" but if any palm oil is required, it has to be added to the price, and as our prices are at least 50% less than factory prices for the same arms, they will stand a lot of "grease" and still be cheaper than the manufacturers prices.

Also provided that the arms do not have to be converted, we can give practically immediate delivery, which is a very important point in our favor.

Another point for you:

We like to deal with each individual demand on its merits, and we are always prepared to give you the maximum assistance in our power, but we cannot work miracles, and we require reasonable time to move, and you will appreciate that no Government Dept. can be pushed beyond its normal speed of work.

Regarding conversions to other calibers:

Our factory in Liege, Belgium, is limited to an output of about 3,000 rifles per week, and if an order should come in while another is going through the factory, we usually try to put through a percentage of the second one, in order to meet part of the second buyer's requirements, but we cannot do more than this.

We trust that these details may be of use to you.

Yours faithfully, for and on behalf of

THE SOLEY ARMAMENT Co., LTD.  
(Sgd.) JOHN BALL, director.

EXHIBIT No. 259

[Air mail letter no. 7]

June 9, 1934

Messrs. WEBSTER & ASHTON,  
La Paz, Bolivia.

DEAR SIRS: On June 2nd we received your cable of that date reading as follows:

"Minister Defense has been informed your bombs shipment today embargoed. Please advice rush."

We do not know how the Minister of Defense obtained the information above mentioned, as we have inquired both from the consul and from the Legation,

and they had not notified their government inasmuch as they were in doubt as to what was going to happen. We mention this because we are anxious that such information as reaches the Government about the movements of our material be accurate.

We cabled you the same day as follows:

"Minister Finot informed us yesterday has been advised that sellers and not Bolivian Legation must apply for permit State Department shipment of material contracted for previous to declaration of embargo. Issue of permit requires formalities will delay, therefore we cannot clear today although ready for shipment. Shall be Washington Monday make application permits all unfilled orders and hope large shipment next steamer. Imperative that you telegraph immediately if any contract signed there previous to declaration of embargo May 28 stating in dollars and cents so that we may apply for permit immediately. Very urgent for the Government to instruct Finot assume firm stand cooperating with all sellers."

The subject of the so-called "embargo" is a most ticklish one and had to be approached in a careful manner. We asked the consul over a week ago to lodge with the Legation copies of all the contracts that we have pending (4), and to request the Minister to make inquiries from the State Department on the subject. On Friday, June 1st, Mr. Decker received a letter from Minister Finot advising him that he had conferred with the State Department and had been informed that it was up to the shippers to take the matter up with the State Department. He was informed that the President's proclamation admitted of certain exceptions and that it was up to the exporters to prove that their cases came within those exceptions.

In view of this the writer arranged to go to Washington on Monday to confer with Minister Finot and also to call at the State Department. We tried to convey to you this information in our cable above-mentioned and hope that we succeeded in making the matter fairly clear to you.

On Monday the writer spent some time with the Minister going over our contracts and pointed out to him in the same manner that he had already pointed out to Mr. Decker that it has always been the policy of this company to refuse to enter upon any contracts with foreign governments which throw the responsibility of getting the material out of this country on the company. This policy is the result of many years of experience that the writer has had dealing with a large number of foreign governments.

The manufacturer should be fully responsible for the quality of the material, the specifications, the performance of same and its delivery within the agreed time; but, a manufacturer should not be asked to incur the risks entailed in export embargoes, breaking up of diplomatic relations, blocading of foreign ports, etc. For this reason you will notice that all of our contracts call for the payment of the material to us when we deliver the material in New York to the government or to the government's shipping agents, we agree to defray shipping expenses to the ports mentioned in the contracts. We sell c.i.f. in the sense that the prices that we quote cover the cost, the insurance and freight of the merchandise to the foreign port indicated by the foreign government purchasing the material, but our contracts specifically state that we make delivery of the material (and get paid for it) to the government or its shipping agents in New York and that is in New York, not f.a.s. New York. For this reason all we have to do is to submit our material for delivery to the consul in New York and collect the value of same, and it is the consul's job to ship it to his government.

The fairness and soundness of this policy is now (something X'd out) in the present instance. As previously stated, after going over our contracts very carefully with Consul Decker and Minister Finot, they have been able to establish definitely what is the company's position and responsibility and what is the government's position and responsibility in these cases.

I informed Mr. Finot that inasmuch as the Government is the exporter of the material I felt that it was up to the Government to seek shipping papers, permits, clearance, or whatever Government documents might be necessary, but I told him that without prejudicing our rights, with a desire of cooperating 100 percent with the Government I would go to the State Department, which I did. Unfortunately, the State Department seemed entirely unwilling to assume any responsibility and it was a case of passing the buck. I was definitely told that—

The State Department would issue no permits, recognized no exceptions, would not attempt to interpret what was war material and what is not war

material, nor would it give an opinion as to the time of action covered by the President's proclamation, that is, whether the proclamation embodied or not sales made previous to May 28th, the day of the Presidential decree. The State Department's attitude was:

Try to ship your stuff, and if the Government's agencies (presumably the customs) block your way, hire the best lawyer available and get an injunction against the Government. This, of course, was rather unsatisfactory. So I again held additional conferences with the Minister, pointed out to him that the attitude of the Government towards American corporations is going to be in my opinion, rather dictatorial and that the best protection of his Government's interests would be to strictly carry out the terms of the contracts; that is, we would deliver the material here, as agreed, and the consul general, acting as the commercial representative of Bolivia, would seek to clear the material in question.

The following considerations were carefully weighed:

In the first place, the Presidential proclamation forbids the sale of any war material, but has nothing to do with the exportation of the material. There is no question that all the four contracts above mentioned the sales were made and deposits made for said material before the President's proclamation was made. All that material has been sold to the Bolivian Government and it is the Bolivian Government's property and there is no law in this country that can prevent the Bolivian Government from taking their own property to Bolivia.

We really do not see how that action can be blocked by the Government. The only action that the Government can take on the subject is to proceed against our company for selling war material for Bolivia, in which case our defense will be that the sales were made at a time when it was not forbidden to make them.

We have two shipments being made ready. One shipment covering the balance of the 105 M/M ammunition (about 5,900 shells) plus about 2,000 rounds of 47 M/M ammunition and about 2,000 aerial bombs is expected to leave on the freight steamer of the 15th. Another shipment comprising the 36 47 M/M mortars is expected to leave on the passenger boat of the 16th.

I returned from Washington the 5th instant after having come to an agreement with Minister Finot that the proper action was to follow the terms of the contracts, and on Wednesday, the 6th instant, Mr. Decker made application to the Customs in New York for clearance of the mortars which will go out of the port of New York, and made application to the Customs in Newport News, Va., for clearance on the bombs and ammunition which will go out on that freight boat from that port. Both of these applications were made as follows—Consignor—Consular General of Bolivia—and a clause was inserted in the application whereby the consul certified the fact that all this material had been purchased by the Government of Bolivia previous to May 28th. The Customs in New York have referred the matter to the Chief Commissioner of Customs at Washington, asking for a ruling. He, in turn, has referred the matter to the State Department, and it seems that the Secretary of State referred the matter to the Attorney General of the United States. This transpired between Wednesday and Thursday, and yesterday, Friday, the Attorney General in Washington telephoned to the U.S. district attorney in this district to go into the case with the Customshouse, after which he summoned Mr. Decker to his office, after which the writer was summoned with copies of the contracts in question, and the writer went over these contracts with the U.S. District Attorney Conboy.

This carried on until late last night. The U.S. district attorney will report his findings to the Attorney General of the United States, who, in turn, will give his opinion to the State Department, which will pass on to the Treasury Department, which will pass on to the U.S. Customs. The reason that this matter is going through the heads of the Government in this country is that the decision will definitely establish a precedent on which all other contracts and shipments between American manufacturers and the Bolivian Government and American manufacturers and the Paraguayan Government will be judged. Someone had to bring this matter to a head inasmuch as our position is clean-cut and clearly defined it was proper both for the Government and for our interests to have the matter brought to a head.

We cannot see on what ground our Government can refuse the Bolivian Government to ship its property to Bolivia. If, notwithstanding that an effort is made by the Government to do so, we understand that Minister

Finot in Washington will lodge a diplomatic protest with the Government. That is the status of the matters as of today. As soon as something definite is given out by the Government we will advise you accordingly.

\* \* \* \* \*

We received, on June 5th, your cable of June 4th reading as follows:

"Refer to your telegram of second instant. Hope to reply tomorrow."  
and on June 6th your cable of June 5th reading as follows:

"Refer to your telegram second instant. Are hopeful obtain addition contract along line telegraphed you as per our telegram of first instant. Mean-time telegraph us immediately when you expect get permit to ship material which will be ready this month. With next lot of ammunition ship fifty complete fuzes."

In accordance with your wishes, with the lot of ammunition now being made ready we will send along 50 complete fuzes, (105 M/M), against this contract.

On June 7th we received your cable of the 6th reading as follows:

"Referring our letter twenty fourth, please confirm deposit made."

We replied immediately to your cable, dated June 6th as follows:

"Last letter received from you April twenty-first."

As soon as we receive your letter of the 24th we will be very happy to attend to its requests. In the meantime we remain.

Faithfully yours,

For AMERICAN ARMAMENT CORPORATION,  
A. J. MIRANDA, Jr.

AJM,Jr/NK

#### EXHIBIT No. 260

(Address your reply to The Secretary, 8 Park Village East, London, N. W. 1.)

THE SOLEY ARMAMENT COMPANY, LTD.,  
March 24th, 1934.

THE AMERICAN ARMS CORPORATION,  
6 East 45th St., New York, U.S.A.

DEAR SIRS: This letter has been delayed in order that you should have complete details and information regarding your various requests, and they follow herewith.

Reverting to your long letter of Feb. 22nd, page 1, your assurance, etc., given here quite satisfies us.

Page 2:

We note the references you offer, but do not consider it necessary to check them up, and therefore accept you on your face.

Page 2, carbines:

These were shipped from Antwerp on S.S. Black Gull, but in the haste to get them despatched the following errors were made:

- (1) Only fifty carbines were sent, instead of fifty-one.
- (2) Only thirty slings were included instead of fifty-one.
- (3) Two samples of reconditioned Springfield rifles were included with the fifty carbines, which should have been packed according to our instructions.

We have therefore instructed the factory to send to you by the first available steamer the missing carbines, 7.65, and the twenty-one slings and hope that the slight delay will not cause you much inconvenience, but if it should, please charge any expenses up to us, as we usually pay for mistakes when they are on our side. There will be no world shortage of timber so long as the heads of some of our employees exist, but we have to take what we can get not what we want.

In case they may be wanted, we have included bayonets and scabbards with the carbines, although we of course know that cavalry do not carry bayonets, but as we do not make any reduction in the price of carbines minus bayonets, we thought they might just as well be included. Please let us know if they are of service or not for any future orders, as there is no object in paying freight on material which is useless.

Page 3, ammunition, 7.65:

We obviously cannot help you regarding newly-made cartridges, for you say that you can buy cheaper in the U.S.A. Regarding the stock ammunition, 7.65,

held in Europe: This is war-time manufacture, and quite good considering its age, but naturally it cannot come up to the results of newly made stuff and buyers must not expect it to do so. If, however, the low price attracts them, we suggest that a few hundred thousand rounds should be sent over for trial, and if it was found to be satisfactory to the users, they could then take about 10 to 12 millions of it.

Page 3, machine guns:

We note your remarks re the Vickers and Hotchkiss machine guns, for Bolivian requirements, and the question re extra barrels, belts, feed boxes, loading machines, bolts, and condensers. The inclusion of so many extras will much increase the price of the guns, and you will find full details in the separate lists attached to following letter.

Page 4, parabellum pistols:

As we informed you by cable, we have only a few of these pistols in stock, and they are mainly short-barreled type, and are also minus shoulder pieces. Automatic pistols are rather outside our lines, as the British Army uses only revolvers, caliber .455 (which take the U.S.A. cartridge .45 perfectly satisfactory). We consider the auto pistol useless for all emergencies; it might be all right in the stratosphere, where there is no dust, mud, or damp to affect the slide, but you can drop the old revolver in the sludge or dust, pick it up and shake it, and it still functions. Do the same with an automatic, and it is necessary to strip it and wash out the grit before it can be used. Ask any of the Americans who were in Flanders—they know.

We are sending you a sample parabellum, however, as we should like to clear the few we have.

Pages 4 and 5, barter proposals:

Any suggestions coming from you, and in which you would stand in with us on a 50/50 basis, will have a good hearing and our best consideration, no matter what the produce offered may be, so long as it is a commodity which is salable and which can be converted into cash within a reasonable time. We could only consider barter for fairly large quantities of arms, as for small deals the extra trouble incurred is not worth while.

Page 5, *Figuerola & his company*:

Mr. Figuerola called on us, and we explained to him that we had made an arrangements with yourselves for the U.S.A. and Latin America, and that any quotations given to him by us in future would have to be referred to yourselves also, and we advised him to make the best terms he could with yourselves. Please note that he cabled us on March 13th asking for a quotation for 200,000 khaki uniforms, no destination mentioned.

We have no such quantity over here, but they could be quickly manufactured, and we are endeavoring to get price, delivery, etc., and this will take some time to get.

Now for your private information, the biggest stock of complete uniforms available is held by the U.S.A. War Dept., and consists, we believe, of about 400,000 jackets and breeches, only no trousers.

We did hear a short time ago that a London firm of army clothing dealers either actually had, or were trying to get, an option on the stock, and we are at present investigating the position, but in any case—well, use your own judgment as to what you can or ought to do. If we hear anything concrete about the stock, we shall, if an option is held here, offer it to Figuerola and cover you for something reasonable. If the option story is bunkum, and you find that you can get on to the track of the stock direct, you will know what to do.

Page 6, *antiaircraft guns*:

We have been approached here by certain people interested in 3" A.A. guns for Bolivia. The principal person appears to be Señor F. Prado Uchoa, and we think he is connected with the Bolivian diplomatic service. He began by saying that he wanted 12½% on anything the Bolivian Govt. bought from us, and that he was the only person who could put through such deals, etc. We informed him that we should require official confirmation of his authority to negotiate etc., and that although certain 3" A.A. guns were in stock (about 10 with a possible 15 more) we did not think we could help him as regards Bolivia, for the A.A. guns were really property of British War Office, and a sale of material emanating from a British official dept. to a Latin-American country then at war, might lead to some diplomatic

shindy, for it might be said that Britain was supporting Bolivia against Paraguay. This cold water seemed to be effective, and he has not so far returned to us.

We have, of course, heard from several sources that Bolivia wants A.A. guns quickly, but we do not think for a moment that a shipment or sale to Bolivia could be made *direct*, while that country is at war. If, however, an American armament firm of some standing bought the guns, for eventual resale, things might be easier—or if the Colombian Govt., who are not at war, bought the guns, they could no doubt have them. We are investigating the question with the war office here regarding a direct supply to Bolivia through yourselves, and will inform you of the results as soon as we can, but in principle we are not so hopeful of permission being given. In any case, we do not think there are many other A.A. guns apart from ours to be got from stock and quickly, so your chance of selling new guns with a few months delay may be increased if we cannot supply, or if we refuse to supply should we be allowed to do so? We shall promptly advise you of any new developments on this subject.

This concludes the answer to your letter.

Your catalog is clear and interesting. We note that you are producing among other guns the McClean automatic gun, 37 m/m. We know this gun well, as we had a quantity of them some time ago, and sold them, but we have somewhere in our depot about six or seven new barrels for these guns, and we believe some new flas eliminators for them. We have no bolts or other parts for the barrels, and if you like to pay the cost of packing and freight of the barrels, you can have them at any price you like to mention, for we are not likely to want them ourselves, and they may be useful to you either to build into guns or as spares.

We should think that the cost of packing would be about 3 each barrel, or maybe each 2 barrels, for it would be advisable not to put more than two in each box on account of weight.

Before we close, there is another matter which may one day be of interest to you. It is rather a lengthy one, but we will condense it as follows:

As you are no doubt aware, China consumes a vast quantity of small arms per year, and they have bought large quantities of rifles from us, mainly Mausers (over 100,000 in 1931/32) but have slacked off lately owing to the loss of Manchuria, and the shortage of ready money in the south—i.e., Canton and Nanking. In spite of all the dreams of the Idealists, who imagine that homo sapiens is filled with honor, justice, love, and self-sacrifice, Japan is going to take a still larger slice of China, and comparatively shortly, while the getting is good. To place herself in a favorable position, Japan must either buy over the Soviet or fight them—and Japan will do one of the other, before attending to some more of China.

Such a move on Japan's part would seriously affect the U.S. interests in China, and we think that the U.S. would under the above circumstances support the Chinese, supply them with arms, etc.

In such an eventuality, something might be done with the big stocks of rifles here, also M.G.s, and we think it might be very advisable for you to approach the U.S. Dept. for Foreign Affairs and the War Dept., and hand them a list of what stocks there are over here, informing the Depts. at the same time that you are the sole representative for the U.S.A.

This is only our suggestion to you, and you may possibly have other ideas of your own as to how such a matter should be handled—for instance, it might be better to bring the stocks to the notice only of some of the "big business" gentlemen, and leave any possible wangles to them, for they even might see quicker possibilities in such a stock? Nothing would surprise us, but bear in mind that the world's stocks of small arms have shrunk very much during the last three years, and we certainly think that our stock is the only one left of any importance.

It is doubtful if your authorities are aware of the stocks here, for the U.S. does not ferret around with spies or "intelligence" people to the extent that Europe does, and if some sudden emergency did arise in the Far East, there would be a big rush for serviceable material for immediate delivery, and not many firms could produce about 700,000 rifles, about 50,000 machine guns, all of the same calibre, with spare parts and ammunition for immediate delivery, delayed by only the time to pack and put on the steamers.



The idea may be a trifle problematical, but it might arise one day, and if you had already "sowed the seed" \* \* \*?

The Japanese Naval Dept. have lately bought large quantities of Lewis guns, in our calibre .303, for their Hotchkiss and similar types are not equal to the Lewis for aero use by the observer, neither has the 6.5 bullet as much effect as the .303 armour-piercing type, or the incendiary or "tracer" type. As you know, "Incendiary" bullets are prohibited, so they have become "tracers." What is in a name?

We shall await your reply to this letter with interest.

Attached please find list of material as requested.

Yours faithfully,

(Signed) JOHN BALL  
(For the Soley Armament Co., Ltd.)

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EXHIBIT No. 261

THE SOLEY ARMAMENT CO., LTD.,  
London, N.W. 1, March 25, 1934.

(Confidential)

The AMERICAN ARMAMENT CORPORATION,  
6 East 45th St., New York, U.S.A.

DEAR SIRS: We have now inspected the fuzes held by our W.O. and we have decided that they are not in any way serviceable, as they are mostly comprised of "rejects" and so could not be relied upon for your purpose. Should, however, there be any serviceable ones available in the future, we will notify you and send samples.

We regret that you have had to wait so long for a reply on this matter, but we must remind you that we cannot push our government departments, and you must consider a certain amount of delay in getting information from us as inevitable.

We must apologize for the mess-up our Liege branch made re the sample carbines, and we will do our best to see that you have no further trouble. They were instructed to pack the single 7.65 carbine separately, also the two sample Springfields sent, but for some stupid reason they were mixed up, the single 7.65 not sent, and the two Springfields packed in case No. S.A.C. 88. The shortage of slings was not reported in time to get them made, and they were included later in the case of samples from London, which should have arrived by now.

Please note that any expense incurred by you on account of our mistakes should always be debited to us.

We have just heard that some of the stock of 7.65 Mauser ammunition was tested last November by a Bolivian officer, Col. Brito, who was not very pleased with the results, and who ordered new ammunition from Imperial Chemical Industries, Ltd., who control Kynochs factory here.

We also hear that Vickers-Armstrong are much annoyed by the persistent competition of Mr. Miranda, Jr., in Bogota, and that he has delayed certain orders for Vickers material. We suppose this will be the question of the Vickers aircraft pilots guns, and you may be sure that Vickers-Armstrong will do all possible to spoil Mr. Miranda's efforts in that direction.

We have also heard from Figuerola, of the International Ordnance and Instrument Co., that he might be able to sell about 100,000 rifles, herewith extract from his letter:

"In reference to the rifles, I have a certain plan with one of my government connections which might materialise into real business, and if this does happen, it is probable that a large amount of your rifles might be used, something between 100,000 and 150,000. Of course the price you have quoted me I have taken into consideration, but I would like to ask you in a confidential way, not to be passed on to anyone else, how far can I go in a transaction of this magnitude as to price?"

Now, the price per rifle we quoted him (in .303) was £3-1-0 with bayonet, scabbard, and sling, f.o.b. London, and we have since informed him that for the quantity mentioned, say 125,000, we should make a cut of 20 percent for cash.

This information is given to you because in the event of such a deal coming off, you would as our U.S.A. agents be covered for a certain amount, although judging from Figuerola's conversation with us, he would be averse to collaborate with yourselves on such a deal, and would desire it to be done from our end in London.

We should, however, fully inform you of developments, and expect you to do your best to help Figuerola, unless you got on to the same business yourselves, for we suppose that Figuerola would not have the monopoly of such a deal, but under no circumstances must you ever disclose any information from others which we pass on to you, for a slight indiscretion can lead to difficulties.

F. was rather anxious to fix up a direct connection with us, and was much disappointed when we informed him that we had already decided to work with yourselves. All the same, he said that he considered you a very able house and that under the circumstances he would accept the position as it was.

For your further information we hear that Brazil has just placed an order for 100,000 Mauser rifles from the factory in Checco-Slovakia at the price of 307 French francs each. We do not yet know who will make the ammunition, but I.C.I. here are tendering for £4-5-0 per 1,000 rounds.

#### SAMPLES

We have sent you the following:

- 2 revolvers, Colt, cal. 455.
- 2 revolvers, Smith & Wesson, cal. 455.
- 2 revolvers, Webley, cal. 455.
- 2 signal pistols, for aircraft, cal. 1½".
- 2 signal pistols, for ground use, cal. 1" (one inch).
- 2 steel helmets, reconditioned.
- 1 parabellum pistol, cal. 9 M/M.

The above can be considered as on loan to you.

We have also included handbooks which may give you useful information; these are gratis.

We attach list of material available in quantities.

Yours faithfully,

THE SOLEY ARMAMENT CO., LTD.,  
JOHN BALL.

EXHIBIT No. 262

FEBRUARY 22, 1934.

THE SOLEY ARMAMENT CO., LTD.,  
8 Park Village East, London, N.W.1.  
(Attention of Mr. John Ball.)

DEAR MR. BALL: We acknowledge receipt of your letters of February 3rd and February 6th and have taken most careful note of their contents. Needless to say, we deeply appreciate the confidence that you are reposing upon us, and we hope that our relations with you will be very profitable and satisfactory to all concerned.

Inasmuch as our company is actually the only company in this country engaged in the manufacture of a general line of armament, that is, ordnance material from 37 mm up, ammunition, aerial bombs, etc., etc., we are receiving very decided assistance from both our War and Navy Departments. They have carefully surveyed our plant to acquaint themselves with our manufacturing facilities, etc., and we are working in very close cooperation with their military and naval authorities. For this reason you can feel absolutely certain that any and all transactions we have will be of such nature as will not be frowned upon by our Government. We have never sold any material to revolutionary parties inasmuch as our business has been built up by dealing with constitutional governments. In Latin America the writer personally and our company are well known, and the governments know that we work in strict accordance with the policies at Washington and that revolutionary parties do not find any assistance or support from us. We count with a splendid organization of field representatives throughout Latin America, firms or individuals of the highest standing and in very close connection with their Governments.

In addition to referring you to the War and Navy Departments of the United States for information regarding our company, if you so desire, we beg to refer you to the following:

American Ordnance Association, Washington, D.C.;  
 Guarantee Trust Company, Fifth Avenue & 44th Street, New York City;  
 Title Guarantee & Trust Company, 6 East 45th Street, New York City;  
 Our manufacturing affiliates, Elevator Supplies Company, Inc., Hoboken,  
 N.J.;

Mr. Frank Johnson, secretary National Pneumatic Company, Graybar  
 Building, New York City;

and many other firms who know us very well and whose names we will be  
 pleased to furnish you upon request. We volunteer this information because  
 we want to give you a feeling of absolute confidence that you have placed the  
 handling of your affairs in this hemisphere in substantial and reliable hands.

With reference to the small sample order for carbines: In accordance with  
 your wishes, upon receipt of your letter we had one of our banks establish a  
 credit in your favor for £164 sterling. Should there be any differential for or  
 against us, please let us know; in other words, if, for some reason or other,  
 the credit that we have established is insufficient we trust that you will forward  
 the shipment without delay and advise us so that we may remit you the  
 check on London.

The information that you give us regarding your stocks is valuable and we  
 are awaiting with great interest the receipt of the leaflets, prints, etc., that  
 you have posted us as per your letter of February 6th.

In the meantime we have cabled you on the 18th, as follows:

"Your letters February third, sixth, extremely interesting. Deeply appreciate  
 appointment as your representative. Assure you we will strictly adhere your  
 policies. Please cable quotation c.i.f. New York, Hotchkiss and Vickers machine  
 guns, infantry pattern, calibre seven point six, five lots fifty guns. If you have  
 ready stocks seven point six five ammunition in good condition, please quote  
 five million rounds and rush us some samples."

The sample carbine order is for the Government of Bolivia. We have been  
 manufacturing artillery material and ammunition and aerial bombs for this  
 Government in very large quantities. They know that we do not manufacture  
 machine guns or rifles, but their relations with us have been so satisfactory  
 that they entrusted us with the work of finding if there was some good material  
 in this category that we could obtain for them.

They are very much interested in the carbines in a lot of 10,000 to 15,000  
 and, also, in about 5,000,000 to 10,000,000 cartridges of their ammunition which  
 is 7.65 mm. They have been buying newly made ammunition from the Remington  
 Company in this country for approximately \$20.00 c.i.f. Chilean or  
 Peruvian ports. They have just placed an order for 5,000,000 rounds but are  
 holding back orders for 5,000,000 to 10,000,000 more rounds. Your quotation  
 for freshly made ammunition as given in your cable of February 21st just  
 received and which amounts to £4-10 per thousand is too high to compete  
 against Remington, but, possibly, we can get some of the business on the basis  
 of the 8,000,000 rounds that you have in stock and on which you quote us £2-5  
 per thousand. We will go to work on this.

With reference to machine guns: They give us to understand that they must  
 have water-cooled machine guns. Our representatives in Las Paz inform us  
 that in the Chaco region where the material is being used the temperature  
 at night is 110°. The Hotchkiss gun, of course, is air-cooled, but nevertheless,  
 we are quoting on both the Hotchkiss and the Vickers guns.

They have recently placed orders for several hundred guns with the Colt  
 Company in this country and have specified the following extras (at an extra  
 charge) with each gun; therefore, will you please, upon receipt of this letter,  
 write us telling us how much is the price of each of these extra items, always  
 figuring your price c.i.f. New York:

#### EXTRAS FOR EACH GUN

- 3 extra barrels.
- 8 extra belts, feed.
- 4 extra boxes, feed.
- 1 belt loading mechanism per 2 guns.
- 2 extra belts complete.
- 2 extra condensers.

On February 19th we cabled you as follows:

"Have urgent inquiry one thousand nine millimeter parabellum or similar  
 pistols. What can you quote c.i.f. New York? Please cable."

The Bolivian Government is in a hurry for 1,000 9 mm parabellum or similar type pistols.

We regret to learn that you only have 200 available and that they are reconditioned short barrels and no shoulder pieces. We surmise that you have nothing else of that type and, therefore, could not quote on anything else. We shall endeavor to try to move the 200 on hand.

Again referring to your letters, it is possible that some very substantial orders might be obtained from such Governments as Bolivia, Peru, Ecuador, and Colombia on the basis of accepting payment for, say, 50% of the value of the contract in national produce or possibly in Government obligations if they fulfill your credit requirements. For instance, we have been negotiating a substantial contract with the Government of Ecuador for artillery and ammunition and they have been very anxious to work out a deal with us on a part-barter basis. With this plan we might be able to dispose to the Government 15,000 or 20,000 rifles, several hundred machine guns, and a few million rounds of ammunition. We will endeavor to get something concrete to place before you in this matter. Peru offers us guano. Would that interest you? Colombia might work out a deal on the basis of emeralds, because they do not wish to disturb their coffee prices in foreign countries by releasing the Government stocks of that produce. Following your suggestion, we will sound out the matter very carefully. In other words, we have never believed in offering terms to any of those governments, for our terms are alike to yours—a deposit with the order and the balance against shipment of the merchandise.

In a few cases we grant credit, but those occasions are rare; therefore, do not be concerned that we will plunge like a bull in a china closet and try to dig up some business on a credit or barter basis. Only in the case where we see that business can be definitely closed on a thoroughly safe basis, but one that will assist the purchasing government by releasing only part cash at time of purchase, will we trouble you with a request for consideration of such transactions. We fully appreciate your remarks as to "hot-air" deals, etc. We find, however, that they usually come from revolutionary parties, political parties, etc., trying to start trouble or by superwise brokers trying to put over a deal with someone else holding the bag.

Your remarks anent greasing the wheels that make the deals go around are very true and we fully appreciate that very often oil must be added to your quotations. In this connection will you make it a point to always quote us your prices net to us c.i.f. New York unless we specifically make a different request?

With reference to the International Ordnance & Instrument Company about which you write us in your letter of February 9th: We know this company very well and we know their managing director, Mr. Figuerola, who, at this time is abroad. They have close connections in Cuba and at times are entrusted with orders from the Cuban Government. We have recently finished a contract with them for artillery ammunition and are very well acquainted with them; therefore we shall pursue your negotiations with them on the subject of revolvers, without undue delay.

With reference to the Export Consolidated Companies mentioned in your letter of February 6th and your original letter from them which you send to us, we also know this firm very well. They, however, do not, in our opinion, have the close contacts that the International Ordnance & Instrument Company have and they are inclined to deal not with recognized governments. We will take up with them the subject of the rifles mentioned and in which they are interested and you can feel certain that we will not participate in any negotiations with them unless we are sure that the material is going to legal and constitutional entities. We shall report to you in the near future the progress of our negotiations with these two companies.

We are now working on a good inquiry from Latin America covering anti-aircraft guns. Of course, the gun that we can manufacture and covered by our negotiations with our customers in Latin America is the standard U.S. three-inch 50-caliber anti-aircraft gun. There is just one difficulty, that our plant capacity is insufficient to handle very large artillery orders on short notice. With the work we have on hand we cannot offer delivery of 12 to 20 three-inch anti-aircraft guns before 10 months, and we are fearful that very

prompt delivery is going to be one of the requisite *sine qua non*. How many three-inch antiaircraft guns could you deliver to us from stock and at what price c.i.f. New York? We can turn out the ammunition quickly and our thought is that if it comes to the point where it is impossible for us to manufacture and deliver the American gun in time, we might save the deal by switching them to the British gun and manufacturing the ammunition. This is very important, and we wish, upon receipt of this letter, you would send us a cable letter, being as specific as possible on the subject.

On the subject of samples, we are going into this matter and you shall hear from us shortly.

We hope you will not be annoyed by our frequent requests for quotations and information, and please be assured that we will not approach you and put you to work on these quotations unless the inquiries really merit it.

With assurance of our esteem, please believe me,

Faithfully yours,

For American Armament Corporation :

A. J. MIRANDA, Jr.

AJM,Jr/NK.

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EXHIBIT No. 263

(Rec. June 29, 1934.)

JOSE MERLA,  
Apartado No. 855,  
HAVANA, June 28, 1934.

SR. DON ALFREDO J. MIRANDA, Jr.,  
New York.

MY DEAR MR. MIRANDA: Yesterday I saw the Commander Tabernilla of the Cabana Fortress, and he had already seen Colonel Batista, and have referred now the matter to another official and very soon we expect some definite results.

The real object of this letter is to ask you about your situation in Santo Domingo.

Mayor Brayton informed me that you had already done some business there and that he had a friend there, but it happens that I have a friend that is very powerful down there, to such an extent that he has already sold them many articles, including steamships, that will give you the idea of his connections.

This connection come through my good friend Mr. Santos Barraque, whom Mayor Brayton knows already. Mr. Barraque is a brother to the president of the Compania Naviero, of Cuba, the only S.S. line in Cuba for local business as well as for traffic between Cuba and Santo Domingo, and this company was the one that sold to Santo Domingo one of his ships in \$62,000 cash.

The man that accomplished this sale is an officer of this company and goes regularly to Santo Domingo every three weeks, and is very close to the President of the Republic and the head of the Army of Santo Domingo, who is a brother-in-law of the President. This friend of ours is more or less a go-between between the S.D. official purchasers and sellers, so we approached him about armament, not knowing exactly where we were in relation to S.D. He liked the idea and asked us that if you are free to do business notify us immediately and we will communicate with him and tell him so, and see what he can sell in material.

For your information to your quotations we shall add 15%, which will cover the "graft" that is supposed to be distributed down there among the various interested parties, and I request that this information you keep confidentially and if you write to S.D. do not mention in your letters, as there is censorship in the mail, all letters going there are opened and read and it will not do us any good if this information will be known down there.

Please notify me by return mail if we can solicit business from S.D. and then we will do the rest.

With kind personal regards, we beg to remain

JOSE MERLA.

Pencil Notation: Our answer 7/2/34.

## EXHIBIT No. 264

## SCHEDULE 1. AMERICAN ARMAMENT CORPORATION BALANCE SHEET, JULY 31, 1934

*Assets*

Cash.....	\$182,608.80
Accounts receivable, Government of Bolivia.....	90,178.40
Advances to Elevator Supplies Co.....	20,298.78
Furniture and fixtures.....	443.86
Designs and patents.....	150.00
Total assets.....	<u>\$302,677.84</u>

*Liabilities and capital*

Customers' deposits on uncompleted orders.....	\$141,428.75
Capital stock:	
Authorized, 500 shares, no par value.....	
Issued, 485 shares, paid in.....	
Surplus.....	161,249.09
Total liabilities and capital.....	<u>\$302,677.84</u>

(Subject to liabilities, not recorded on books, in respect of earned commissions, discount on sales, and unpaid freight.)

## EXHIBIT No. 265

SCHEDULE 2. AMERICAN ARMAMENT CORPORATION STATEMENT OF PROFIT AND LOSS,  
DECEMBER 29, 1933, TO JULY 31, 1934*Gross Profit*

Contracts #1313-1314-1317 (Elevator Supplies Company #29376)  
for the Dominican Republic:

Sales.....	\$24,425.00
Manufacturing cost.....	15,806.06
Profit.....	<u>8,618.94</u>

Contract #1315 (Elevator Supplies Company #29386) for International Ordnance & Instrument Co. (Cuba):

Sales.....	14,000.00
Manufacturing cost.....	11,105.04
Profit.....	<u>2,894.96</u>

Contract #1316 for the Bolivian Government:

Sales.....	975.00
Purchases (from Soley Armament Co.).....	835.17
Sales.....	139.83

Contract #1318 (Elevator Supplies Co. #29399) for the Bolivian Government:

Sales.....	14,412.00
Manufacturing cost.....	8,413.67
Profit.....	<u>5,998.33</u>

*Gross Profit—Continued*

Contract #1319 (Elevator Supplies Company #29400) for the Bolivian Government:

Sales	212,625.00
Manufacturing cost	147,591.26
Profit	65,033.74

Contracts #1320 and 1321 (Elevator Supplies Company #29415) for the Bolivian Government:

Sales	440,688.50
Manufacturing cost of completed articles (schedule)	270,144.63
Profit	170,543.87

Total gross profit (forward) 253,229.67

*Deductions from gross profit*

Ocean freight	\$34,435.32
Cartage	34.17
Engineering salaries	4,517.10
Prints and drawings	237.07
Royalties	250.00
	39,473.06

213,756.01

*Selling expenses*

Commissions, Webster and Ashton, Bolivian agents	26,727.71
Traveling and entertainment	955.66
Samples	181.78
Catalogs	53.75
Advertising	199.00
Miscellaneous	1,659.00
	29,776.90

183,979.11

*General and administrative expenses*

Officers' salaries	9,959.00
Office salaries	5,206.50
Legal fees	2,950.00
Telephone and telegraph	1,473.10
Rent and light	786.63
Office expense	21.19
Stationery	406.43
Postage	536.55
Taxes	20.62
Association dues	2.00
Commission based on volume of business, to Major Brayton	498.34
Sundry	869.68
	22,730.02

Net profit for period 161,249.09

## EXHIBIT No. 266

## SCHEDULE 9—AMERICAN ARMAMENT CORPORATION

[Details of shipping charges by Barr Shipping Corporation, 25 Beaver Street, New York City.]

Order no.	Invoice date	Invoices							C.I.F. and f.a.s., f.o.b. Differential per agree- ment	
		Kind of goods	Freight	Insurance	Notary fee consular blanks	Loading barge hire and towing	Services	Other charges		Total
1316	3/31/34	Rifles	18.00	8.82	6.50			4.18	37.50	37.50
1318	4/21/34 4/18/34	44 c/s sample ammunition.	118.74	158.55	2.75				290.04	1,953.50
1319-A	4/18/34	199 c/s ammunition.	600.55	216.70	2.75			.90	830.90	
1319-B	4/28/34	20 c/s mortars, etc.	196.95	24.06	3.00				229.01	
1319-C	5/11/34	439 c/s ammunition.				151.97			161.97	
1319-D	5/8/34	439 c/s ammunition.	2,000.00	476.45	3.00		10.00		2,489.45	
1319-E	5/19/34	2 c/s material.	18.05	4.13	3.00		5.00		30.18	
1319-F	5/28/34	628 c/s ammunition.	2,000.00	662.85	3.00	174.90	10.00		2,880.75	
1319-G	5/28/34	4 c/s mortars.	40.55	7.23	3.00		5.00		65.78	
1320-A	5/19/34	(1736 c/s shells, bombs, etc.)	4,622.22	1,636.20	3.00	386.33	50.00		6,697.75	71,221.13
1320-B	6/29/34	9 c/s mortars.	126.56	43.94	3.00		5.00		178.50	
1321-A										
1320-A										
1319-I, J	8/6/34	(3278 c/s aerial bombs, ammunition, etc.)	9,757.23	4,049.20	3.00		100.00		13,909.43	
1320-C										
1321-B			19,498.85	7,318.13	36.00	713.20	210.00	5.06	27,781.26	73,212.13

Freight, etc., on unshipped part of above orders:

9150 shells and dift.

2000 hand grenades

4,028.00

500.00

4,528.00

68,684.13

27,781.26

40,904.87

Total amount of invoices rendered, as above.

Indicated profit to Barr Shipping Corporation.



## EXHIBIT No. 267

SCHEDULE 4—AMERICAN ARMAMENT CORPORATION—CONTRACTS AND SHIPMENTS  
APPLICABLE THERETO DECEMBER 1933 TO JULY 31, 1934

Contracts		Shipments	
Date	Amount	Date	Amount
<i>(#1313—E.S. #29376)</i>			
12-2-33. Dominican Republic:			
3—1 pd. guns at.....	\$1,550.00	12-7-33.....	\$2,310.00
1,500 rds. ammunition, at.....	3.80	12-20-33.....	8,040.00
	\$10,350.00		10,350.00
<i>(#1314—E.S. #29376)</i>			
12-8-33. Dominican Republic:			
4—37 mm guns, at.....	2,500.00		
1,000 rds. ammunition, at.....	3.80	3-16-34.....	13,800.00
	13,800.00		
<i>(#1315—E.S. #29386)</i>			
1-3-34. International Ordnance & Instrument Co. (for Cuba):			
400 rds. ammunition, 3 inch, at.....	15.50		
200 rds. ammunition, 37 mm, at.....	4.00	2-19-34.....	14,000.00
500 shells 75 mm, at.....	14.00		
	14,000.00		
<i>(#1317—E.S. #29376)</i>			
1-7-34. Dominican Republic:			
100—37 mm saluting blanks.....	250.00	1-10-34.....	275.00
100 extra primers.....	25.00		
	275.00		
<i>(#1316)</i>			
1-26-34. Bolivian Government:			
50 Lee-Enfield carbines, 7.65 mm.....	975.00	3-30-34.....	975.00
<i>(#1318—E.S. #29399)</i>			
1-30-34. Bolivian Government:			
50 rds. h. ex. amm. for each of—			
Vickers 65 mm.....			
Vickers Field 75 mm.....			
Vickers Mount 75 mm.....			
Vickers howitzer B.....	105.00		
Vickers howitzer, at.....	105.00	4-16-34.....	14,412.00
	14,412.00		
<i>(#1319—E. S. #29400)</i>			
2-12-34. Bolivian Government:			
15—105 mm Stokes Brandt mortars, at.....	375.00	4-16-34.....	19,701.00
15,000 h. ex. shells, at.....	11.00	4-27-34.....	3,750.00
3,000 h. ex. shells, at.....	14.00	5-5-34.....	43,311.00
	212,625.00	5-18-34.....	750.00
		5-24-34.....	60,984.00
		5-25-34.....	1,125.00
		6-14-34.....	69,774.00
		7-31-34.....	13,230.00
			212,625.00
<i>(#1320—E. S. #29415)</i>			
4-12-34. Bolivian Government:			
30—47 mm mortars, at.....	190.00	6-14-34.....	74,601.00
10,000—47 mm shells, at.....	5.66	6-15-34.....	6,840.00
1,000—30# frag. bombs, at.....	25.75	7-31-34.....	83,934.00
400—100# frag. bombs, at.....	54.00		
400—120 dem. bombs, at.....	60.75		
100—300 dem. bombs, at.....	154.25		
50—600 dem. bombs, at.....	209.00		
2,000 hand grenades, at.....	1.40		
	168,265.00		165,465.00

**SCHEDULE 4—AMERICAN ARMAMENT CORPORATION—CONTRACTS AND SHIPMENTS**  
**APPLICABLE THERETO DECEMBER 1933 TO JULY 31, 1934—Continued**

Contracts		Shipments	
Date	Amount	Date	Amount
(\$1321—E. S. #29415)			
4-23-34. Bolivian Government:			
20,000—47 mm shells, at.....	\$5.66		
1,000—30# frag. bombs, at.....	25.75		
500—100# frag. bombs, at.....	54.00		
500—120 dem. bombs, at.....	60.75		
350—300 dem. bombs, at.....	154.25		
150—600 dem. bombs, at.....	299.00		
650—50 tear-gas bombs, at.....	49.00		
	\$327,012.50	6-14-34.....	\$4,279.00
		7-31-34.....	270,944.50
			<u>275,223.50</u>
(\$1322—E. S. #29400)			
5-25-34. Bolivian Government:			
5,000—105 mm N. C. shells, at.....	11.00		
3,000—105 mm H. C. shells, at.....	14.00		
	97,000.00		
(Fifth Bolivian contract)			
5-25-34. Bolivian Government (see schedule 5 for details)....	2,043,562.50		
Total to 7-31-34.....	2,902,277.00		707,123.50





DEC 19 1934

# MUNITIONS INDUSTRY

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## HEARINGS

BEFORE THE

SPECIAL COMMITTEE

INVESTIGATING THE MUNITIONS INDUSTRY

UNITED STATES SENATE

SEVENTY-THIRD CONGRESS

PURSUANT TO

### S. Res. 206

A RESOLUTION TO MAKE CERTAIN INVESTIGATIONS  
CONCERNING THE MANUFACTURE AND SALE  
OF ARMS AND OTHER WAR MUNITIONS

---

#### PART 4

SEPTEMBER 10, 11, AND 12, 1934

CURTISS-WRIGHT EXPORT CORPORATION

---

Printed for the use of the  
Special Committee Investigating the Munitions Industry



UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1934



# MUNITIONS INDUSTRY

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## HEARINGS BEFORE THE SPECIAL COMMITTEE INVESTIGATING THE MUNITIONS INDUSTRY UNITED STATES SENATE SEVENTY-THIRD CONGRESS

PURSUANT TO

### S. Res. 206

A RESOLUTION TO MAKE CERTAIN INVESTIGATIONS  
CONCERNING THE MANUFACTURE AND SALE  
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UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1934

**SPECIAL COMMITTEE INVESTIGATING THE MUNITIONS INDUSTRY**

**GERALD P. NYE**, North Dakota, *Chairman*

**WALTER F. GEORGE**, Georgia

**ARTHUR H. VANDENBERG**, Michigan

**BENNETT CHAMP CLARK**, Missouri

**W. WARREN BARBOUR**, New Jersey

**HOMER T. BONE**, Washington

**JAMES P. POPE**, Idaho

**STEPHEN RAUSHENBUSH**, *Secretary*

**II**



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# INVESTIGATION OF MUNITIONS INDUSTRY

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MONDAY, SEPTEMBER 10, 1934

UNITED STATES SENATE,  
SPECIAL COMMITTEE TO INVESTIGATE  
THE MUNITIONS INDUSTRY,  
*Washington, D. C.*

The hearing was resumed at 10 a. m. in the caucus room, Senate Office Building, pursuant to taking of recess, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), George, Clark, Bone, Pope, and Vandenberg.

Also present: Alger Hiss, investigator.

## TESTIMONY OF JOHN S. ALLARD

(The witness was duly sworn by the Chairman.)

The CHAIRMAN. Your full name, please.

Mr. ALLARD. John S. Allard.

The CHAIRMAN. What is your connection with the Curtiss-Wright Export Corporation?

Mr. ALLARD. I am president.

The CHAIRMAN. For the information of those present, Mr. Hiss, one of the committee's staff, will proceed with the examination of Mr. Allard. Proceed, Hr. Hiss.

## CORPORATE ORGANIZATION OF CURTISS-WRIGHT COMPANIES

Mr. HISS. Mr. Allard, as I understand it, the Curtiss-Wright Export Corporation, of which you are president, is the selling agent for foreign sales of the Curtiss-Wright Companies, engaged in the manufacture of airplanes and airplane engines, is that correct?

Mr. ALLARD. That is correct.

Mr. HISS. The principal subsidiaries of the Curtiss-Wright Corporation, which is the parent of your company, are the Curtiss Airplane & Motor Co. of Buffalo, which manufactures planes, is that correct?

Mr. ALLARD. That is correct.

Mr. HISS. The Wright Aeronautical Corporation of Paterson, New Jersey, which manufactures engines?

Mr. ALLARD. That is correct.

Mr. HISS. The Curtiss-Wright Airplane Co., of St. Louis, which manufactures planes?

Mr. ALLARD. That is correct.

Mr. HISS. The Curtiss-Wright Airports Corporation which owns a series of airports and runs subsidiary corporations?

Mr. ALLARD. That is correct.

Mr. HISS. The Curtiss-Caproni Corporation which has a plant in Baltimore which has been rented to the General Aviation Corporation at the present time?

Mr. ALLARD. It has been up to the present time. I think they are through now.

Mr. HISS. Then, in addition, the Keystone Aircraft Corporation of Bristol, Pa., which is at present shut down; is that correct?

Mr. ALLARD. That is correct.

Mr. HISS. What interest does your company consider, or do the Curtiss-Wright Companies consider, as the major stockholder of the parent corporation, the Curtiss-Wright Corporation?

Mr. ALLARD. I have no idea who the major stockholders are.

Mr. HISS. The committee was furnished with a list of the Curtiss-Wright Co.'s stockholders, that is of those having over 5,000 shares, the majority of whom are brokerage houses carrying stock for customers.

Mr. ALLARD. That is right.

Mr. HISS. We made inquiries of those brokerage houses, asking for whom they held stock and we found that Mr. Richard F. Hoyt, who is chairman of the board of the parent corporation, the Curtiss-Wright Corporation—?

Mr. ALLARD. That is right.

Mr. HISS. Holds some 28,000 of the class A stock. Will you explain to the committee which of the two classes of stock of the parent corporation is the voting stock, the common or the class A?

Mr. ALLARD. I honestly don't know. I think class A, but I will have to check that and furnish the information.

Mr. HISS. Is there someone here who can furnish that information?

Mr. ALLARD. I think, Mr. Hotchkiss.

Mr. HOTCHKISS. I will be glad to furnish you the certificates on that. It is common and class A stock.

The CHAIRMAN. Why don't you sit right here, Mr. Hotchkiss, and if Mr. Allard cannot give the information, you may be prepared to give it for him.

### TESTIMONY OF HENRY G. HOTCHKISS

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Give the reporter your full name, please.

Mr. HOTCHKISS. My full name is Henry G. Hotchkiss.

The CHAIRMAN. And your connection with the Curtiss-Wright Co.?

Mr. HOTCHKISS. Counsel.

Mr. HISS. Mr. Hotchkiss, you say that both class A and the common stock of the Curtiss-Wright Co., the parent corporation, have voting rights?

Mr. HOTCHKISS. Yes, sir.

Senator BONE. Do they have equal voting rights?

Mr. HOTCHKISS. Yes; one vote to each share.

Mr. HISS. Mr. Allard, if this statement is correct, that Richard F. Hoyt owns 28,107 shares of class A stock; that Mr. Hugh D. Auchincloss owns 20,000 shares of common stock and 5,000 shares of class A stock; that Mr. Donald R. McLennan holds 25,204 shares of common stock and 5,601 shares of class A stock; that there is one additional shareholder holding approximately 25,000 shares, and that is Mr. H. Harrison Smith, who holds 24,611 shares of the class A stock; that the other shareholders all hold 15,000 or less shares, and the great majority hold considerably less, with the exception of one shareholder, Mr. John Sanderson, who holds, on behalf of the Sperry Corporation, 365,951 shares of the common stock and 98,132 shares of class A stock; then that is the largest block of stock, and seems, in view of the wide-spread holdings of the rest of the stock, to represent a controlling interest. Do you consider that the Sperry Corporation's holdings in the Curtiss-Wright Co. are a controlling interest?<sup>1</sup>

Mr. ALLARD. No; I should say not, not in any sense of the word.

Mr. HISS. I would like to call your attention to some of the directors who are on the Curtiss-Wright Corporation board and also on the Sperry Corporation board. Mr. G. N. Armsby, who is chairman of the board of directors of the Sperry Corporation, is a member of the board of directors of the Curtiss-Wright Corporation and all of the subsidiaries.

Mr. ALLARD. I know he is of most of the subsidiaries of the parent corporation, but I do not know whether he is on all of them or not.

Mr. HISS. Mr. T. A. Morgan, who is president of the parent corporation, is also president of the Sperry Corporation, is he not?

Mr. ALLARD. That is correct.

Mr. HISS. I have a chart, Mr. Chairman, I think may be helpful on this question of control, which I would like to ask the witness a few questions about. I think probably it is wisest to set it there. That chart, Mr. Allard, is supposed to represent the interest of the General Motors Corporation in various airplane manufacturing companies.

The CHAIRMAN. Mr. Hiss, before you start in on that, I would suggest that the exhibit be offered for the record.

Mr. HISS. I would like to have this chart offered as an Exhibit for the record.

(The chart referred to was marked "Exhibit No. 268", and appears in the appendix facing p. 859.)

Mr. HISS. You will notice, Mr. Allard, that the du Pont Co., through a wholly owned subsidiary of the du Pont Co., has a 28 percent interest in the General Motors Co. stock. That appears in the 1933 annual report of the du Pont Co. The General Motors Corporation, in turn, has 48 percent of the stock of the General Aviation Corporation. General Aviation Corporation and General Motors Corporation together own 52 percent of the stock of North American Aviation. All of the stock of the Sperry Corporation has been distributed to trustees under a voting-trust agreement and the certificates of the voting-trust agreement have been distributed to the stockholders of the North American Co., which means that

<sup>1</sup> The list of stockholders in Curtiss-Wright was marked "Exhibit No. 268-A" and is on file with the committee.

the stockholders of North American Aviation control the Sperry Corporation through the voting trust. Is that correct?

Mr. ALLARD. As you stated it; yes.

Mr. HISS. The Sperry Corporation, as I stated before, owns 365,951 shares of the Curtiss-Wright parent corporation, which is shown to the right of this chart, which has been made an exhibit.

Mr. ALLARD. Yes.

Senator BONE. Is that control?

Mr. ALLARD. No, sir.

Mr. HISS. Mr. Allard thinks that is not a controlling interest, and I pointed out that the president of the Sperry Corporation, T. A. Morgan, is also the president of the Curtiss-Wright Corporation, and that G. N. Armsby, the chairman of the Sperry board, is also on the Curtiss-Wright board.

Now, Mr. Allard, Mr. Armsby, who is on the board of the Curtiss-Wright parent corporation, has been or is now a director of the North American Aviation. Mr. J. C. Cowdin, who is a member of the board of directors of the Curtiss-Wright Corporation and many of its subsidiaries, has also at one time or another been on the board of the North American Aviation.

Mr. E. A. Pierce, who is a member of the Curtiss-Wright parent corporation board, is on the board of directors of the North American Co.

Mr. ALLARD. No, sir.

Mr. HISS. He has been until recently?

Mr. ALLARD. Not to my knowledge.

Mr. HISS. Mr. J. C. Willson is a member of the board of the Curtiss-Wright Corporation?

Mr. ALLARD. Yes.

Mr. HISS. He has, according to the Black committee, at one time or other been a member of the board of directors of the North American Aviation also?

Mr. ALLARD. Yes, sir.

Mr. HISS. I would like to call the attention of the committee to the Douglas Aircraft Co., which also makes planes—25 percent of its stock is held by North American Corporation. The Douglas Aircraft Company you consider one of your competitors, Mr. Allard?

Mr. ALLARD. Yes, sir.

Mr. HISS. Mr. J. C. Cowdin is also a member of the board of directors of the Douglas Corporation, according to Moody's, and he is a director of the Curtiss-Wright Corporation.

Mr. HOTCHKISS. Mr. Chairman, might I say with reference to the Exhibit which has been offered as No. 268, if you do not mind, it appears from the outline there that the North American Aviation, Inc., as such owns stock in the parent corporation as such. I simply want that understood, and I want the examiner, Mr. Hiss, to understand that the stock of the Sperry Corporation has been distributed by certificates to the stockholders of North American Corporation.

Mr. HISS. To the stockholders of North American, which controls the Sperry Corporation through a trust arrangement?

Mr. HOTCHKISS. That is correct.

Mr. HISS. Of the stock of the North American Corporation, 52 percent is owned by General Motors and General Aircraft.

Mr. HOTCHKISS. I have no knowledge of that.

## SALES OF MILITARY MATERIAL

Mr. HISS. Mr. Allard, as to the Curtiss-Wright Co's sales through your companies of airplane engines and equipment, they are all primarily for military purposes, are they not?

Mr. ALLARD. The majority of them; yes.

Mr. HISS. For example, from figures furnished the committee by your company, it appears that during the period 1932 to April 30, 1934, out of a total number of planes sold by your company, numbering 179, only 8 are listed by your company as commercial planes. Two of those are listed as being sold in 1933 to Germany and they are described as Hawks. What type of plane is the Hawk?

Mr. ALLARD. That is a single-seat plane that can be used for acrobatic purposes, stunting, and is probably the best plane in the world for that purpose, used by Al Williams and Jimmy Doolittle, and people like that, for acrobatic purposes.

Mr. HISS. You sell it primarily to governments as a pursuit plane?

Mr. ALLARD. Not with the same type of equipment and construction, as a pursuit plane.

Mr. HISS. In what way do the two planes your company has referred to as Hawks differ in construction from the Hawk planes you sell as pursuit planes?

Mr. ALLARD. The absolute lack of any military equipment or arrangement for military equipment.

Mr. HISS. Could that be added, or was there any fundamental difference in the underlying structure?

Mr. ALLARD. Considerable difference. It could be, after a great deal of expense in sending it back to the factory here, added if necessary, but it could not be done in the field.

Mr. HISS. Is it not true that a great many commercial planes are convertible into military-purpose planes?

Mr. ALLARD. I believe any commercial plane can be used for military purposes, but not as efficiently, necessarily.

Mr. HISS. I should like to call your attention to a letter dated March 23, 1934, from your company's agents in Mexico—Watson, Phillips & Cia. You will see in the third paragraph there that the letter says:

We note that we are allowed the agency solely for military airplanes and engines, and that no mention is made of civil machines. Although it is scarcely likely that we may obtain an order for civil airplanes, we presume you will have no objection to our soliciting same, should opportunity offer.

That is correct as far as your company is concerned that your agencies abroad are primarily interested in making sales of military planes and that the market is primarily a military market?

Mr. ALLARD. I state this, that the market is primarily a military market but our agencies have both the right where it is possible to give the right to one outfit, to sell both commercial and military. In this particular instance we had another man selling commercial planes in Mexico.

Mr. HISS. I offer this letter as "Exhibit No. 269,"

(The letter referred to was marked "Exhibit No. 269", and is included in the appendix on p. 859.)

The CHAIRMAN. Would an inquiry of Mr. Allard at this time be out of order?

Mr. HISS. Certainly not.

The CHAIRMAN. Mr. Allard, you spoke of planes being potentially for war use.

Mr. ALLARD. Yes, sir.

The CHAIRMAN. We are to understand from that, are we, that to some degree, however great or however small, but to some degree nevertheless, all of these planes that are engaged in air-mail service could be utilized in time of war for war purposes?

Mr. ALLARD. Yes; that is purely an opinion of mine that they could.

The CHAIRMAN. Are there divergent opinions in the industry on that subject?

Mr. ALLARD. I do not know, I am sure.

Mr. HISS. I would like also to call attention to a letter written last February, 1934, addressed to you, from Mr. Bruce Leighton, signed "Bruce", I judge that is Mr. Bruce Leighton?

Mr. ALLARD. That is right.

Mr. HISS. Mr. Leighton is vice president of your company?

Mr. ALLARD. That is correct.

Mr. HISS. And is your European sales representative?

Mr. ALLARD. Yes; at the present time.

Mr. HISS. On the second page of this letter, which refers to sales of European planes in general, that is, planes in Europe, Mr. Leighton says:

When you sell airplanes in Europe you deal with governments. You are dealing in military equipment, which is invariably and popularly looked upon as vital to the personal safety of every individual.

Then he adds:

Remember that in Europe civil air transports are usually looked upon as military planes in disguise.

Then he repeats at a later part of the letter bringing out the same point, where he says:

What are the sales arguments to keep Condors there?

They are one of the largest planes your company builds?

Mr. ALLARD. That is right.

Mr. HISS. And they are used for large bombers, as well as transport planes?

Mr. ALLARD. Yes.

Mr. HISS. Continuing, the letter says:

What are the sales arguments to keep Condors in the picture in the face of certain Douglas competition and existing United competition?

That is United Aircraft Co.?

Mr. ALLARD. Yes, sir.

Mr. HISS. And then he continues:

Both of which have materially higher specifications to offer and hence appeal to the military elements strongly. (Don't forget that European transport planes are in reality considered merely as bombers in disguise).

The CHAIRMAN. I suggest we would expedite matters considerably if you would make it clear that each letter you introduce is to be an exhibit and whether it is to be made a part of the record or not.



Mr. HISS. It has been my intention in all of these copies handed to the witness, that they shall actually go in the record unless the committee decides otherwise.

The CHAIRMAN. Very well, the reporter will understand that.

Mr. HISS. I offer the letter referred to as "Exhibit No. 270."

(The letter referred to was marked "Exhibit No. 270", and is included in the appendix on p. 860.)

Mr. HISS. Mr. Allard, your company has, I believe, one employee referred to as an "armament engineer": is that correct?

Mr. ALLARD. No; that is not correct.

Mr. HISS. I show you a letter dated May 29, 1934, from Mr. Hewlett to Mr. Escobar, which letter I offer in evidence.

(The letter referred to was marked "Exhibit No. 271", and is included in the appendix on p. 865.)

Mr. HISS. Is the Mr. Hewlett who signed that letter an officer of the corporation?

Mr. ALLARD. No; he is an employee.

Mr. HISS. The letter is addressed to Mr. Roberto Escobar, and he is, I believe, Consul General of Colombia, in New York.

Mr. ALLARD. I think he is. I am not sure of the country, but I believe that is it.

Mr. HISS. You will notice that in the first paragraph it refers to the installation of the Driggs 37 mm airplane gun on a Hawk plane, and Mr. Trimbach, your armament engineer has submitted a report.

Mr. ALLARD. Mr. Trimbach is an employee of the Curtiss Airplane & Motor Co. and not of the Export Co. I misunderstood your question when I answered the Export Co. has no such officer.

Mr. HISS. May I call attention to a letter dated March 31, 1934, which I offer in evidence.

(The letter referred to was marked "Exhibit No. 272", and is included in the appendix on p. 866.)

Mr. HISS. This letter, "Exhibit No. 272", appears to be from William J. Crosswell; he is an employee of your company?

Mr. ALLARD. No; he is an employee of the Curtiss Airplane & Motor Co.

Mr. HISS. The letter is written to Mr. Hewlett who is an employee of your company, I believe?

Mr. ALLARD. Yes.

Mr. HISS. In the course of the letter Mr. Crosswell refers to a discussion with Lt. Comdr. Hugh Sease—he is an officer of the United States Navy?

Mr. ALLARD. I do not know Commander Sease, whether he is an active officer or retired.

Mr. HISS. In this letter he refers to a new light machine gun which has been developed and Mr. Crosswell says to Mr. Hewlett in this letter addressed to "Dear Parm" the following [reading]:

While he was talking it occurred to me that perhaps it would be good to have the dope on this gun in case we should ever wish to build a flying arsenal for export sale with say six guns forward which we could do more readily with a smaller gun.

Your company is continually experimenting with new types of military planes?

Mr. ALLARD. No; I would not say our company was.

Mr. HISS. I beg your pardon, the Curtiss-Wright operating companies, the manufacturing companies.

Mr. ALLARD. The manufacturing companies, undoubtedly; yes.

Mr. HISS. I show you a letter dated February 25, 1932, from Mr. Goulding who signed himself as vice president of the Curtiss-Wright Export Corporation.

Mr. ALLARD. That is correct.

Mr. HISS. I offer this letter in evidence.

(The letter referred to was marked "Exhibit No. 273", and is included in the appendix on p. 867.)

Mr. HISS. In this letter Mr. Goulding made this statement with reference to a Keystone bomber—the Keystone bomber was a large bomber which you made in those days?

Mr. ALLARD. Yes, sir; at the Keystone plant in Bristol.

Mr. HISS. The statement is as follows [reading]:

This plane powered with a Cyclone engine is used extensively by the United States Army Air Corps, and we are just completing at our factory at Bristol, Pa., a large contract of these planes for the United States Army. This plane can carry over two thousand pounds of bombs and is, therefore, a formidable offensive weapon.

The CHAIRMAN. We suggest, Mr. Hiss, as you go along, for the benefit of the record that you identify the exhibit before quoting any of it to the witness.

Mr. HISS. In addition to making planes you sold equipment or armament for many of the planes; that is correct, is it not?

Mr. ALLARD. That is correct.

Mr. HISS. Does your company not also sell munitions, as agent for other companies, which munitions are not an actual part of the planes you sell?

Mr. ALLARD. Well, yes; we sell bombs and machine-gun bullets as a part of the equipment. The gun is no good without the ammunition and the bomb racks in the airplane are no good without the bombs.

Mr. HISS. The Intercontinent Co. referred to in this correspondence has what relation to your company or the parent company?

Mr. ALLARD. The only connection it has with the Export Co. is our agent for sales in China.

Mr. HISS. It is your agent for sales in China?

Mr. ALLARD. Yes.

Mr. HISS. Seventy-four percent of its stock is held by the Sperry Corporation?

Mr. ALLARD. I do not know that to be a fact.

Mr. HISS. That is the statement from Moody's Manual.

Mr. ALLARD. Yes.

Mr. HISS. Your company, according to a letter in your files, has since January 6, 1933, been the agent for the Remington Co.

Mr. ALLARD. I do not know that to be a fact.

Mr. HISS. I show you a letter dated March 4, 1933, written by Curtiss-Wright Export Corporation, by Owen Shannon, which letter I offer as an exhibit.

(The letter referred to was marked "Exhibit No. 274", and is included in the appendix on p. 868.)

Mr. HISS. Was Mr. Shannon at that time an official of the corporation?

Mr. ALLARD. No; an employee.

Mr. HISS. The letter is written to Mr. E. J. Faucett. Was Mr. Faucett your company's representative in Peru at that time?

Mr. ALLARD. I do not recall whether he was an actual representative, but he may have been at that time. Mr. Faucett has been a representative for us.

Mr. HISS. In this letter you tell Mr. Faucett you will send him by the next air mail complete prices on all sizes of loaded and unloaded bombs, cartridges, and so forth, and that perhaps he could get the Peru Government to place a substantial order for such equipment to be sent on such special sailing. That would be in addition to any complement of bombs you sold?

Mr. ALLARD. Yes; I do not mean to imply that we sell bombs as part of the complement of the airplanes, but they are airplane bombs and airplane cartridges.

Mr. HISS. I call your attention to this letter dated January 6, 1933, taken from the files of your company, signed by F. J. Monaghan of the Remington Arms Co. to Mr. Pawley who was then with the Curtiss-Wright Corporation, and I believe he is the president of the Intercontinent Aviation Corporation?

Mr. ALLARD. Yes.

Mr. HISS. I offer this letter in evidence.

(The letter referred to was marked "Exhibit No. 275", and appears in the appendix on p. 868.)

Mr. HISS. You will see that letter says [reading]:

We confirm our conversation with you today in respect to the ideas you discussed on behalf of your company to represent us in the sale of our military rifles and ammunition to the Chinese Government.

Mr. ALLARD. That is right.

Mr. HISS. Military rifles are not a part of a plane equipment?

Mr. ALLARD. Not at all.

Mr. HISS. In January your company was representing the Remington Co. for material not used as equipment for planes?

Mr. ALLARD. That is right.

Mr. HISS. Now, your company has purchased bombs from the Federal Laboratories Co. and from the Lake Erie Chemical Co.; has it not?

Mr. ALLARD. Yes.

Mr. HISS. On August 6, 1932, the Federal Laboratories Co. notified your company that if you bought muzzle-loaded rifled mortars from the Lake Erie Co. you would be violating the patents of the Federal Laboratories Co., if you sold rifled mortars.

Mr. ALLARD. I do not know.

Mr. HISS. Have you carried out negotiations looking to their sale?

Mr. ALLARD. We may have been requested to make quotations; but referring back to your previous question, you asked whether we had sold any other than aviation equipment. I should say we have made quotations on other equipment, but have not consummated sales.

Mr. HISS. I am pretty sure that you have made sales.

I show you a letter dated August 13, 1932, Mr. Allard, from the Federal Laboratories, Inc., to Mr. Shannon, whom you have

identified as an employee of your company, which gives your company the exclusive representation on smoke-screen and gas attachments for airplanes and on aerial bombs in Argentina, Colombia, Chile, Ecuador, Panama, and Turkey; that is, the products of the Federal Laboratories.

(The letter referred to was marked "Exhibit No. 276" and is included in the appendix on p. 869.)

Mr. HISS. This "Exhibit No. 276", which I have called to your attention, came from the files of the Federal Laboratories Co., did it not?

Mr. ALLARD. Yes, sir.

Mr. HISS. And was sent to your company?

Mr. ALLARD. Yes, sir.

Mr. HISS. Is that agreement in force?

Mr. ALLARD. I do not know. I frankly do not know.

Mr. HISS. Can you find out?

Mr. HOTCHKISS. Suppose we check our records and find out. Do you want that produced?

Mr. HISS. Yes, sir.<sup>1</sup>

Has your company ever made any sales or any negotiations for flame throwers; that is, liquid fire?

Mr. ALLARD. Not to my knowledge; no.

Mr. HISS. Here is a letter under date of March 9, 1932, from the Federal Laboratories, Inc., signed apparently by the president, bearing the initials J.W.Y., which I believe refers to Mr. John W. Young, of the Federal Laboratories Co., addressed to the Curtiss-Wright Export Corporation, attention of Mr. Shannon.

Mr. ALLARD. That is right.

Mr. HISS. That letter will be "Exhibit No. 277."

(The letter referred to was marked "Exhibit No. 277" and is included in the appendix on p. 869.)

Mr. HISS. That letter, exhibit no. 277, reads as follows:

Replying to your letter of February 23 relative to flamethrower, please be advised that inasmuch as we have only had one inquiry for this from Turkey, we prefer making flame throwers only on request. We do not believe there would be a popular demand for the product sufficient to warrant our developing it and pushing it as we have our other products.

Mr. ALLARD. I should think not.

Senator BONE. Is there a popular demand, Mr. Allard, for war products? Of any kind?

Mr. ALLARD. I would not say that there was for any kind of war products.

Senator BONE. How could you throw flames from an airplane?

Mr. ALLARD. I have not any idea. I never heard of a flame thrower from an airplane. The only flame thrower I heard of was in the last World War.

Mr. HISS. Has your firm had quotations on tanks?

Mr. ALLARD. I do not know. The records would show that.

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<sup>1</sup> In response to the above request, Mr. Allard informed the committee on Nov. 3, 1934, as follows: "The Export Co. did not sign the agreement from Federal Laboratories dated Aug. 13, 1932 (Exhibit No. 276), or a subsequent agreement submitted to the Export Co. However, the Export Co. did have an understanding with Federal Laboratories in 1932 that the Export Co. was to handle Federal Laboratories' smoke-screen equipment in Argentina. The Export Co. sold two of these to the Argentine Government for experimental purposes."

Mr. HISS. Just to refresh your memory, here is a letter of October 1, 1932, written to Mr. J. W. Young of the Federal Laboratories, Inc., Pittsburgh, Pa., signed by Curtiss-Wright Export Corporation, by Mr. Owen Shannon, which I will offer as "Exhibit No. 278."

(The letter referred to was marked "Exhibit No. 278.")

Mr. HISS. That letter, "Exhibit No. 278", reads as follows:

DEAR MR. YOUNG: I was very much surprised when I telephoned your office this morning to find that you had returned to Pittsburgh without leaving a message for me regarding the tank.

I was even more surprised when I talked with the Bolivian consul and he told me confidentially he had already been quoted a price of \$34,000 on this particular tank.

I would appreciate your telephoning me Monday morning just what we can do about offering this or any other tanks to Bolivia.

Mr. ALLARD. The letter speaks for itself.

Mr. HISS. Does your company represent the Colt Fire Arms Co. for the sale of any firearms as a part of planes or not as a component part of planes sold by yourself?

Mr. ALLARD. No; I do not think so.

Mr. HISS. To refresh your memory, I call your attention to a letter of February 23, 1933, from Mr. Goulding, of your company, to Mr. F. C. Nichols, who I believe is a vice president of the Colt Patent Fire Arms Manufacturing Co. [handing paper to witness].

Mr. ALLARD. Yes, sir.

(The letter referred to was marked "Exhibit No. 279" and is included in the appendix on p. 870.)

Mr. HISS. That letter reads in part as follows:

We have been actively, through our China representative, pushing the sale of our equipment in the Canton section, with the result that we now have, and are holding subject to the issuance of export license, an order for ten of your guns. This would, I think, convince you of the active steps we are taking to develop sales for your products in China.

Mr. ALLARD. I think that refers to airplane guns, ten guns.

Mr. HISS (reading).

You appreciate, I believe, the letter goes on to state,

the disadvantage of several people offering the same customer the same article. It always leads to confusion on the part of the customer, with the result that some one else usually gets the business. We hope, therefore, that you will in the future work through us exclusively in China.

Mr. ALLARD. Correct; on airplane equipment.

Senator POPE. What position does Mr. Goulding hold?

Mr. ALLARD. Vice president of the Export Co.

Senator BONE. Do you know what concern owns the Colt Patent Fire Arms Manufacturing Co.

Mr. ALLARD. No; I do not.

Senator BONE. The stock control is vested in some one of the bigger companies, is it not?

Mr. ALLARD. Not to my knowledge. I do not know anything about it.

The CHAIRMAN. Do we have any information, Mr. HISS, as to the ownership of the Colt Co.

Mr. HISS. No, we have not. As to the Remington Co., as to which a prior letter was put in, the record shows that the Curtiss-Wright Export Co. is their agent in China, and we do have information that they are one of the subsidiaries of the du Pont Co.

The CHAIRMAN. It is the view or impression of those here around the table that the DuPonts are very heavy owners of Colt.

Mr. HISS. I have no information at the present time.

Also on this question of your relations with the Colt Co. I introduce a letter of October 21, 1932, from Mr. Nichols, who signs himself as a vice president of the Colt's Patent Fire Arms Manufacturing Co., addressed to the Curtiss-Wright Export Corporation, attention of Mr. O. A. Shannon. That will be "Exhibit No. 280."

(The letter referred to was marked "Exhibit No. 280" and is included in the appendix on p. 870.)

Mr. HISS. That letter reads in part as follows:

As to your offering the arms referred to, you are at liberty to negotiate in Peru and Bolivia, Turkey after Jan. 15, 1933, and regarding China and Japan, we cannot at this writing include these markets, but should anything transpire whereby our joint interests would be served through your offering quotations, if you will duly notify us in advance we will endeavor to afford you every assistance and protection possible.

Then the next paragraph, you will note, particularly, reads as follows:

On any business you might obtain from the governments named, we would allow you a confidential commission of 5 percent; this of course does not include aircraft guns to be mounted on your planes; regarding which you already enjoy a confidential arrangement.

Mr. ALLARD. Yes, sir.

Mr. HISS. I judge from that that your company represents the Colt Co. or has a commission understanding.

Mr. ALLARD. That is correct. It is not an agency agreement, as I understood your question.

Mr. HISS. But you have a commission understanding?

Mr. ALLARD. That is correct.

Mr. HISS. That you may represent them?

Mr. ALLARD. Yes, sir.

Mr. HISS. And if you do sell any of their equipment, other than for planes, you receive a confidential commission?

Mr. ALLARD. That is correct.

Senator POPE. Just what is the position of Mr. Shannon in your company? Just what does he do?

Mr. ALLARD. Formerly he was office manager, general clerk in the office with the Export Co., up until he left the Export Co.

Senator POPE. Apparently all these letters relating to military matters are addressed to Mr. Shannon. Why is that?

Mr. ALLARD. Because most of the correspondence cleared through him. He made a great many of the contacts; the people saw him, who would come in to try to get some information, and possibly when I might not be in the office or anyone else.

Mr. HISS. On the same subject, there is a letter of October 27, 1932, from Mr. Goulding, addressed to the Automobile Tire & Tractor Co. at Istanbul, Turkey. Are they your representatives in Turkey?

Mr. ALLARD. They are.

Mr. HISS. It is directed "Attention: Ahmet Emin Bey." Is he an official of that firm?

Mr. ALLARD. He is.

Mr. HISS. Mr. Ahmet Emin Bey's name was mentioned in Mr. Driggs' testimony the other day, and was identified as being in one of the photographs taken on board the cruiser *Raleigh*, and there was testimony that the Automobile Tire & Tractor Co. has represented munition concerns in general. Do you know anything about their representation of other companies than yours?

Mr. ALLARD. I know they represent the Goodyear Tire & Rubber Co., and I think Chrysler and Dodge products, motor cars, and they have a store in Turkey which I have been in, with radios and all sorts of automobile accessories.

Mr. HISS. You do not know of any other munition firms which they represent?

Mr. ALLARD. No, I do not believe I do. They represent Colt.

Mr. HISS. Do you know Mr. Ahmet Emin Bey when you see him [handing photograph to witness]?

Mr. ALLARD. Very well.

Mr. HISS. Will you see if you can identify him there?

Mr. ALLARD. Yes, sir.

Mr. HISS. Which one is he?

Mr. ALLARD. This one right here [indicating on photograph].

Mr. HISS. That was taken in 1928, at which time he was representing the Driggs Co.

The CHAIRMAN. That is what we were talking to Mr. Driggs about.

Mr. HISS. This letter to Mr. Ahmet Emin Bey will be "Exhibit No. 281."

(The letter referred to was marked "Exhibit No. 281" and is included in the appendix on p. 871.)

Mr. HISS. That letter in the fourth paragraph reads as follows [reading]:

Turkey is being released from Vickers arrangements with Colt as of January 1, 1933, so that we will be free to quote you on any inquiries for their equipment which you can develop on and after that date.

Mr. ALLARD. Right.

Mr. HISS. That is the arrangement, I assume, which is referred to in Mr. Nichols' letter, in the preceding exhibit.

Mr. ALLARD. That is right.

Mr. HISS. That you could get in Turkey after a certain date in January 1933.

Mr. ALLARD. Yes, sir.

Mr. HISS. In other words, your company took the place of the Vickers Co. as the Colt representative in Turkey?

Mr. ALLARD. I do not know that Vickers was the Colt representative in Turkey at any time. My recollection is that Vickers sold their own goods and had an exclusive territory down there. I do not know whether they represented Colt.

Mr. HISS. This particular paragraph which I have read before, Mr. Allard, says:

Turkey is being released from Vickers arrangements with Colt as of January 1, 1933, so that we will be free to quote \* \* \* after that date.

Mr. ALLARD. That is correct, but, as I said, I think the arrangement was that Vickers were selling their own guns under an arrangement with Colt, and Colt kept out of the territory. I do not think Vickers ever sold Colt guns.

Mr. HISS. Has your company ever sold any police equipment, tear gas, and things of that sort?

Mr. ALLARD. It is possible that we have sold police equipment, tear gas. I do not know.

Mr. HISS. I show you a letter dated November 3, 1933, signed by "Owen", which I judge is Mr. Shannon. [Handing paper to witness.]

Mr. ALLARD. Yes, sir.

Mr. HISS. Addressed to Mr. C. W. Webster, who at that time represented your company in South America. Is not that correct?

Mr. ALLARD. That is right.

Mr. HISS. That will be "Exhibit No. 282."

(The letter referred to was marked "Exhibit No. 282" and is included in the appendix on p. 872.)

Mr. HISS. On the second page of that letter Mr. Webster says:

Cable me what you do with Gandara and I can start sending them data and prices on some of the miscellaneous equipment.

Gandara was a firm representing your company in Argentina?

Mr. ALLARD. No, I never heard the name "Gandara" before. I do not know it. I would like to retract that statement. I have heard the name, but I can not identify Gandara.

Mr. HISS. I wonder if we can not ask Mr. Webster if he knows.

Mr. ALLARD. Mr. Webster is here, if he knows.

The CHAIRMAN. Mr. Webster, will you come forward and take the oath?

Mr. WEBSTER. Yes, sir.

The CHAIRMAN. Mr. Webster, pull up one of the chairs and give the reporter your full name.

Mr. WEBSTER. Clarence W. Webster.

### TESTIMONY OF CLARENCE W. WEBSTER

(The witness was duly sworn by the chairman.)

The CHAIRMAN. What is your connection with the Export Corporation?

Mr. WEBSTER. Distributor for Latin America.

Mr. HISS. Mr. Webster, the question was whether Gandara, who is referred to in a letter written Mr. Shannon to you on November 3, 1933, is a representative of the Export Co. in South America, and, if so, would you please identify the country?

Mr. WEBSTER. That is Argentina.

Mr. HISS. And they did at one time represent the Export Co. in Argentina?

Mr. WEBSTER. Yes, sir.

Mr. HISS. Mr. Webster, Mr. Shannon in that letter goes on to state [reading]:

My idea would be, if they are to purchase from us and resell to the government—



That is Gandara to purchase from the Curtiss-Wright Export Co.—

to give them prices that would net you ten percent at least, and wherever possible, as much more as I find it will stand in comparison to prices they could get direct from manufacturers or others such as Air Associates, etc.

Find out just what they are doing on bombs and police gas equipment and, perhaps, we can chisel in on it here as I understand the Argentine police have bought large quantities of that kind of stuff.

Was there any sale of any police gas?

Mr. WEBSTER. No, sir, we never attempted to sell anything of that nature.

Mr. HISS. Does your company represent the Sperry Gyroscope Co. in any foreign territories, Mr. Allard?

Mr. ALLARD. I believe we do.

Mr. HISS. Is it correct that you represent them in Brazil, Uruguay, Paraguay, Ecuador, Colombia, Venezuela, Mexico, Siam, Peru, Chile, Bolivia, and Central America?

Mr. ALLARD. May I ask Mr. Webster to answer the question? I cannot answer it, Mr. Hiss, accurately, without checking in the files. We have at some time or other represented them. Whether we are representing them in all of those countries now is another thing.

Senator BONE. The Sperry Co. makes fire-control apparatus do they not?

Mr. ALLARD. Yes, sir; and also they make aeronautical instruments, directorial gyros, and instruments used in aviation, airplanes.

Senator BONE. They manufacture blind-flying apparatus?

Mr. ALLARD. Yes, sir; they are the originators of that.

Mr. HISS. Your company does represent them in several countries?

Mr. ALLARD. Yes, sir.

Mr. HISS. The Sperry Co. has also developed and marketed a fire-control apparatus for antiaircraft equipment?

Mr. ALLARD. Yes, sir.

Mr. HISS. As well as for naval batteries and so forth?

Mr. ALLARD. Yes, sir.

Mr. HISS. Does that mean, therefore, that your company would be interested in the promotion and sale of antiaircraft equipment as well as of aircraft?

Mr. ALLARD. I would have to refresh my memory again from the records as to what the Sperry Gyroscope Co. allows us to sell. I think it is all aeronautical instruments and not antiaircraft or fire-control equipment.

Mr. HISS. I call your attention to a letter dated December 8, 1933, written to Mr. Joaquin Samper H, at Bogota, Colombia, and signed by Mr. Goulding. That will be "Exhibit No. 283."

(The letter referred to was marked "Exhibit No. 283" and is included in the appendix on p. 873.)

Mr. HISS. Does Mr. Samper represent, or did he on December 8, 1933, represent the Export Co. in Bogota?

Mr. ALLARD. His company, Urueta & Samper, did and do.

Mr. HISS. On page 2 of the letter you will note the following [reading]:

Yesterday I had the opportunity of meeting General Angel, Chief of Staff, who was here briefly following a trip to Europe. With him was General Cortes who, I understand, is the ranking Colombian general, stationed tem-

porarily in the legation in Washington as military advisor. General Angel seems interested only in aviation in a general way so that we did not discuss any of the more technical or detailed features at present involved. He was, however, very interested in antiaircraft defense, and Mr. Miranda, together with Commander Strong, explained the Sperry fire control and the necessity for this defense, which he readily admitted and it is probable that following his return to Colombia he will push for several antiaircraft batteries complete with Sperry fire control to make them effective. These are, of course, expensive installations, but in my opinion there is no question but that Colombia, in the event of hostilities, should have this protection, particularly at the port of Buenaventura. We would, of course, like to see this business developed in view of our connections with the Sperry Co. and look to you to further this business.

Mr. ALLARD. Yes, sir.

Senator POPE. Who wrote that letter?

Mr. HISS. It was written by Mr. Goulding, the vice president of the Curtiss-Wright Export Corporation, in connection with your company's connection with Sperry, which is referred to by Mr. Goulding in this letter by simply stating: "In view of our connections with the Sperry Co.", which company in certain countries you represent as agent.

Mr. ALLARD. That is right.

Mr. HISS. I would like to call your attention to a telegram dated May 2, 1933, from Mr. T. A. Morgan, the president of the parent company, to Mr. Pawley in Shanghai, which will be "Exhibit No. 284."

(The telegram referred to was marked "Exhibit No. 284" and is included in the appendix on p. 875.)

Mr. HISS. The latter states [reading]:

New company has been formed, Sperry Corporation, T. A. Morgan president, John Sanderson vice president, which holds Sperry Gyroscope Co., Ford Instrument Co., Intercontinent Aviation, Inc., Curtiss-Wright Corporation shares formerly owned by North American Aviation.

#### SEVERITY AND NATURE OF COMPETITION FACED IN FOREIGN MARKETS

Mr. Webster, you were formerly president and a director of the Curtiss-Wright Export Corporation. Is that correct?

Mr. WEBSTER. Yes, sir.

Mr. HISS. And you resigned in June 1933?

Mr. WEBSTER. Yes, sir.

Mr. HISS. At which time your relationship with the company was what?

Mr. WEBSTER. Distributor for Latin America.

Mr. HISS. You have the exclusive sales representation of the Latin American Curtiss-Wright products?

Mr. WEBSTER. That is right.

Mr. HISS. Will you please explain to the committee just how you function with respect to the Curtiss-Wright companies? Do you purchase from them?

Mr. WEBSTER. I purchase from Export at a definite price and then deal with agents in Latin America.

Mr. HISS. Does the Export Co. make advances to you for your expenses?

Mr. WEBSTER. When necessary, up to a certain amount.

Mr. HISS. And those are to cover the expenses of your sales organization?

Mr. WEBSTER. Yes, sir.

Mr. HISS. How large an organization do you have, Mr. Webster?

Mr. WEBSTER. In addition to myself there are, I believe, five.

Mr. HISS. Could you just give their names so that we will have them identified later?

Mr. WEBSTER. Mr. Owen Shannon—

Mr. HISS. He is no longer a member of the Export Co.?

Mr. WEBSTER. No; he is an employee of mine.

Mr. HISS. He was formerly an employee of the Export Co.?

Mr. WEBSTER. He was formerly an employee of the Export Co. This is the New York office organization. There is Mr. Owen Shannon, Mr. John Shannon, Albert Mulady, and then in South America there is Mr. Richard Pierrot in Argentina.

Senator BONE. What is his official position down there?

Mr. WEBSTER. Prior to his connection with me?

Senator BONE. Did he have any connection with the Government?

Mr. WEBSTER. Yes; prior to that he was American trade commissioner in Rio, in Brazil.

Then we have another man by the name of Travis, Clifton Travis.

Mr. HISS. Was he formerly an employee of the Export Co. before he became associated with you?

Mr. WEBSTER. No, sir; he did not go out as such.

Mr. HISS. Did he not go out as a sales representative for the Export Co. and as a pilot?

Mr. ALLARD. He did at times. He was on our pay roll from time to time on special missions.

Mr. WEBSTER. At the present time he is on the west coast of South America, I believe in Lima.

Mr. HISS. Are the selling costs of your organization rather large, Mr. Webster?

Mr. WEBSTER. I should not say they are unusually large.

Mr. HISS. Just what do those expenses consist of?

Mr. WEBSTER. Salaries, traveling expenses.

Mr. HISS. Could you state the salaries of the five men which you have named as your assistants?

Mr. WEBSTER. I could not. I could check up on it and let you know. I could not tell you exactly, now.

Mr. HISS. I would like to state for the record here, for your information, that the Export Co. has furnished the committee a statement that for the 7 months ending December 31, 1933, the advances of the Export Co. to your organization for expenses totalled \$55,599.66, and that your own personal drawings during that period of time were an additional \$11,221.32.

The CHAIRMAN. Was that on an expense account or was the \$11,000 plus inclusive of salary?

Mr. WEBSTER. I could not say, sir. Whatever the record shows.

Mr. HISS. It was advances for expenses and his personal drawing account. Do you have a fixed salary from the Export Co.?

Mr. WEBSTER. No.

Mr. ALLARD. May I say something there, Mr. Hiss?

Mr. HISS. Certainly.

Mr. ALLARD. That information for the 7 months furnished the committee is all the money advanced to Mr. Webster for his organization. It is not just traveling expenses and that, but it is salaries and office expenses, et cetera.

Mr. HISS. The expenses of your organization are supposed to be met by the difference between the price at which you buy from the Export Co. and the price at which you resell?

Mr. WEBSTER. That is correct.

Mr. HISS. Prior to your becoming a distributor for the company, and while you were president, were you in general familiar with the foreign sales of the Export Co.?

Mr. WEBSTER. In a general way. I devoted most of my time to Latin America.

Mr. HISS. So that for some time you have been engaged in the Latin American export field?

Mr. WEBSTER. Yes, sir.

Mr. HISS. In that field have you found that in selling military planes and whatever munitions your company may have sold, as was indicated by Mr. Allard's testimony, the Export Co. was and still is faced with competition from such people as Vickers in Great Britain, Junkers in Germany, Schneider in France, and Skoda in Czechoslovakia, and other armament and airplane manufacturers?

Mr. WEBSTER. Other aircraft manufacturers. I would not say armament. I do not believe we have ever encountered any competition from Skoda. We have not dealt in a similar line of material that Skoda sells. Ours is strictly aircraft equipment and accessories that go with aircraft.

Mr. HISS. In December of 1933 a letter written to your company refers to the fact that the Curtiss prices in Peru for bombs were still higher than the Vickers prices. Would that refer to bombs sold for general use?

Mr. WEBSTER. No. That is aircraft bombs.

Mr. HISS. But bombs sold apart from specific units of planes sold by your company?

Mr. WEBSTER. Yes; it might possibly be.

Mr. HISS. You would say in general that the competition in South America and in the world field is severe in the aircraft business, would you?

Mr. WEBSTER. Yes, sir; I would.

Mr. HISS. Have you found that your competitors, because of the severity of that competition, are sometimes forced to resort to what you might consider unfair tactics.

Mr. WEBSTER. We believe that that has been done. Just what would you refer to as unfair tactics?

Mr. HISS. May I call your attention to a letter of July 25, 1933, signed by Jerry Clark? I will offer this letter in evidence as "Exhibit No. 285."

(The letter referred to was marked "Exhibit No. 285" and is included in the appendix on p. 876.)

Mr. HISS. Can you identify Mr. Jerry Clark? This is on the letterhead of the Intercontinent Aviation, Inc.?

Mr. WEBSTER. I believe Jerry Clark at one time was an employee of Export. He is now in China.

Mr. HISS. It is on the letterhead of the Intercontinent Aviation Co., which we have discussed before, which is controlled by the Sperry Corporation, in Shanghai and is addressed to Mr. Goulding.

Mr. WEBSTER. This is in connection with China, is it not?

Mr. HISS. Yes.

Mr. WEBSTER. That is after I left the Export organization. This letter is July 25, 1933. I was no longer an officer of the Export Corporation at the time this letter was written.

Mr. HISS. If Mr. Allard wishes to answer this particular question, on page 2 of this letter I refer you to the first complete paragraph which reads as follows:

I just found out yesterday that Dr. H. H. Kung, the present no. 1, was informed by the Italian air attaché that the Curtiss Hawk was an old discarded Caproni design. I understand that this perturbed Dr. Kung to quite an extent. This is an illustration of one of the various difficulties encountered by agents here. The whole thing is dirty business and intrigue.

The reference to Dr. H. H. Kung, the present no. 1, is a reference to Chinese aviation circles.

Mr. ALLARD. That is right.

Mr. HISS. The reference to the Caproni design is a reference to the Caproni Italian plane?

Mr. ALLARD. That is true.

Mr. HISS. Then in the third complete paragraph, referring to a Fiat pursuit ship he says:

I am hoping that we will get a chance to have a competitive demonstration between this ship and the Hawk, but I don't think the Italians will want to play. They are a dirty cut-throat bunch of business people and do not hesitate to knock our equipment at every possible opportunity.

Have you found, Mr. Allard or Mr. Webster, that your competition is cut-throat and that the matter of selling airplanes is dirty business and intrigue?

Mr. ALLARD. I do not think I would describe the competition in those words.

Mr. HISS. May I call your attention also to the next sentence which says:

I am glad to say that it has not been necessary for us to resort to this practice as the statement of facts is all that is necessary in regard to the Italian equipment now on hand.

If the competition had been severer, do you think it would have been necessary for your company to resort to that kind of competition?

Mr. ALLARD. We never have and never will as long as I am president of the company.

Senator POPE. Who wrote that letter?

Mr. HISS. Jerry Clark, who is identified as a former employee of the company. Is he still an employee of the Curtiss Co.?

Mr. ALLARD. No, sir; he is not.

Mr. HISS. Was he on July 25, 1933?

Mr. ALLARD. No, sir.

Mr. HISS. He was not?

Mr. ALLARD. No, sir.

Mr. HISS. Why was he so interested in the sale of the Hawk, if he was not an employee at that time?

Mr. ALLARD. Being an American, and a member of the American Aviation Mission that was employed by the Chinese Government to instruct the Chinese in the air operations and aviation in general, naturally he was trying to have American products sold in preference to Italian.

Mr. HISS. Even though he was not an employee of your company?

Mr. ALLARD. That is right; having at one time been an employee.

Senator BONE. What were his connections with the Government at that time?

Mr. ALLARD. Do you mean the Chinese Government?

Senator BONE. No; our Government.

Mr. ALLARD. None whatsoever; none that I know of.

Senator BONE. What was this mission to which you refer?

Mr. ALLARD. The Chinese Government asked, I believe, the Department of Commerce here, to select a group of American aviation people to come over to China on the Chinese Government's pay roll at their expense, to organize a Chinese Air Force. That is the National Government, the Nanking Government. Clark was a member of that. There were five or six Americans chosen; not service people.

Senator BONE. Did this man come out of civilian walks of life?

Mr. ALLARD. He had been in the Navy. I do not know what his history background is. He had at one time been in the Navy, I know that.

Senator POPE. What Navy?

Mr. ALLARD. The United States Navy. He was a naval aviator.

Mr. HISS. At the time that he wrote this letter he was then in the employ of the Chinese Government?

Mr. ALLARD. I believe that is correct; yes, according to the date.

Mr. HISS. Mr. Webster, I show you a letter dated October 19, 1933, addressed to Mr. Allard. It seems to be an interoffice communication and I will offer it as "Exhibit No. 286."

(The communication referred to was marked "Exhibit No. 286" and is included in the appendix on p. 877.)

Mr. HISS. This refers to a report received from you regarding the situation in Peru. The report is signed by Mr. Shannon. The first paragraph quoted from your report refers to the situation in Peru and is as follows:

The British have been very active and have a very clever man on the job here, who has managed to grease certain officials in order to put across sales. They have sold 6 Fairey Gordons with Panther engines and 6 Fairey Fox single seaters with Rolls-Kestrel engines.

Who produces the Fairey plane?

Mr. Webster. That is the Fairey Co. in England.

The CHAIRMAN. Who is the writer of this?

Mr. HISS. This is Mr. Webster's report being quoted by Mr. Shannon in an interoffice memorandum to Allard.

Senator BONE. What company did this clever gentleman represent?

Mr. WEBSTER. The Fairey Co. in England. I might say, Mr. Chairman, that I have no actual proof of such a thing, but it was my opinion that that is what happened.

The CHAIRMAN. You are not reciting anything that is new to us, because I think we have not yet laid our hands on any transaction

in certain countries that have not had somewhere in it a mentioned necessity of having to grease the way.

Senator POPE. From Sir Basil on down or up.

The CHAIRMAN. Yes; or up.

Senator BONE. I would be constrained to believe it would be "up", from now on.

Mr. HISS. Continuing with this same communication, further on, it says:

The officers who put through the first 12 British planes have been sent to England to take care of inspection, etc.

That means the Peruvian officers?

Mr. WEBSTER. Yes, sir.

Mr. HISS (continuing):

\* \* \* have been sent to England to take care of the inspection, etc., and all went over well heeled with "commission" money.

You mean those officers had received commissions?

Mr. WEBSTER. That was my impression.

Mr. HISS. From the Fairey Co.?

Mr. WEBSTER. Evidently from the Fairey Co.

Mr. HISS. I show you a letter of October 20, 1933, which I will ask to have marked "Exhibit No. 287."

(The letter referred to was marked "Exhibit No. 287" and is included in the appendix on p. 878.)

Mr. HISS. This letter is addressed "Dear Dan."

That refers probably to Mr. Tobin, who was then in Peru?

Mr. WEBSTER. Yes, sir.

Mr. HISS. This letter does not bear a signature. I wonder if you will read it and see if you can identify it. I am under the impression that it was probably written by you.

Senator POPE. If I may refer to the last previous letter, with reference to "commission" and the officers being well heeled, I notice that you put quotation marks around "commission".

Mr. WEBSTER. Yes, that meant commissions to the officers.

Mr. HISS. Can you identify the writer of that letter, Mr. Webster?

Mr. WEBSTER. I believe I wrote that letter. I am quite sure I did.

Mr. HISS. I call your attention to the last paragraph. The prior letter was in October, October 19, the one referring to the Fairey Co. This is dated October 20. This says:

For your information we had a long talk with Romano this afternoon \* \* \*

Who is Romano?

Mr. WEBSTER. Romano was the material officer of the Peruvian Naval Air corps.

Mr. HISS (continuing reading):

\* \* \* and looked over the contract for the six Fairey, 2-place observation jobs, which is the last contract signed. We were under the impression that they ordered single-seat pursuit planes but this is not correct. It was six 2-place jobs. The contract price in dollars was \$33,000 each and a little more than \$7,000 per set for pontoons. This makes the entire job about \$10,000 more per unit than our Falcon. It would do no harm to mention figures to the Minister, but of course do not say where you got your information from.

\* \* \*

Was the Falcon a 2-place observation machine?

Mr. WEBSTER. Yes.

Mr. HISS. Which was competitive with these Fairey planes?

Mr. WEBSTER. Yes.

Mr. HISS. Was there any reason why the Peruvian Government would have preferred the Fairey at \$7,000 more per plane.

Mr. WEBSTER. Unless they were better satisfied with it than with our ship.

Mr. HISS. On a comparison of performance, how did the two ships show up?

Mr. WEBSTER. Our performance I would say—the performance of the Falcon was superior to the Fairey job.

Mr. HISS. This letter goes on,

It would do no harm to mention figures to the Minister——

That is the Minister of Peru in Charge of Aviation?

Mr. WEBSTER. The Minister of Marine.

Mr. HISS (continuing):

\* \* \* but of course do not say where you got your information from. It sounds like highway robbery to me and someone collected at least \$100,000 on the contract as "commission."

Can you explain the kind of commission they are referring to there?

Mr. WEBSTER. I am afraid it was a sort of underhanded commission, paying a commission to officers being not the usual kind of commission.

Mr. HISS. This letter also puts "commission" in quotation marks.

Mr. WEBSTER. Yes, sir.

Mr. HISS. You mean an officer's commission rather than an ordinary agent's commission?

Mr. WEBSTER. Yes.

Senator POPE. Were these officers in active service at the time?

Mr. WEBSTER. I believe they were.

Mr. HISS. As another example of the kind of competition your companies face, I show you a letter of September 17, 1932, which I will ask to be marked as "Exhibit No. 288."

(The letter referred to was marked "Exhibit No. 288", and is included in the appendix on p. 878.)

Mr. HISS. This letter is from Ahmet Emin. That is the Ahmet Emin Bey whom Mr. Allard has identified. The letter is addressed to Mr. T. Morgan, president of the Curtiss-Wright Corporation. He is the president of the Parent Corporation is he not?

Mr. WEBSTER. Yes.

Mr. HISS. In this letter the statement is made that—

From such distance, a delay may easily be attributed to lack of means. You may rest assured that for any financial engagement taken for aviation matters, the money does not only exist theoretically in the budget, but is actually deposited in cash at the bank. Statements to the contrary are only spread by competitors who hope to scare away American competitors from the Turkish market. A clear example of this was recently delivered by Vickers Armstrong.

The latter persuaded the Colt people that it would be unsafe for them to do business in Turkey, and that themselves did not care to arrange for a Browning demonstration in Turkey, because they did not care to solicit business there, having a great deal of money outstanding. The business mentioned in this connection was the sale of 48 machine guns, making a total of about



\$25,000. Within a few weeks of this statement, Vickers Armstrong obtained after most strenuous efforts, an order of eight Supermarine seaplanes of \$600,000 to be paid half in pounds sterling, half in Turkish pounds. \* \* \*

These supermarine airplanes are made by the Vickers Company, Mr. WEBSTER. They are made by Armstrong, I think.

Mr. HISS. Which is affiliated with the Vickers interests?

Mr. WEBSTER. I am not sure. It is a British firm.

Mr. HISS. This letter says:

This proves that Vickers-Armstrong which has a permanent factory branch in Ankara and has an exact knowledge \* \* \*.

That is a city in Turkey?

Mr. ALLARD. Yes. That is the capital.

Mr. HISS (continuing):

\* \* \* and has an exact knowledge of local conditions considers safe to do business for its own account, but does not hesitate to use unclean methods to deceive American competitors and keep them away from the market.

Have you had severe competition from American competitors also?

Mr. WEBSTER. I think Mr. Allard can answer that better than I can. He was handling that particular territory at the time.

Mr. ALLARD. You mean as a general thing, Mr. Hiss?

Mr. HISS. Yes.

Mr. ALLARD. A general practice throughout the world?

Mr. HISS. Yes.

Mr. ALLARD. We have had severe competition; yes.

Mr. HISS. Who is your strongest American competitor?

Mr. ALLARD. I would say United Aircraft were.

Mr. HISS. In size, how does that company compare with Curtiss-Wright Corporation?

Mr. ALLARD. I do not know. Do you mean in capital set-up?

Mr. HISS. In actual turn-over of products.

Mr. ALLARD. I think we run along pretty closely together. They probably sell a little more than we do one year and we a little more than they do in the other.

Mr. HISS. How do these two companies, the Curtiss companies considered as one unit and the United companies considered as another unit, compare in bulk with European countries?

Mr. ALLARD. With European companies in the export field, you mean?

Mr. HISS. Yes.

Mr. ALLARD. I think we are much larger than any other European manufacturer at the present time, but it has taken us some 10 or 12 years to get up to that point.

Mr. HISS. Your two companies or these two companies constitute the largest aviation companies in the export field, you would say?

Mr. ALLARD. Throughout the world?

Mr. HISS. Those two groups of companies; yes?

Mr. ALLARD. Yes.

Mr. HISS. The two American companies?

Mr. ALLARD. That is right.

Mr. HISS. I have here a letter dated February 5, 1931, from Mr. Allard to Mr. Burdette S. Wright, which I will offer as "Exhibit No. 289."

(The letter referred to was marked "Exhibit No. 289" and is included in the appendix on p. 880.)

Mr. HISS. Mr. Burdette S. Wright was vice president of the parent company?

Mr. ALLARD. That is right.

Mr. HISS. And a director of the Export Co.?

Mr. ALLARD. I do not think he is now. He may have been at that time—just a minute. He is not a director of the Export Co. now.

Mr. HISS. This letter says in part:

Thanks for yours of the 3d with attached copy of letter to Leighton Rogers on the subject of the cable to be sent to Osborn Watson about Cyclone tests. Also thanks for the dope about Love's reaction to whatever statements Major Hall is making.

Can you identify Mr. Love?

Mr. ALLARD. Mr. Love was the president of the United Aircraft Export.

Mr. HISS. Corresponding to your position with the Curtiss Co.?

Mr. ALLARD. Correct.

Mr. HISS (repeating):

Love's reaction to whatever statements Major Hall is making.

Who is Major Hall?

Mr. ALLARD. He was the European representative of the Export Co. at that time.

Mr. HISS. Curtiss Export?

Mr. ALLARD. Yes, sir.

Mr. HISS (continuing reading):

Needless to say, I do not believe Hall's statements are at all radical or unethical, as all cables and correspondence that he has had with the Finnish officials in which he had discussed 1820-E's have been based entirely upon information furnished direct from the Wright Co. or from this office. Love has been made to stop his unethical tactics of running down competitive products, and I think this is just a sample of a method he is pursuing to meet real competition.

What unethical tactics did Mr. Love adopt?

Mr. ALLARD. As I recall it at that time that I wrote this letter to Burdette S. Wright, Mr. Love was making statements that were not true about the financial condition of the Curtiss-Wright Export Co. and about the products themselves, making statements that they were not used by various large users of aeronautical engines throughout the world.

Mr. HISS. Will you look at this next document, which is dated March 30, 1932, and which I will ask to have marked "Exhibit No. 290."

(The document referred to was marked "Exhibit No. 290" and is included in the appendix on p. 880.)

Mr. HISS. This is a telegram addressed to Aeroexco. That is the cable address of the Export Co.?

Mr. ALLARD. Yes.

Mr. HISS. It is from Melvin Hall, whom you have already identified, and says on the second page that Turkey has acted in good faith on our—that is, the Export Co.'s—behalf and are accepting our—that is, the Export Co.'s—statement regarding Curtiss Hawk one-place Cyclone engine ignoring official information United States Government to the contrary in addition to foul intrigue of our competitors and especially United Aircraft & Transport.

Now, at one time, I think in the year 1930, your company sent a tour of planes for exhibition purposes throughout Europe; is that correct?

Mr. ALLARD. Yes, sir.

Mr. HISS. Do you know whether Mr. Love was present at or soon after these exhibitions that your company put on?

Mr. ALLARD. I understand that he was. I was not present on that tour.

Mr. HISS. Do you know why Mr. Love followed your tour?

Mr. ALLARD. No; I do not know why.

Mr. HISS. Did you get any reports of what Mr. Love did or said while following that tour?

Mr. ALLARD. Possibly, but they would be in the files if there were any reports.

Mr. HISS. Do you remember any reports?

Mr. ALLARD. I do not remember any written report on it.

Mr. HISS. May I just refresh your recollection with a telegram from the files of your company dated June 3, 1930, signed Melvin Hall, which I will offer as "Exhibit No. 291."

(The telegram referred to was marked "Exhibit No. 291" and is included in the appendix on p. 881.)

Mr. HISS. This says:

Love tactics following us with insidious derogatory comment obsolete equipment impossible dispose of in America—

Does that mean that Mr. Love was following the Curtiss tour and saying that the planes displayed were obsolete?

Mr. ALLARD. Apparently.

Mr. HISS. What kind of planes were being shown on that tour?

Mr. ALLARD. Hawk and Falcon and Fledgling.

Mr. HISS. What model in point of time? Were they up-to-date models?

Mr. ALLARD. Yes. They were the latest models released by the Government, the United States Government, the Army and Navy, for export sales.

Mr. HISS. Were they obsolete in any commercial sense?

Mr. ALLARD. No.

Mr. HISS. They were the best products available that you then had?

Mr. ALLARD. Absolutely.

Senator BONE. Could they be said to have been obsolete in any degree in a military sense?

Mr. ALLARD. They could be as far as our Army and Navy were concerned, because those products are not released for export until something better has been developed and adopted by our Army and Navy.

Senator BONE. What form would this obsolescence take—the element of speed?

Mr. ALLARD. Oh, yes; speed, weight, general characteristics, rate of climb, altitude, ceilings, and military performance in general.

Senator POPE. In all those respects you felt that these planes were the best that there were?

Mr. ALLARD. They were the best that we could offer at the time; yes, sir.

Mr. HISS. I have a letter here dated October 16, 1933, signed W. D. Pawley, from Shanghai, addressed to Mr. Morgan, which I will offer as "Exhibit No. 292."

(The letter referred to was marked "Exhibit No. 292" and is included in the appendix on p. 881.)

Mr. HISS. This encloses a statement which can be marked separately as "Exhibit No. 293."

(The statement referred to was marked "Exhibit No. 293", and is included in the appendix on p. 882.)

Mr. HISS. The statement reads:

Today Bill Brookes stopped in to see if I had heard from you; he told me the Chinese in Chinatown had a lot of cash they were going to send to China, but when the treaty with Japan was signed they got peeved and didn't send it. He also told me that the Curtiss planes Jimmy Doolittle went over there with were the same old crates they tried to sell China last year. The only difference was a coat of paint and other motors and they are another year old. If you run into them, watch out. They are supposed to be awful.

That is enclosed in the letter from Mr. Pawley to Mr. Morgan and Mr. Pawley explains that by saying that this was received by a Mr. Keavney who is an ex-aviator and that he received a letter from his wife making the statements just read and that the contents of this letter were immediately transmitted to Carl Nahmmacher, United's agent. That is the United Aircraft?

Mr. ALLARD. Yes.

Mr. HISS. And this "Exhibit No. 292" says that he has passed it around to everyone in Shanghai interested in aircraft with the story that the man who received the letter was stopping at the Metropole Hotel and could furnish definite proof that the ships sold to the Chinese were old equipment.

Do you remember the planes that were sent at this time with Major Doolittle?

Mr. ALLARD. Very well.

Mr. HISS. What model were they?

Mr. ALLARD. They were the type, what we called the Type-1 Hawk, which is the Cyclone Hawk as released by the Army and Navy at that time for export sale.

Mr. HISS. A pursuit plane?

Mr. ALLARD. A pursuit plane.

Mr. HISS. Were they, as the letter to Mr. Keavney said, "Planes that you tried to sell to China the year before"?

Mr. ALLARD. Absolutely not. The planes were built on this order.

Mr. HISS. Did the United representatives make any inquiry so far as you know of your company to find out whether this letter which Mr. Pawley says they spread around Shanghai was correct or not?

Mr. ALLARD. Not to my knowledge; no.

Senator POPE. So far as you know, did they do anything about correcting that impression?

Mr. ALLARD. So far as I know they did not; no. Unfortunately, Carl Nahmmacher is now dead. He was killed in an aviation accident out there.

Mr. HISS. Did your company attempt to approach United and ask them to stop spreading such stories?

Mr. ALLARD. Yes.

Mr. HISS. Did you have any success?

Mr. ALLARD. I do not know; it is hard to tell.

Senator BONE. When developing some new principle in aerial navigation that can be applied to an airplane, how do you protect yourselves to keep other companies from using it?

Mr. ALLARD. A new principle of aviation?

Senator BONE. Some new principle in the ship itself that can be incorporated in the structure of the ship or its engine; how do you protect yourselves against others using it?

Mr. ALLARD. May I ask Mr. Hotchkiss about that? I think there is an organization into which all patents are pooled for manufacturers.

Mr. HOTCHKISS. Aircraft patents; yes.

Senator BONE. Then, after the manner of the automobile companies, you pool the patents?

Mr. HOTCHKISS. Aircraft patents, Senator.

Senator BONE. Yes.

Mr. HOTCHKISS. Patents are also taken out on engines, but they do not fall in this cross-license agreement.

Senator BONE. So that in reality, in this country the aircraft companies have a policy whereby they pool all their patents on airplane construction and all are free to use that new device, if they wish.

Mr. HOTCHKISS. All those who are members of the Manufacturers' Aircraft Association.

Senator BONE. Would that include all the major companies?

Mr. HOTCHKISS. I think it does, substantially all.

Senator BONE. Those patents are protected by filing in the United States Patent Office?

Mr. HOTCHKISS. That is so.

Senator BONE. They are matters of public records.

Mr. HOTCHKISS. That is so.

Senator BONE. Is there anything to prevent me as a private citizen from going down there and looking over those records?

Mr. HOTCHKISS. The patents, themselves?

Senator BONE. Yes.

Mr. HOTCHKISS. None whatever.

Senator BONE. So that as a practical proposition there is no concealment possible in a patent, is there?

Mr. HOTCHKISS. Not in a patent, certainly not.

Senator BONE. That is what I mean. So that if any foreign power wanted to see what was new in the way of airplane construction, all in the world they would have to do would be to have some American attorney or draftsman go down there and look over the particular design.

Mr. WEBSTER. Or buy an airplane.

Senator BONE. Yes; or buy one of the late planes.

Mr. HISS. Mr. Allard, Mr. T. A. Morgan, the president of the Curtiss-Wright Co. is also president of the Aeronautical Chamber of Commerce.

Mr. ALLARD. That is correct; yes.

Mr. HISS. And he is also on the executive committee of the St. Louis Post of the Army Ordnance Association.

Mr. ALLARD. I do not know that to be a fact.

Mr. HISS. That is so stated in the Army ordnance record.

Mr. ALLARD. I did not know that.

Mr. HISS. I have had placed before you a document, which I will offer as "Exhibit No. 294."

(The document referred to was marked "Exhibit No. 294" and is included in the appendix on p. 882.)

Mr. HISS. The document is headed "Situation Summary—Turkey" and is dated February 27, 1933. Referring to a Mr. Selahetin Bey, an official of the Turkish Government, Mr. Hall says:

It is quite evident that he receives his anti-C.W. information——

That is Curtiss Wright?

Mr. ALLARD. Yes.

Mr. HISS (reading):

Information from Hamilton of United——

Mr. Hamilton is the European representative of the United Aircraft.

Mr. ALLARD. He has been in Europe. I do not know that he is the European representative.

Mr. HISS (reading):

and it was told Emen Bey a few days ago by Hamdi that Selahetin had a definite "arrangement" with United. This ties in with the statement to Gillespie——

Can you identify Gillespie?

Mr. ALLARD. Gillespie is the American commercial attaché at Istanbul.

Mr. HISS (reading):

by the United mechanic Butterfield that though they hadn't been able to do much for themselves in Turkey they at least had queered C.W.'s game here permanently.

Have you had any reason to believe that United, when they could not make a sale, were interested in preventing your company from making the sale?

Mr. ALLARD. I think that speaks for itself, Mr. HISS.

Mr. HISS. Have you any information indicating that what this says is incorrect?

Mr. ALLARD. No.

Mr. HISS (continuing reading):

What the "arrangement" may be is problematical——

That is the arrangement with Selahetin and Mr. Hamilton is problematical.

possibly promise of a good commission on all United engines sold to power Selahetin's ships——

That means United engines sold to the Turkish Government?

Mr. ALLARD. Yes, sir.

Mr. HISS. Then Mr. Selahetin Bey, a Turkish official, would be receiving a commission, according to this.

Mr. ALLARD. Yes. I do not think Selahetin Bey was a Turkish official. I think he was an engineer, as I recall it.

Mr. HISS. He was not a Turkish official?

Mr. ALLARD. No; I do not think he was; a government employee, an engineer.

Mr. Hiss (continuing reading):

But at all events it would appear from this letter that United are persisting with their destructive policy of endeavoring to turn C-W business in Europe when they, themselves, cannot get it, to the hands of the French, Poles, or, indeed, anyone else.

Senator BONE. May I ask one other question?

I am referring now to this question of patents. Do you file these patents, or do these companies that pool their patents file them in all foreign countries to protect their patent rights?

Mr. HOTCHKISS. I cannot answer that definitely. I think under the cross-license agreement there is no such obligation. In certain instances, of course, I know the patents are also filed in the foreign country.

Senator BONE. If you did not file your patents there and claim protection of the laws of those nations any firm over there might very readily manufacture your plane without any interference from you?

Mr. HOTCHKISS. That is true. I say I do not know as to what the practice of all the companies is. I know in one case one company that I am most familiar with filed them in all the important countries for their protection.

Senator BONE. That is the general practice, not confined to airplane companies because naturally any concern that wants to protect its product will claim a patent in a foreign country.

Mr. HOTCHKISS. That is correct.

Mr. HISS. Mr. Allard, I want to refer you to one more document, a letter of June 4, 1930, which I will ask to have marked "Exhibit No. 295."

(The letter referred to was marked "Exhibit No. 295" and is included in the appendix on p. 885.)

Mr. HISS. This is a letter from Randolph Cautley and is a report marked "confidential."

Can you identify Randolph Cautley?

Mr. ALLARD. He was an employee of Wright Aeronautical Co. at one time. I do not know what position he held, I think it was in sales or advertising.

Mr. HISS. The subject is Wright-engines business in Jugoslavia and in the fifth paragraph Mr. Cautley says:

The immediate order for 180 Whirlwinds has—

Whirlwinds are Wright aeronautical engines?

Mr. ALLARD. Yes.

Mr. HISS (reading):

The immediate order for 180 Whirlwinds has evaporated into thin, hot air. Jugoslavia will insist on going through the motions at least of taking a manufacturing license before ordering any such quantity. This does not mean that the 180 cannot eventually be resuscitated. Conditions change, depending upon who gets the graft and how much. For example, Lorraine and Potez, Salmson and Hauriot—

Are they all French companies?

Mr. ALLARD. Yes.

Mr. HISS (reading):

were first in the field here and cleaned up for a while. Now it is Gnome Rhone and Breguet sitting on top, with Renault coming up and Lorraine going down.

Those are all French companies?

Mr. ALLARD. Yes.

Mr. HISS. The reference to conditions, it depending on who gets the graft and how much, plus the reference that it does not mean that the order for 180 Whirlwinds cannot eventually be resuscitated—those two follow each other, does that mean that Mr. Cautley thought that by the use of graft he could secure a contract for 180 Wright engines?

Mr. ALLARD. I do not know what Mr. Cautley thought of this. It was his idea.

Mr. HISS. Did your company approve any such method of doing business?

Mr. ALLARD. No.

Mr. HISS. That is all, Mr. Chairman.

The CHAIRMAN. Gentlemen, we will ask you to return here at 10 o'clock in the morning, to which time we will stand in recess.

(Whereupon at 5 p.m., the committee took a recess until Tuesday, September 11, 1934, at 10 a.m.)



# INVESTIGATION OF MUNITIONS INDUSTRY

**TUESDAY, SEPTEMBER 11, 1934**

UNITED STATES SENATE,  
SPECIAL COMMITTEE TO INVESTIGATE  
THE MUNITIONS INDUSTRY,  
*Washington, D.C.*

The hearing was resumed at 10 a.m., pursuant to the taking of recess, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), Pope, George.

Also present: Alger Hiss, investigator.

The CHAIRMAN. The committee will be in order. Mr. Hiss, you may proceed.

## **FURTHER TESTIMONY OF J. S. ALLARD, HENRY G. HOTCHKISS, AND CLARENCE W. WEBSTER**

Mr. HOTCHKISS. Mr. Chairman, I wonder if I may at this point refer to the chart which we spoke about yesterday, and certain of the testimony which I have examined and which I think does not give a correct picture as I understand it. If I may, I would like to clear that up.

The CHAIRMAN. Surely.

Mr. HOTCHKISS. The Sperry Corporation was formed in April 1933. All of its stock was delivered to North American Aviation, Inc., shown on that chart above, in exchange for the stock of Sperry Gyroscope Co., Ford Instrument Co., and approximately 5 percent of the Curtiss-Wright stock owned by the North American and the stock of Intercontinent Aviation.

Now at the time when that exchange was made General Motors had no stock interest whatever in North American, neither General Motors nor General Aviation Corporation.

The CHAIRMAN. Prior to that time?

Mr. HOTCHKISS. At the time when this exchange which I am speaking of was made. Following that, North American Aviation delivered to its some 25,000 stockholders voting-trust certificates representing all of the stock of the Sperry Corporation. Now, none of the 25,000 stockholders at that time included either General Motors Corporation or General Aviation Corporation.

The result was, then, that Sperry Corporation owned the companies that I have mentioned—Sperry Gyroscope Co., Ford Instrument Co., Intercontinent Aviation, and approximately 5 percent of stock interest in Curtiss-Wright.

Subsequent to that transaction it is my information that General Aviation Corporation and General Motors Corporation acquired a stock interest in North American Aviation.

Senator POPE. How long subsequently?

Mr. HOTCHKISS. I do not know how long after that, but North American Aviation, in which the General Motors and the General Aviation Corporation acquired an interest, was one which had transportation interests which they had retained. Eastern Air Transport was one of the principal ones, I think, not shown there.

Mr. Hiss. Mr. Hotchkiss, are you saying that the North American stockholders represented as holding 52 percent of its stock, i.e., General Aviation and General Motors, do not hold any of the voting trust certificates of the Sperry Corporation?

Mr. HOTCHKISS. Let me make this clear: They issued out the voting trust certificates of the Sperry Co., I believe, in the nature of a stock dividend to the stockholders. That was a certificate of Sperry and a certificate of North American. Now, at that time General Motors and General Aviation were not, as I am informed, stockholders of North American, and therefore did not receive the stock dividend of the Sperry Corporation.

Now, subsequently, when General Motors acquired a stock interest in North American it was after the stock dividend to which I have referred, and did not, therefore, carry with it, in the nature of things, the voting trust certificate of the Sperry Corporation.

Mr. Hiss. In other words, you are saying that General Motors Corporation and General Aviation Corporation have not acquired any of the voting trust certificates of the Sperry Corporation?

Mr. HOTCHKISS. I do not know whether they have acquired any voting trust certificates in the open market. I simply want to point out that they did not acquire them in connection with the formation of the Sperry Corporation in the major reorganization at that time.

Mr. Hiss. I should like again to call the committee's attention, Mr. Chairman, to the directors of the Curtiss-Wright Corporation and of the Sperry Corporation, who are also on the General Aviation or the North American Aviation. Mr. Hoyt, who is on the board of directors of the Curtiss-Wright, parent corporation, and of several of the subsidiaries, is also a director of the Bendix Aviation, which is shown over there on the chart, in which General Motors has a 25-percent interest.

The CHAIRMAN. The point, Mr. Hiss, is that the control exercised here is as largely through interlocking directorates as it is through stock ownership.

Mr. Hiss. That is correct.

Senator POPE. One question here. It appears that whatever may have been the condition at the time to which you refer, the General Aviation Corporation owns 43 percent plus and General Motors 8 percent plus, making a total of 52 percent. Now is it the condition that this stock now owned by General Aviation and General Motors does not possess voting power so that they can control the affairs?

Mr. HOTCHKISS. No; I am afraid I have not made that clear. That stock, to which you refer, under the North American Aviation block, is, as I understand it, North American stock having full voting rights.

Senator POPE. Yes.

Mr. HOTCHKISS. But it does not include and does not so state any of the voting trust certificates of the Sperry Corporation.

Mr. HISS. I think the way to clear that up is to ask General Aviation Corporation and General Motors Corporation specifically whether, when they acquired stock in North American, they also acquired any of the voting trust certificates of the North American Aviation. "Exhibit No. 296" is a letter dated April 6, 1934, bearing the initials J. S. A., Mr. Allard's initials.

Mr. ALLARD. That is right.

Mr. HISS (continuing). Addressed to Mr. Leighton.

(The letter referred to was marked "Exhibit No. 296", and is included in the appendix on p. 886.)

Mr. HISS. You will recall that yesterday the witnesses stated that the Curtiss-Wright Export Co., which is the foreign selling agency for the Curtiss-Wright group, sold military planes and also sold munitions apart from various planes which they sold. The statement was made that the munitions sold to date all were connected with aviation, although the testimony showed that the Curtiss-Wright Export Co. has received quotations and has negotiated for various munition products not usable in connection with aviation. For example, there was a bid for tanks and various other articles of munitions.

This letter of April 6, 1934, reads as follows [reading]:

To: Mr. B. G. Leighton.

DEAR BRUCE: Mr. B. C. Goss, who is president of the U.S. Ordnance Engineers, Inc., who manufacture chemical warfare munitions, has been approached by an individual in Istanbul in connection with the possible sale of chemical munitions to the Turkish Government and, more recently, with a plan which this Turk has submitted to Mr. Goss for U.S. Ordnance Engineers, Inc., to build a chemical munitions plant in Turkey.

Mr. Goss is very much interested in the proposition, and, incidentally, he tells me it is the only way that Turkey can have successful chemical warfare equipment—by building a factory.

Mr. Goss is planning on going to Turkey in the very near future, probably sailing within the next week or two, and may, possibly, sail with me. However, in the event that we do not arrive together, I am writing him a letter of introduction to you and have suggested that he get in touch with you before he gets in touch with anyone else in Turkey, so that you can give him the benefit of your experience and advice, and see if there is any way in which Curtiss-Wright can participate on a commission basis in his projected business with Turkey. Obviously, we do not want to be involved in any financing or anything else, but merely to get a commission for the assistance which you will give him.

It is true, is it not, Mr. Allard, that the Curtiss-Wright Export Corporation, having a widely flung world selling organization which deals with the military departments of various governments, is available for the sale of munitions on a commission basis, whenever it is profitable to the company?

Mr. ALLARD. That is correct.

#### COMMISSIONS PAID IN CONNECTION WITH FOREIGN SALES

Mr. HISS. Yesterday it was also developed that, for instance, Curtiss competes both with European companies and the United Aircraft group, an American group of companies which resorted to what was characterized yesterday as "unfair tactics", and the Curtiss competitors indulge in what Mr. Webster referred to in quotations as

"commissions" to various agents, and Mr. Allard stated that his company, so long as he was president and so long as he had been connected with it—which is 6 years, Mr. Allard?

Mr. ALLARD. Correct.

Mr. HISS (continuing). Had not engaged in any such practices.

Mr. Allard, do you remember a Mr. Gordon B. Enders?

Mr. ALLARD. In China?

Mr. HISS. In connection with China; yes, sir.

Mr. ALLARD. Yes; I do.

Mr. HISS. Did Mr. Enders approach your company for some kind of business?

Mr. ALLARD. I do not remember. I would have to refresh my memory, if you have something there.

Mr. HISS. This will be "Exhibit No. 297." It is a letter of July 21, 1930, signed "Jack." That is you, Mr. Allard?

Mr. ALLARD. That is right.

Mr. HISS. It is addressed to Mr. Burdette S. Wright, who is a vice president of the parent corporation in Washington.

(The letter referred to was marked "Exhibit No. 297" and is included in the appendix on p. 886.)

Mr. HISS. That letter reads as follows [reading]:

Thanks for yours of the 17th regarding Mr. Gordon B. Enders and E. F. Baskey. The information is most interesting, and, while I realize that the ethics of the transaction are very questionable, from all I gather most Chinese business is unethical, and I still think that I would like to have had a chance at the Chinese business that Enders apparently had in his hand.

This, of course, is not official, but it is confidential between you and me. I do think that if Enders had come in here with cash to buy a lot of aviation equipment to be sent to China and the State Department gave us approval, I would not care much who Enders was as long as I got the cash, and the State Department approved the shipment of the aeroplanes. Under present conditions we did not get a chance to contact with him; therefore, we can stick up our noses in the air and say that we prefer not to associate with men of his calibre, but the truth of the matter is, I wish we had gotten the order.

Do you remember what that business was?

Mr. ALLARD. I have not any idea what the details of the business were. We did not get the business, obviously.

Mr. HISS. Mr. Webster, you were engaged in selling in South America and are, I assume, familiar with the business transactions which your company has carried on in Bolivia.

Mr. WEBSTER. Yes, sir.

Mr. HISS. Do you remember a Mr. Cueto Pozo?

Mr. WEBSTER. Yes, sir.

Mr. HISS. Was he an agent of the Export Co.?

Mr. WEBSTER. Yes, sir; he was, for a short time.

Mr. HISS. Did the Export Co. pay him any commissions?

Mr. WEBSTER. Yes; they did.

Mr. HISS. Was he at the same time an employee of the Bolivian Government?

Mr. WEBSTER. Yes, sir.

Mr. HISS. Was he discharged by the Bolivian Government when they discovered that he was receiving commissions from the Curtiss-Wright Co.?

Mr. WEBSTER. I believe that he was either asked to resign or did resign when we were advised that the Government did not wish to

have anyone in their employ act as agents for any manufacturing company.

Mr. HISS. What was his position with the Bolivian Government, Mr. Webster?

Mr. WEBSTER. I am not exactly sure. I could not tell you exactly what his position was. It was a minor position.

Mr. HISS. Was he in the Foreign Office of the Bolivian Government?

Mr. WEBSTER. I believe it was some connection with the Foreign Office.

Mr. HISS. "Exhibit No. 298" is a letter of March 24, 1933, to Mr. Webster, signed "Cliff." Is that Mr. Travis?

Mr. WEBSTER. That is Mr. Travis.

Mr. HISS. Who at that time was an employee of the Export Co.?

Mr. WEBSTER. Yes; he was an employee of the Export Corporation.

(The letter referred to was marked "Exhibit No. 298" and is included in the appendix on p. 887.)

Mr. HISS. This letter contains the following statement by Mr. Travis with reference to Cueto Pozo:

I got a look at some documents yesterday that bear authority, and although they were confidential, I took some notes, Cueto files the following information regarding himself and his business:

Importer of manufactured articles; exporter of national articles; agent of foreign manufacturers; languages—English, Spanish, French. \* \* \*; organization—private; business done on own account on commission basis.

\* \* \* Commercial references—Bell & Howell, Chicago; Curtiss-Wright Export; Mack Motor Truck Corporation, N.Y.; \* \* \* Bellanca Aircraft, New Castle, Del.

There was no references from any of the commercial firms mentioned, but the two banks here were requested to send in their recommendations and we find the following:

Banco Central—Feb. 25, 1933: "Mr. Cueto Pozo has an agency to act occasionally for Curtiss Airplanes on a commission basis. At the time of taking this agency Mr. Cueto Pozo was in the Ministry of Foreign Affairs. In order to safeguard Government money he was discharged from the position in the Ministry of Foreign Affairs. As a private person he does not own any real estate, nor does he have any money. At present there is a commission appointed by the Government to investigate concerning the sales of airplanes and trucks to the Government and establish whether Mr. Cueto Pozo and others have been unduly zealous in their private dealings with the Government."

Mr. WEBSTER. Have you finished with that, Mr. Hiss?

Mr. HISS. That is all. Do you want to make a statement on it?

Mr. WEBSTER. I would like to explain that at the time we made a connection with Mr. Cueto Pozo it was with the knowledge of the Government, and in conversation after I arrived in La Paz—we engaged Mr. Cueto Pozo before we had met him. We engaged him more or less by mail or cable. He said that he was in a position to represent us there and we made a temporary arrangement with him. Later, when I arrived in Bolivia, I found, in talking with Government officials, that it was not their desire to have an employee of the Government act as an agent for manufacturers. Therefore, we severed our connections with Mr. Cueto Pozo. He was paid a certain commission because we had an agreement with him, and then his services were terminated.

Mr. HISS. At the time that you had this arrangement with him, did you know that he was an employee of the Bolivian Government?

Mr. WEBSTER. Oh, yes; and it was more or less with the approval of, that is, the Government knew he was acting for us because he handled the representatives there.

Mr. HISS. Did the Export Corporation also employ an agent in Bolivia whose name was Pancho Echenique?

Mr. WEBSTER. We did not employ Mr. Echenique. Mr. Echenique, who was a Chilean national and who was well known in Bolivia, went to Bolivia at his own expense, and after arriving in Bolivia cabled us that he was in a position to handle certain business, which was apparently pending, and we told Mr. Echenique if he was responsible for handling any business there for us, that we would take care of him on a commission basis. He was not an employee of the company.

Mr. HISS. Was he an employee of the Bolivian Government at the time?

Mr. WEBSTER. No, sir.

Mr. HISS. May I call your attention to "Exhibit No. 299", being a letter dated February 9, 1933, from yourself, Mr. Webster, to Mr. Echenique?

Mr. WEBSTER. Do you know where that was written from?

Mr. HISS. No; I am afraid I do not. That is all that appears in your files. Probably from South America.

Mr. WEBSTER. I think so; yes, sir.

(The letter referred to was marked "Exhibit No. 299" and is included in the appendix on p. 888.)

Mr. HISS. That letter reads as follows, in part [reading]:

The Bolivian Government business has been handled and controlled entirely by Mr. Lopez, comptroller general, \* \* \*

Was he comptroller general of Bolivia?

Mr. WEBSTER. Yes, sir.

Mr. HISS. And in charge of the purchases?

Mr. WEBSTER. No; he was not in charge of purchases. He was comptroller general, and in that way all contracts passed through his hands and payment was authorized through the comptroller's office.

Mr. HISS. He had charge of certifying to payment on Government contracts?

Mr. WEBSTER. Yes, sir.

Mr. HISS (continuing reading):

and when I was in La Paz, he was very much upset and concerned because of the fact that we had been dealing through an agent and paying a commission on the business. He insisted that all business be handled directly between the Government and ourselves, and that no commissions would be permitted by the Government. He took immediate steps to discharge from Government service Mr. Cueto Pozo, and deducted from our bills the commissions which were supposed to have been paid. \* \* \*

I told you when I was in Santiago that I would do the best I could for you but that it was impossible for me to name a definite amount and this arrangement will have to stand until we have concluded our business dealings with the Government.

The reason for your not being able to pay Mr. Echenique; that is, to enter into an agreement with Mr. Echenique as to commissions, was because Mr. Lopez was opposed to the Bolivian Government dealing through an agent?

Mr. WEBSTER. Not necessarily. It was because we had not yet terminated, or rather arranged, a settlement with Mr. Cueto Pozo. We did not know what expense we would be forced to pay in order to terminate our contract or arrangement with Mr. Cueto Pozo.

Mr. HISS. You wrote this letter in 1933, Mr. Webster, and you state that "he", Mr. Lopez, "insisted that all business be handled directly between the Government and ourselves, and that no commissions would be permitted by the Government."

Mr. WEBSTER. That is correct.

Mr. HISS. Is that the reason?

Mr. WEBSTER. That is partially the reason; yes, sir. The fact that the situation was somewhat unsettled and we could not make an arrangement with the agent for the commissions.

Mr. HISS. What is the name of the firm in Bolivia that represents the export company, the permanent agent in Bolivia?

Mr. WEBSTER. Webster & Ashton.

Mr. HISS. Do you pay them a commission? Does the export company pay them a commission on sales?

Mr. WEBSTER. Either a commission or a definite set amount on certain contracts; not always on a commission basis.

Mr. HISS. I offer as "Exhibit No. 300" a letter of March 29, 1933, signed "Cliff." That is Mr. Travis. The letter is to Mr. Webster.

(The letter referred to was marked "Exhibit No. 300", and is included in the appendix on p. 888.)

Mr. HISS (reading):

There is a firm here in La Paz, Webster & Ashton, formerly Webster & Finnigan, Casilla 144, that is a local business outfit with a branch in Oruro. They have the agency for International Harvester Export and have done considerable business with the Bolivian Government in trucks. They carry on national business as well. They want the agency for us in Bolivia and I have thoroughly looked up the standing of the firm, find it O.K., have talked with the American Minister, Feely, and have known both Webster and Ashton personally since my first arrival here. Lopez called me in to talk it over and informed me that the Government was willing to do business with an accredited firm but not with an individual, and that they were willing to pay a reasonable commission on business with us for the convenience of having some one here at all times.

Did Mr. Lopez have any interest in the firm of Webster & Ashton, which he recommended?

Mr. WEBSTER. To my knowledge he has no interest. I have heard it said that he was a partner with Webster & Ashton on possibly not their entire business, but in a small manufacturing company which they had there; and I believe this was even prior to the trouble, or the war then between Bolivia and Paraguay. To my personal knowledge I do not know whether he is a partner of Webster & Ashton. I have heard it said that he is.

Mr. HISS. May I call your attention to a further part of this letter which says:

There is one thing that comes to my attention with regard to this, although I believe everything is above board and on the level. Lopez is in with Webster & Ashton on a hat factory and a retail clothing and furniture business here and it is extremely difficult in view of the control board to get dollars for the necessary imports for their business. Having an agency for American goods would enable them to carry their commission in dollars in New York. There may be some kind of a combination between the parties but the thing as put up to me sounds O.K. and on the level.

Mr. WEBSTER. Also in the next sentence he says, "Feely thinks it is square." Feely was the American Minister.

Mr. HISS. That is correct. The next sentence is, "Feely thinks it is square."

I will offer as "Exhibit No. 301" a letter from Mr. Travis, signed "Cliff", to Mr. Webster, from Bolivia, dated September 21, 1933.

(The letter referred to was marked "Exhibit No. 301" and is included in the appendix on p. 890.)

Mr. HISS (reading):

Regarding the commission to be paid Activos, \* \* \*

Is that the cable name of Webster & Ashton?

Mr. WEBSTER. That is correct.

Mr. HISS (continues reading):

\* \* \* I cabled that my recommendation was 5 percent of the total amount of the last order. That would be 5 percent of \$97,180.00, or nearly \$5,000.00. As you know, that order was put through by me some time ago but Activos were darned helpful on the final details of the deal and were entirely responsible for getting the money in cash; something that no one else without their contacts and influence could have done so easily, if at all. For your own information, Lopez is, and has been for some time, a silent partner of Activos, and is interested to quite an extent in the agency and their textile and hat factories. That is not common knowledge but it makes it necessary to play ball with the tall friend. \* \* \*

By the "tall friend" he had reference to Mr. Lopez?

Mr. WEBSTER. Yes.

Mr. HISS (reading):

\* \* \* as he is the deciding factor in all purchases—more so than the President himself. Do not mistake me—Lopez is one of the few honest men in this country, and although he has a personal interest in the sale of Curtiss planes and equipment, he would not let the order go through unless the stuff was entirely satisfactory. Let me give you some extremely confidential dope that I picked up, no matter where, but it was in writing:

1. Jorge Zalles, vice pres. of Grace & Co., used the Cueto affair as a lever to try to influence Lopez through the New York consul to eliminate Curtiss and take up United Aircraft through Grace. They told Lopez that they could supply Hawks at \$23,000 and Ospreys at \$17,000.

2. When the last three planes (that have just been delivered) were on order the purchase was nearly cancelled because of interference of the Kundt-Bilbao combination \* \* \*."

Were they Germans connected with the Bolivian Government?

Mr. WEBSTER. Kundt was General Kundt, in command of the Bolivian Army.

Mr. HISS. Was he a German?

Mr. WEBSTER. And Bilbao is a native Bolivian pilot who was recently killed—about 3 weeks ago.

Mr. HISS (continues reading):

\* \* \* through the Minister of War, Hertzog, to the President. Except for Lopez and the pilots (as well as my visit here at the time to straighten out the complaints), the order would have been cancelled and the business given to United Aircraft and Fokker.

3. Due to Lopez and Activos we were able to arrange full payment on the last order through irrevocable credit. The President's instructions were to make payment in the same form as before—35 percent only after planes were tested and delivered.

4. Lopez has been offered 10 percent on planes and 20 percent on spares if he will help swing the business to Fokker. Vickers made him the same offer. (I have told Activos that we cannot pay more than a flat 5 percent on all Curtiss business at the present quotations.)



5. Lopez and Activos have practically assured our future by combatting the competition, although they could have cleaned up by putting in United or Vickers.

6. Colonel Williams, American fiscal agent for Bolivia, has told the Government that United is much bigger than Curtiss. I can't quite see where that comes in nor where it fits into the picture.

Colonel Williams was an American representative in Bolivia?

Mr. WEBSTER. Yes, sir.

Mr. HISS. And an officer employed by Bolivia?

Mr. WEBSTER. An officer, I believe, employed in Bolivia. I do not know just what the arrangements were.

Senator POPE. Was he also employed by the United States Government?

Mr. WEBSTER. I do not believe so, Senator. I think he was an American employed by the Bolivian Government as a fiscal agent—to assist them in their financial affairs.

The CHAIRMAN. Was it a case of a loan of this agent by our Government to Bolivia?

Mr. WEBSTER. I do not know, sir.

Mr. HISS. Had he formerly been in the State Department of the United States?

Mr. WEBSTER. I do not know. I have never met Colonel Williams; I do not know who he is.

The CHAIRMAN. Mr. Hiss, has the full name of Mr. Lopez been given, or does the record just carry him as Lopez?

Mr. HISS. Just as Lopez. Can you give his full name, Mr. Webster?

Mr. WEBSTER. I do not know his full name. It is very easily obtained, but I could not tell you off hand.

Mr. Hiss (continuing with this letter):

So in view of the strong combination working in our behalf, I think we should allow the 5 percent on the last order in order to keep the machinery well oiled. Our prices can stand it, although our selling costs have been rather high. Spare parts selling at list should make a fair margin for us, and I understand that the Osprey carries a fair margin at \$18,000 with 10 percent allowed for commission. (I should know more about the internal workings of that side of the game if I am to be of maximum value to the company.) We have never had a chance to get together for a good old instructive critique in the year that I have been with the company, and I am looking forward with much enthusiasm to our meeting in Lima next month. Naturally, I want to put out everything I've got for you and there are a few dark corners—dark as far as I am concerned—that I would like to get an inside glimpse of.

I don't know whether I have mentioned it before, but be careful what dope you put out to Decker.

Who is Decker?

Mr. WEBSTER. Decker is the consul general in New York.

Mr. Hiss (continuing reading):

Contact Activos before quoting any prices to anyone and get together with them. They are on the up and up, but I know the situation here well enough to tell you to do this. There is a hell of a lot of intrigue down here, and an unwise word to Decker might start a lot of unpleasantness for us. You know the game, so you understand the situation.

I offer as "Exhibit No. 302" a letter dated May 23, 1933, from Owen Shannon to Captain Travis in Bolivia.

(The letter referred to was marked "Exhibit No. 302" and is included in the appendix on p. 892.)

Mr. Hiss (reading):

The Consul General here—a good old scout named Decker \* \* \*

That is the Consul General of Bolivia in New York?

Mr. WEBSTER. Yes.

Mr. Hiss (continues reading):

\* \* \* keeps on asking us what they are doing with the Hawks and Ospreys—we keep telling him we don't know, as you never discuss their activities in your letters, which is just as well because I am sure anything we told him would be cabled down to La Paz promptly. He seems to have a mania for saving the Government money and passing everything he hears on to them.

Did Mr. Lopez also have a mania for saving the Bolivian Government money, Mr. Webster?

Mr. WEBSTER. I believe he did; yes.

Mr. Hiss. Would you say that the desire on the part of a government official to save his government money was a mania?

Mr. WEBSTER. Pardon me, what is that question?

Mr. Hiss. Would you say the desire on the part of a government official to save the government money was a mania?

Mr. WEBSTER. I would not exactly call it a mania; no, sir.

Mr. Hiss. Mr. Shannon did.

Mr. WEBSTER. I do not believe I would express it that way.

Mr. Hiss. I offer as "Exhibit No. 303" a letter dated May 30, 1933, signed by "Cliff", that is Mr. Travis, to "Dear Web." That is yourself, Mr. Webster?

Mr. WEBSTER. Yes, sir.

(The letter referred to was marked "Exhibit No. 303", and is included in the appendix on p. 892.)

Mr. Hiss (reading):

I have already informed Ashton that, in view of the fact that the present pending order was negotiated by myself and that no commission was included in the quotations, he will not be entitled to much, if anything, on the deal. Naturally, he will have to be given something as well as a couple of others.

Did others have to receive commissions besides your regular agent? Was that the situation in Bolivia, Mr. Webster?

Mr. WEBSTER. I am not sure, but I assume possibly that Webster & Ashton took care of other people. I do not know of my personal knowledge, but I assume that they did take care of other people.

Mr. Hiss. What kind of other people, Mr. Webster?

Mr. WEBSTER. Well, possibly people with a greater technical knowledge than they had of aviation. Webster & Ashton were not entirely familiar—in fact, they were not familiar at all, you might say, with the technical part of airplanes; and I believe it would be necessary at times for them to employ others who could discuss the technical parts of airplanes.

The CHAIRMAN. Might they, by any chance, have been agents of the Government, officials of the Government?

Mr. WEBSTER. They could have, sir. But I could not state for sure.

The CHAIRMAN. I think it has been said here repeatedly that your company did not approve?

Mr. WEBSTER. We do not approve of that, sir; no. But we cannot very well control the acts of our agents at all times. They may do something we do not know of.

The CHAIRMAN. Is there of record, any place, a scolding by your company officials of agents who have been known to employ these methods?

Mr. WEBSTER. I do not know that there is any record, Senator; but I know that in many of our conversations we have made it plain that we do not like to do that thing, if it is possible. It involves unpleasantness sometimes.

The CHAIRMAN. Your policy is one of employing, in many instances, men who have connections with the Government. Can that be said to be true?

Mr. WEBSTER. Yes, sir; that is correct. That is, men employed by the Government, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. WEBSTER. There are very few instances where we have employed or taken anybody on, who are employed by governments.

The CHAIRMAN. How can we put two and two together and say that while you employ, in instances, this kind of help, yet you do not approve?

Mr. WEBSTER. Sometimes it is necessary to employ people who know the country and the customs to handle our affairs there.

The CHAIRMAN. If you were to employ an admiral, or if you were to pay commissions to an admiral, or to a general, or to someone connected with the War or Navy Departments to help persuade the Government to enter into a contract, that would be helpful to your company, would you call that a commission?

Mr. WEBSTER. That would be a very polite word for it, Mr. Chairman.

The CHAIRMAN. In fact, it would be bribery, would it not?

Mr. WEBSTER. It would. It is a rather harsh word, but it would be, strictly speaking.

The CHAIRMAN. Why do you call it by any other name than that, when you resort to that method in other countries?

Mr. WEBSTER. It is a nicer way of putting it, Senator.

Senator POPE. In the statement made by Mr. Travis in the letter which has been referred to, he puts it this way:

I think we should allow the 5 percent on the last order in order to keep the machinery well oiled.

Mr. WEBSTER. That is expressing it a different way.

Senator POPE. That was a letter received by you from him?

Mr. WEBSTER. Yes.

Senator POPE. Do you recall in your reply that you made any reference to that statement?

Mr. WEBSTER. I do not believe so. I do not recollect it.

I might state in connection with Mr. Lopez, it is my understanding that Mr. Lopez, for several years, a number of years, had been interested in commercial line of business with Webster & Ashton and possibly before he assumed his official position with the Government. My experience has been that Mr. Lopez is a very fine type of man.

Mr. HISS. You, at the time of this correspondence, were president of the Export Co., were you not, Mr. Webster?

Mr. WEBSTER. At this time; yes.

Mr. HISS. Prior to June 1933?

Mr. WEBSTER. Yes.

Mr. HISS. And Mr. Travis recommended Webster & Ashton be made your agents, in part at least on the ground that Mr. Lopez favored that particular firm.

Mr. WEBSTER. Yes, sir. It is quite logical, if they were purchasing from us, that we should have somebody there at all times to represent our interests and form a closer contact. In fact, the connection with Webster & Ashton was discussed with the American Minister there and the American Minister recommended Webster & Ashton.

Mr. HISS. Mr. Lopez also specifically recommended Webster & Ashton, did he not?

Mr. WEBSTER. I think so; I am not sure. I think Mr. Travis refers to it in one of his letters.

Mr. HISS. That is correct—in an exhibit that has been introduced. In the postscript to “Exhibit No. 303”, from which we were reading, the letter of May 30, 1933, Mr. Travis says:

Just got notice from the President through Lopez that the Bolivian Consul in N.Y. cabled that Hawks and Ospreys be secured for 23,000 and 17,000, respectively. I cabled the office today about it. Sure threw a wrench in the machinery and raised Hell in general. May spoil our business but will do all I can to save the situation and our prices.

Does that mean that the consul general had gotten the direct quotation in New York from the Curtiss group?

Mr. WEBSTER. No, sir. Apparently somebody had told him that he could purchase at a cheaper price, which was not so.

Mr. HISS. If the Bolivian Government had dealt directly with your company, could they have secured Hawks and Ospreys at a cheaper price than they did secure them through Webster & Ashton?

Mr. WEBSTER. I do not believe they could, sir, because it would have been necessary then to maintain our own people in Bolivia to handle our business.

Mr. HISS. I offer as “Exhibit No. 304” a letter dated November 6, 1933, from Mr. Shannon to J. A. B. Smith and Mr. J. S. Allard.

Mr. Smith is an officer of the Export Co.?

Mr. ALLARD. No.

Mr. HISS. Is he a director of the Export Co.?

Mr. ALLARD. Yes; he is treasurer of the parent company.

Mr. HISS. This letter quotes a letter received from Mr. Webster in regard to Bolivia.

(The letter referred to was marked “Exhibit No. 304” and is included in the appendix on p. 894.)

Mr. HISS. This letter says in regard to Bolivia as follows:

Here the situation is also very interesting. I have had one long joint session with the Minister of Finance, Lopez, the Minister of War, and the Minister of Transportation, and another one is scheduled for 6 o'clock tonight. My one great job is to sell from three to 10 Condors. The matter has been talked over with the President, and it looks very favorable. The Minister of War and the Chief of Staff is leaving tomorrow for the Chaco, to be gone a week or two, and they are taking down all the specifications, photographs, and drawings to discuss with General Kundt. The one big problem will be the financing, and we are to go into that this evening. The order may be split up to satisfy Gen. Kundt and the Lloyd Boliviano Company, and possibly three out of the 10 ships may have to go to Junkers, although our performance, etc., is better.

Any price I quote will include 5% for Ashton & Webster, and in this connection we will allow them the 5% on past sales. It seems highly advisable as Lopez who is the President's right arm, is a silent partner of the company. His

attitude now is entirely different than it was a year ago and he is sure pushing our stuff.

Mr. WEBSTER. I might say in that connection that the inference I believe you are drawing is that Mr. Lopez was favoring us because of his connection with Webster & Ashton. In this connection I might say that I am quite convinced that Mr. Lopez was favoring us because of the service and the performance that we were able to give with that material. We kept two of our men down there—a service man and a pilot—representatives of ours, in order to see that our material did give good service. They were entirely satisfied with the performance of our planes. They had had some very unsatisfactory experiences with other types and I think they were entirely satisfied with ours. I think that is the reason Mr. Lopez was in favor of our equipment.

Senator POPE. I should like to refer back to exhibit 301, at the top of the first page where it says:

Shorty is going to the Chaco next Friday to look things over to give some much needed instructions to the mechanics.

Who was Shorty?

Mr. WEBSTER. That is a mechanic, Mr. Harry Berger, a service mechanic of ours, in South America.

Senator POPE. That was during the time of the hostilities between Paraguay and Bolivia?

Mr. WEBSTER. Yes, sir. It says instructions, but what he refers to there is how to take care properly of those engines and not to burn them up. It was necessary to use very high-test gasoline and they had had some engine trouble due to overheating, etc. They had not been using the proper gasoline. It was in our own protection, to see that our own equipment was operating properly. You know, you can burn an engine up very quickly if you do not take care of it.

Senator POPE. You did not consider the element of neutrality there at that time?

Mr. WEBSTER. No, sir. I really do not think that is involved there. This is one of our mechanics, on our own payroll, simply correcting a possible fault in one of our engines.

Mr. HISS. Mr. Allard, your company has sold planes to the Swissair, a Swiss commercial transport company?

Mr. ALLARD. That is correct.

Mr. HISS. Do you know Mr. Zimmermann of that company?

Mr. ALLARD. I have met him in this country.

Mr. HISS. What is his connection with that company?

Mr. ALLARD. I understand he is managing director of Swissair.

Mr. HISS. Has your company ever paid Mr. Zimmermann, managing director of Swissair, a commission on sales?

Mr. ALLARD. I believe we have; commercial sales.

Mr. HISS. I offer as "Exhibits No. 305 and No. 306" two letters, one of January 4, 1932, and one of January 26, 1933.

(The letter of Jan. 4, 1932, was marked "Exhibit No. 305", and is included in the appendix on p. 894.)

(The letter of Jan. 26, 1933, was marked "Exhibit No. 306", and is included in the appendix on p. 895.)

Mr. HISS. We can take up both these exhibits at the same time. In "Exhibit No. 305", a letter from Philip Shepley, dated January

4, 1932—Mr. Shepley was an employee of the Curtiss-Wright Export Co., stationed in Europe at that time?

Mr. ALLARD. No; in New York.

Mr. HISS. This is to Mr. Allard, and it says:

I understand verbally from Mr. Goulding that \* \* \*

He was an official of the Export Co.?

Mr. ALLARD. Yes.

Mr. HISS (reading):

\* \* \* that from now on we are to reserve a 5-percent commission for Mr. Zimmermann on all purchases by Swissair both for their own use as well as for resale.

To whom did the Swissair Co. resell?

Mr. ALLARD. Possibly to other transport companies.

Mr. HISS. To transport companies in Switzerland?

Mr. ALLARD. Or individuals; I imagine so.

Mr. HISS. Do you know of any other Swiss transport companies?

Mr. WEBSTER. I do not know offhand; no.

Mr. HISS (continuing reading):

I am not sure, however, how Mr. Zimmermann wants this handled—whether confidentially or otherwise. When you find this out in your conversations with him, please let me know.

Do you know how it was handled?

Mr. ALLARD. No; I do not. I think it is a matter of record on our books.

Mr. HISS. "Exhibit No. 306", which is dated January 26, 1933, is from Mr. Goulding to Mr. Woodling.

Who is Mr. Woodling?

Mr. ALLARD. He was an employee of the Export Co., a book-keeper.

Mr. HISS. It is headed "Switzerland—Commissions." It reads:

A special, confidential arrangement has been made with Mr. B. Zimmermann to pay him a commission of five percent of the list price on all Curtiss-Wright engines or spart parts sold in Switzerland.

That means to any company in Switzerland; any purchaser?

Mr. ALLARD. Yes, sir.

Mr. HISS (continuing reading):

This commission is to be five percent on the list price on such sales.

While I am paying Mr. Zimmerman, in cash, commission to which he is entitled on sales order no. 1902, invoice #2946, namely, \$76.99, because he happens to be in this country at the present time, the regular procedure which I have arranged with him is to send bankers drafts drawn to the order of B. Zimmerman, and addressed to him at his home address. \* \* \*

Mr. ALLARD. That is correct.

Mr. HISS. Not to his official address?

Mr. ALLARD. That is correct.

Mr. HISS. Do you approve paying commissions to directors of companies purchasing from you, Mr. Allard?

Mr. ALLARD. Under certain circumstances; yes.

Mr. HISS. Do you not consider that it is a director's duty to disclose all commissions to his company?

Mr. ALLARD. I do not know what the laws or business practices are as to firms in foreign countries.

Mr. HISS. Did you inquire before you entered into a confidential arrangement with Mr. Zimmermann?

Mr. ALLARD. No. Mr. Zimmermann was the top man in his company and requested that. It seemed perfectly in order.

Mr. HISS. Has your company done business in Greece, Mr. Allard?

Mr. ALLARD. I do not recall any orders—possibly one airplane, one commercial airplane; maybe some odds and ends of smaller things.

Mr. HISS. Have you a permanent agency in Greece?

Mr. ALLARD. I believe we have.

Mr. HISS. Do you remember the name of it?

Mr. ALLARD. No; but I would recognize it if I heard it.

Mr. HISS. Is it the Societe Financiere at Technique de Grece.

Mr. ALLARD. I believe that is it.

Mr. HISS. And is Mr. Artemis Denaxas an official of that company?

Mr. ALLARD. I believe he is.

Mr. HISS. I offer as "Exhibit No. 307" a letter of August 22, 1933, by Mr. Artemis Denaxas to Mr. Goulding, vice president of the Curtiss-Wright Export Corporation.

(The letter referred to was marked "Exhibit No. 307".)

Mr. HISS. That letter reads:

Referring to the copies of correspondence we have sent you and by which we tried to give you an idea of the possibilities of doing some business here, I am happy today to be able to communicate to you a very important but strictly confidential information.

I have succeeded to persuade the Air Minister through a common friend to give his preference to your material.

As, however, he did not like to commit himself with a corporation like ours we decided the following:

You should address by return of mail a letter to the Societe Financiere et Technique de Grece 10, Metropole Street and write them that on all orders of your material you will allow a commission of 5 percent.

At the same time you write to me a private letter saying that on all orders of your material either through the Societe Financiere et Technique de Grece or direct by the Greek Government you will allow me a commission of 5 percent.

I shall transfer this letter to the friend of the Minister in order to guarantee him that he shall get his profits without this transaction being disclosed to thirds.

Please therefore be kind enough to let us have by return of mail the above two letters.

Was any such agreement ever entered into with your agent in Greece?

Mr. ALLARD. I do not know. The files would show it if there were.

Mr. HISS. They are still your agents at the present time, the Societe Financiere et Technique de Grece?

Mr. ALLARD. I believe they are; yes.

Mr. HISS. To refresh your memory, I might call your attention to a letter of November 14, 1933, in which you are quoted by Mr. Emory Flynn—an employee of the Export Co.

Mr. ALLARD. Yes.

Senator POPE. Does that mean, Mr. Hiss, that this secret commission was to be paid to the Air Minister of Greece?

Mr. HISS. Either to him or to his friend. It is not clear from the letter.

Mr. ALLARD. It is not quite clear. It is not known to us, as a matter of fact. It probably was paid to the friend or would have been had we made a sale. We never made any sale.

Mr. HISS. You have made no sale?

Mr. ALLARD. No.

Mr. HISS. Did your company inquire whether this commission would go to the Minister or to a friend?

Mr. ALLARD. Not to my knowledge; no.

Mr. HISS. Has your company done business in San Salvador, Central America?

Mr. ALLARD. I think so.

Mr. HISS. Do you know who your resident agents are there?

Mr. ALLARD. I could not tell you, offhand; no.

Mr. HISS. I offer as "Exhibit No. 308" a letter dated May 6, 1933, from Dada-Dada & Co. to Curtiss-Wright Export Corporation; and I offer as "Exhibit No. 309" a letter dated May 13, 1933, signed "Dada-Dada & Co.", addressed to Curtiss-Wright Export Corporation.

(The letter dated May 6, 1933, was marked "Exhibit No. 308"; and the letter dated May 13, 1933, was marked "Exhibit No. 309"; both letters are included in the appendix on pp. 895, 896.)

Mr. HISS. In the letter, "Exhibit No. 308", Mr. George M. Dada, the writer of the letter, says:

In answer to your cablegram of May 3rd, we have cabled you on May 4th as follows: 'Quote nineteen thousand f.o.b. factory—full payment New York. Writing.'

And then the letter proceeds:

Due to so many offers from other manufacturers, we are working hard, and we offered commission to different intermediaries in this business. This is why we asked you to quote the price given above, as more than 70% of our own commission and discount will be distributed to intermediaries.

And in "Exhibit No. 309", the letter dated May 13, 1933, and directed to the kind attention of Mr. Owen Shannon, the writer says:

Confidential: To get such order we had to use many intermediaries and — friends to whom we are to pay a commission, consequently about 75% of our commission will be paid out to intermediaries, but we do not care for that if we get the order. We know that this first order will bring us many more orders in the near future.

What intermediaries were Dada-Dada & Co. having to pay to secure business in San Salvador?

Mr. WEBSTER. We assume in this particular case, inasmuch as Dada-Dada & Co. were not familiar with aircraft, they would have to employ someone of technical training or experience in order to handle that business intelligently.

Mr. HISS. Is that what an intermediary is, a technical adviser?

Mr. WEBSTER. It could be.

Mr. HISS. Do you think in this letter an intermediary means a technical adviser?

Mr. WEBSTER. I think it would be in this case, because I know Dada-Dada & Co. were not at all familiar with aircraft.

Mr. HISS. You referred earlier to the commissions which Webster & Ashton, your agents in Bolivia, said they would have to pay. Do you also think the commissions they had to pay were for technical advisers rather than to governmental employees?



Mr. WEBSTER. I know that they must have paid something for technical advice. Whether they paid it to others or not, I do not know, but I know they must have paid for technical assistance.

Mr. HISS. Would you think if they were paying for technical assistance there would be any reason for them to fail to disclose or attempt to keep confidential the names of persons who were giving the technical advice?

Mr. WEBSTER. I should not think it would be necessary.

Mr. HISS. Senator Pope suggests that from the letter of May 13, 1933, which I believe is "Exhibit No. 309", the following extract should also be read into the record, to wit:

As you see, we have to pay all charges for freight, insurance, etcetera; the commission left will not even cover our efforts, as we have to pay so much for intermediaries.

I offer as Exhibits 310, 311, and 312 the following letters and cablegrams; as "Exhibit No. 310", cablegram from La Paz dated September 26, 1933, sent by Activos to the Export Co.; as "Exhibit No. 311" a letter signed Webster & Ashton dated September 27, 1933, addressed to Curtiss-Wright Export Corporation; and as "Exhibit No. 312" a cablegram from the Export Corporation addressed to Activos, La Paz, dated September 29, 1933.

(The documents referred to were, respectively, marked "Exhibit No. 310", "Exhibit No. 311", and "Exhibit No. 312", and are included in the appendix on pp. 896, 897.)

Mr. HISS. "Exhibit No. 310", the cablegram dated September 26, 1933, reads as follows:

Please deposit Anglo South American Trust Company order of Luis Yver Vergara four thousand five hundred dollars without mentioning our name. Confirm.

"Exhibit No. 311", the letter dated September 27, 1933, confirming the cable, is signed by Webster & Ashton, I take it, as it is signed "W. & A."

Mr. WEBSTER. Yes, sir.

Mr. ALLARD. Yes, sir.

Mr. HISS. In this letter, "Exhibit No. 311", appears the following statement:

This sum of \$4,500—USC, will go against our commission of 5% on the 2 Hawks and 1 Osprey, plus \$31,180.04 worth of spares, as per arrangement with Captain Travis.

You will no doubt have noted that we do not wish to appear, and it would also be a good thing if you do not appear either.

Why did you think, Mr. Webster, it would be a good thing if the company's name and your name should not appear in any payment to a technical adviser?

Mr. WEBSTER. I have not the slightest idea. I know at the time they requested us to deposit this amount, and apparently there are a cable or two missing in between the one of September 26 and the one of September 29, in which we told them that we did not wish to make any such transaction without their written authority, and I think that is the reason they confirmed it in writing. I believe the reason for paying this deposit was on account of some of their business. It is very difficult at times in South American countries to get dollar exchange, and business people are very anxious in those countries to be able to get dollar exchange.

Mr. HISS. Does your company frequently make payments to your agents under such circumstances as these, without knowing where the commissions will have to go?

Mr. WEBSTER. Yes, sir. They were entitled to this money, the money belonged to them, and if they cabled us and told us to pay it to some bank or some person, there is no reason why we should not pay it, because the funds belonged to them.

Mr. HISS. Faucett and Tobin in Peru represented your company on a commission basis?

Mr. WEBSTER. Yes, sir.

Mr. HISS. I offer as "Exhibit No. 313" a letter dated October 27, 1933, from Mr. Shannon to Mr. Allard.

(The letter referred to was marked "Exhibit No. 313" and is included in the appendix on p. 897.)

Mr. HISS. In this letter, "Exhibit No. 313", the writer quotes a report from Web; that is Mr. Webster?

Mr. WEBSTER. Yes, sir.

Mr. HISS. I read from the report which is quoted in this letter, as follows:

Have given them a price of \$26,400 without armament, f.o.b. New York—for the standard landplane, \$28,500 each for the same ship with armament c.i.f. Callao—for the Falcon attack without armament, \$26,900 f.o.b. New York and \$30,000 with armament c.i.f. Callao. These prices include 5 percent for Faucett and Tobin.

Tobin has been interested in handling your sales?

Mr. WEBSTER. Yes, sir.

Mr. HISS. Reading further, the letter says:

I deliberately increased the price of pontoons to \$4,900 per set f.o.b. New York and \$5,400 c.i.f. Callao, as they will require them, and it will provide funds to pay additional "commissions" which will undoubtedly be necessary. This is the way the Fairey Company handled their last business. They held the complete ship down in price and raised the price of floats, it is not so noticeable.

You stated yesterday that the Fairey Co., "has managed to grease" certain gentlemen. In this letter, which is quoting a report from you, Mr. Webster, you say that you needed additional money for additional commissions, and you quote the word "commissions", which will undoubtedly be necessary.

Mr. WEBSTER. Tobin and Faucett told me they would have to go to considerable expense in setting up and assembling the planes, and they also had to pay commissions to others on that job.

#### RELATIONS WITH FOREIGN OFFICIALS

Mr. HISS. In addition to the commissions which your company had to pay, has your company found it advisable to establish friendly relations with officials of foreign governments with which you do business?

Mr. WEBSTER. How do you mean, "friendly relations"?

Mr. HISS. Have you had officials of foreign governments visit your plant, and have you entertained them, and have you made it a point for your agents to be on personal and friendly relations with them?

Mr. WEBSTER. Naturally they do that in any line of business. I know we have been entertained very well in their country, and if they come up here, I would naturally expect to return the courtesy.

Mr. HISS. Do you also have your friendships primarily with those who are most influential in procuring orders?

Mr. WEBSTER. Not necessarily, but they are mostly my friends, engaged in airship work.

Mr. HISS. Rather business than personal friends?

Mr. WEBSTER. Yes; most of my friends in South America have originated with business people.

Mr. HISS. I offer as "Exhibit No. 314" a letter dated April 16, 1934, addressed by "P. A. H." to Mr. Crosswell.

(The letter referred to was marked "Exhibit No. 314", and is included in the appendix on p. 898.)

Mr. HISS. This letter, "Exhibit No. 314", is written by "P. A. H.", that is Mr. Hewlett?

Mr. ALLARD. That is correct.

Mr. HISS. I read from this letter, "Exhibit No. 314", the following paragraph:

I was very pleased to note that you had such an interesting discussion with Olano at Pensacola and that he was so friendly to you, as I feel that Olano will at a later date be a real asset to us in securing business from the Colombian Government.

Mr. Olano was formerly Consul General of Colombia in New York?

Mr. ALLARD. That is my understanding.

Mr. HISS. He was trained at Pensacola as a flyer?

Mr. ALLARD. I believe so.

Mr. HISS. Your company was influential in getting him trained there?

Mr. ALLARD. I do not know whether we were asked to render any assistance. If we had been asked to help get him trained there, we would have done what we could.

Mr. HISS. He is now director of aviation in Colombia?

Mr. WEBSTER. I do not know whether he is or not, now.

Mr. HISS. He was so appointed in August 1934.

Mr. WEBSTER. Then he is.

Mr. HISS. I offer "Exhibit No. 315", a letter dated May 29, 1934, from Philip Shepley to Mr. William A. Reeks.

(The letter referred to was marked "Exhibit No. 315" and is included in the appendix on p. 899.)

Mr. HISS. Mr. William Reeks is in the employ of the Export Co.?

Mr. ALLARD. No; Reeks is in the employ of the Wright Aeronautical.

Mr. HISS. That is the engine company?

Mr. ALLARD. That is right.

Mr. HISS. I read from this letter as follows:

Referring to your letter of May 23rd, introducing young Lt. Rodriguez.  
\* \* \* I had quite a long talk with him last Friday, in the course of which he told me that he had been up here about six months and had been through the Curtiss Flying School Course at Valley Stream.

Did the Curtiss Co. maintain a flying course for training pilots?

Mr. ALLARD. We did at one time, but not at this date. He had been there previously when that school was running.

Mr. HISS. Reading further from the letter, it says:

His uncle at present holds an important position on the Colombian air force staff and is a close friend of the man who is slated to be the next President of Colombia. If things work out as expected, his uncle will be the next

Minister of War, and young Rodriguez as a result of his instruction and knowledge of aviation secured during his present visit should hold a fairly important position. I don't know, naturally, how true this all is, but I pass it on to you for what it is worth and suggest that it would be worth while to show this fellow some special consideration while he is at the Wright factory.

Senator POPE. Do you know whether that was done?

Mr. ALLARD. I believe he visited the Wright factory and looked at it. Special consideration in that connection, if I might say, would be courtesy in seeing he was properly taken around.

Mr. HISS. I offer as "Exhibit No. 316" a letter from Mr. Webster to Capt. C. K. Travis, dated July 25, 1933.

(The letter referred to is marked "Exhibit No. 316", and is included in the appendix on p. 899.)

Mr. HISS. I read from this letter, "Exhibit No. 316", as follows:

I am sorry that Melgar did not take over the job of inspector general of aviation of Peru, but, possibly, as military attaché in Chile he can still be of considerable service.

Mr. Melgar was an employee of the Peruvian Government?

Mr. WEBSTER. Yes; Captain Melgar at this particular time, I think, was an attaché there in Bolivia or Chile, I am not sure. He was formerly chief of the Peruvian army air corps, and he was one of the few really efficient aircraft officers.

Mr. HISS. I read further from this same letter as follows:

If the government intends to put in a foreigner, and possibly, an American, in charge of aviation, who do they have in mind. I certainly hope that Grove does not go back in Peru. Why not apply for the job yourself and see if we cannot work out a situation whereby we could all profit by it.

What did you have in mind, Mr. Webster, by that sentence?

Mr. WEBSTER. In an advisory way I thought an intelligent American could accomplish a great deal down there in giving them efficient aircraft data. The Peruvian Government had in service about 16 or 18 different kinds of aircraft, and standardization of service would help their upkeep and efficiency.

Mr. HISS. And your company would have profited by this?

Mr. WEBSTER. We may have sold more equipment, and at the same time Peru would have profited by having a standardized air corps.

Mr. HISS. How would Captain Travis profit?

Mr. WEBSTER. He had formerly been employed as chief pilot for the Peruvian Government.

Mr. HISS. I say how could he have profited by this arrangement, by becoming the Peruvian chief of aviation?

Mr. WEBSTER. His salary probably would have been more than we could have paid him.

Mr. HISS. That was your only interest in Mr. Travis taking that particular job?

Mr. WEBSTER. Yes; because at the time it looked as if we would have to let Travis go, as business seemed to be rather poor.

Mr. HISS. He is still one of the men on your staff?

Mr. WEBSTER. He is still employed by us; yes.

Mr. HISS. Now, reading further in this letter, you say, Mr. Webster:

On second thought, however, perhaps this would not be such a good idea; but think it over and let me have your suggestions. The ideal situation, of course, would be to start and steer such a selection in the right direction, and,

with your connections and friendships in Peru, you might suggest one or two men when you return there.

Does your company attempt to select people for foreign positions who will be favorably inclined toward your products?

Mr. WEBSTER. If we could get a combination of an efficient man who would serve, for instance, the Peruvian Government in an efficient way and at the same time select equipment, and providing our equipment was up to specifications and better than the others, it would make a good business combination.

Mr. HISS. Your company is interested in seeing those officials properly serve the foreign government?

Mr. WEBSTER. Yes; because it serves us also. If you purchase intelligently, naturally you are going to be well satisfied with the equipment you get.

Senator POPE. Mr. Hiss just read this sentence:

On second thought, however, perhaps this would not be such a good idea, but think it over and let me have your suggestions.

What raised the question in your mind at that time?

Mr. WEBSTER. I probably had some idea at that time, but I do not recall it now. That was more than a year ago.

Senator POPE. However, he could be disclosed as your agent?

Mr. WEBSTER. Everybody knew Travis had been employed by us, and had been previously employed by the Peruvian Government, and he was well known. There would be no attempt in concealing anything, he is too well known, and his opinions well known.

Senator POPE. The reaction to the fact he was your representative might not reflect to your credit. Is that your thought?

Mr. WEBSTER. No; I thought possibly he would not wish to stay in Peru any longer. He had been there a good many years and I did not know what he might want to do. I do not know what idea I had at that time.

Mr. HISS. I offer as "Exhibit No. 317" a letter dated January 19, 1934, signed "Jerry", addressed to Mr. C. W. Webster.

(The letter referred to was marked "Exhibit No. 317", and is included in the appendix on p. 901.)

Mr. HISS. This letter, "Exhibit No. 317", signed by Jerry; that is Mr. Van Wagner, in charge of your factory at Chile?

Mr. ALLARD. Yes, sir.

Mr. HISS. I read from this letter as follows:

Complying with your wishes to keep you in touch with things at this end, I thought much could be gained from Marcial Arredondo, so invited him and his wife (nee Matilda, Merino's old secretary) out to the place for dinner last evening.

Merino was formerly chief of the air corps in Chile?

Mr. WEBSTER. Yes, sir.

Mr. HISS. Reading further from this letter, it says:

We had a long talk over everything in general, and especially on the possibility and probability of the Government purchasing new equipment. Marcial confirmed Alessandri's public statement that the Government intends raising funds in the near future for this object, but stated he could not tell when this would be.

Is the Alessandri there referred to the President?

Mr. WEBSTER. Yes, sir.

Mr. Hiss. I read further from the letter as follows:

Marcial told me quite frankly that Aracena has his eyes set first of all on training planes, and he has it in his head to buy Avros.

What position did Aracena hold?

Mr. WEBSTER. Aracena at that time was, and is, chief of the air corps. He replaced Merino.

Mr. Hiss. The letter further says:

With regard to the purchase of other equipment, Marcial said he will do everything in his power to see we are taken into consideration. Marcial has a very big say in the matter so long as he is sitting next to the President and is the right-hand man of Arcena. He promised to let us know in plenty of time or sidetrack the prospective purchase of other planes.

Yesterday there was some testimony of the United Aircraft Co. attempting to sidetrack the purchase of Curtiss planes, and it now appears that your company might have been interested in sidetracking the purchase of other planes.

Mr. WEBSTER. No, sir; you did not finish that sentence, which would explain that statement.

Mr. Hiss. Let me finish it. It says:

or sidetrack the prospective purchase of other planes, if possible, and if necessary suggest an open competition, such as in 1929, before placing any orders.

Mr. WEBSTER. In that connection, what he apparently had in mind was to more or less postpone the purchase until we were able to get down there and compete with the others in the event of a competition.

Mr. Hiss. You will notice he just says—

If necessary suggest an open competition.

Mr. WEBSTER. He knew I was familiar with the situation and did not go into the details. As a matter of fact that has developed and there is a demonstration plane being shipped down there now for competition. In fact, a great many of those countries, including Chile, purchase on performance, and in order to satisfy themselves they ask the manufacturers to send a demonstration plane to those countries to be demonstrated before they make a selection.

Mr. Hiss. Then, this letter continues as follows:

With Marcial watching out for us on the inside, I think it best not to rush Aracena too much, as Marcial claims he is the go-between for Aracena and the President and he has to be consulted first so will be able to talk with Aracena about our equipment and lead him right.

Has your company also done business in the Argentine?

Mr. WEBSTER. Have you finished with this one here?

Mr. Hiss. Yes. Has your company also done business in the Argentine?

Mr. WEBSTER. Yes, sir.

Mr. Hiss. Can you identify for the record Captain Zar, of the Argentine?

Mr. WEBSTER. Yes; Captain Zar is chief of naval aviation of Argentina.

Mr. Hiss. Can you identify Colonel Zuloaga?

Mr. WEBSTER. Yes; he is chief of army aviation of Argentina.

Mr. Hiss. Has your company's relations with those two officers been very friendly?

Mr. WEBSTER. Yes, sir.

Mr. HISS. They are boosters of Curtiss products, would you say?

Mr. WEBSTER. Yes; Captain Zar was trained in the American Navy and Colonel Zuloaga was military attaché in Washington for some time, and they are thoroughly familiar with American products, and in that way they possibly leaned toward American products, with which they are familiar.

Senator POPE. How long, about, was he with the American Navy?

Mr. WEBSTER. He received his training at Pensacola, I think it was, during the war, but I am not sure.

Senator POPE. Do you know whether he served in the Navy after the war?

Mr. WEBSTER. You mean the American Navy?

Senator POPE. Yes.

Mr. WEBSTER. No; he simply went to Pensacola as a student and received the regular course in aviation that the American officers receive at Pensacola.

Mr. HISS. I offer now as "Exhibit No. 318" a letter of date March 21, 1932, from C. W. Webster to Mr. B. S. Wright.

(The letter referred to is marked "Exhibit No. 318" and is included in the appendix on p. 901.)

Mr. HISS. Mr. Webster, I read from this letter as follows:

I still feel that Zar will not recommend that a mission be sent to the States, although it is advisable to watch this possibility very closely. Zar is a very intimate friend of ours and wishes to purchase only Curtiss-Wright equipment and is playing his cards accordingly. He feels that if he sends a mission to the States possibly complications might develop through the recommendations of any officers he sends, and his desire is to control things himself as much as possible.

Mr. Webster, you said a few minutes ago that the purchase of aviation equipment was on the basis of performance?

Mr. WEBSTER. Yes, sir.

Mr. HISS. If so, why would Captain Zar be worried about the recommendations of any mission sent to this country?

Mr. WEBSTER. Possibly he felt he was better qualified to judge of equipment than other officers.

Mr. HISS. Even though they were watching the performance in this country and he was not?

Mr. WEBSTER. It might be.

Mr. HISS. I offer as "Exhibit No. 319" a letter dated February 23, 1932, also from Mr. Webster to Mr. B. S. Wright.

(The letter referred to was marked "Exhibit No. 319" and is included in the appendix on p. 902.)

Mr. HISS. I now read from this letter, "Exhibit No. 319", as follows:

I now have a more complete and accurate picture of the proposed Argentine Naval Mission and I am inclined to believe that the entire agitation was started by Commander Jordan, U. S. Naval attaché in Buenos Aires, in misinterpreting a conversation with Captain Zar, chief of Argentine Naval Aviation.

It seems that some time ago Captain Zar and Commander Jordan met and Zar mentioned that his budget for 1932 would permit him to buy a certain number of new ships and that they would be of U. S. make. Jordan asked which make and, as Captain Zar didn't wish to tell him he was negotiating directly with us and, on the other hand, didn't care to say he didn't know what he wanted, he told Jordan he planned to ask the U. S. Navy to give him advice when the proper time came. It seems Commander Jordan immediately communicated with the U. S. Navy in Washington informing them that the Argentine Navy would send some of its men to the U. S. to solicit the advice of the

U. S. Navy in the matter of purchases. Captain Zar, in discussing the situation with us, claims that he now realizes he made a mistake in mentioning the matter to Jordan because if Washington gives the matter any publicity our British competitors will possibly get busy and make it a little harder for us on account of their lower prices. Captain Zar is one of our most intimate friends and when the time comes to purchase equipment he will buy from Curtiss-Wright insofar as he is able to do so. His budget this year allows him only about \$250,000 for new equipment which he figures is about enough for eight Helldivers or similar ships, but the cash will not be available for 4 or 5 months.

We will receive an order for two engines and spares and possibly three sets of smoke-screen apparatus, but the complete airplanes will not be ordered for some little time.

I am giving you this picture of the situation for your confidential information and I believe we should let the matter drop insofar as Washington is concerned. Our contacts with Zar are of such an intimate nature that we have nothing to fear from other competitors, unless something very radical happens. It was Zar's intention to keep the entire matter quiet and get his purchase through for us before any other manufacturer heard of it but unfortunately he made a chance remark to Jordan which opened up the entire subject.

Does that letter seem to you consistent with your statement that aircraft is sold only on a performance basis?

Mr. WEBSTER. Absolutely, sir. We have a demonstration of it right in Argentina.

Mr. HISS. Does this letter not say that Captain Zar was anxious not to have a competitor know about the proposed purchases so that they would be unable to demonstrate?

Mr. WEBSTER. They have been demonstrated down there. The manufacturers are demonstrating in Argentina, both European and American manufacturers. There is no secret about that, and that is the only way you can sell aircraft these days.

Mr. HISS. "Exhibit No. 320" is a letter dated July 18, 1933—

The CHAIRMAN. Before you leave that, I would like to have my own mind a little clearer than it is with respect to the exhibit which was just offered. Referring to the matter of representatives of the Argentine Navy being sent to the United States where they would solicit the advice of the United States Navy in the matter of purchase, is that a policy which is pretty generally pursued?

Mr. WEBSTER. Yes, sir.

The CHAIRMAN. That South American naval authorities do have access to the American Navy and their advice as respects purchase of planes and other material?

Mr. WEBSTER. That has been done, sir; yes, sir.

The CHAIRMAN. There was nothing unusual, then, about that particular proposal?

Mr. WEBSTER. No, sir; none whatever.

The CHAIRMAN. All right.

Mr. HISS. "Exhibit No. 320" is a letter dated July 18, 1933, from Mr. Webster to Capt. C. K. Travis in Bolivia.

(The letter referred to was marked "Exhibit No. 320" and is included in the appendix on p. 903.)

Mr. HISS. That letter reads in part as follows [reading]:

Immediately upon your arrival you should contact Colonel Zuloaga and Captain Zar.

That means his arrival in the Argentine?

Mr. WEBSTER. Yes, sir.



Mr. Hiss (continuing reading) :

Colonel Zuloaga is Director General of Aeronautics and Chief of the Army Airport, and Captain Zar is Chief of Naval Aviation.

Mr. WEBSTER. Pardon me, that is a typographical error; Chief of the Army Air Corps.

Mr. Hiss. Correct the exhibit, please.

(The exhibit was accordingly corrected.)

Mr. Hiss (continuing reading) :

Arrange if possible to dispatch the ship to El Palamar, the Army Air Station.

The arrangement is in connection with the Argentine Falcon for which your company is negotiating?

Mr. WEBSTER. Yes, sir.

Mr. Hiss (reading) :

Work through Zuloaga and Zar and follow their suggestions. In a recent letter from Zar he suggested that we first get the plane to Palamar and possibly later transferring over to Puerto Indio, the Naval Landing Station.

Mr. WEBSTER. Naval Land Station.

Mr. Hiss. You might correct that, too.

(Exhibit corrected.)

Mr. Hiss (reading) :

\* \* \* Our object, naturally, is to sell the Falcon to the Argentine Government and, in due course, arrange a contract for them to purchase the manufacturing rights to construct this plane for the Government at Cordoba. All of these arrangements will be handled by Leon—

Will you identify Mr. Leon?

Mr. WEBSTER. Mr. Leon is a former employee of the Export Co. and a former employee of mine. He is no longer with us. He left because of ill health. He represented us in Argentina for a great many years as resident manager there.

Mr. Hiss. Was he discharged by your company?

Mr. WEBSTER. No, sir.

Mr. Hiss. Left because of ill health?

Mr. WEBSTER. Left because of ill health.

Mr. Hiss. He was in good standing at the time he left?

Mr. WEBSTER. Oh, yes.

Mr. Hiss (continuing reading) :

when he arrived there, probably around the 15th of September. His relations with Zuloaga and Zar are very intimate, so do not attempt to sell but merely handle the plane for the time being and put on your show and the necessary demonstration. When Leon arrives he will probably take you into his confidence and give you a line on our set-up, so do nothing that will interfere with the negotiations which Leon and myself have already started.

Did Mr. Leon ever take you into his confidence about the Argentine negotiations?

Mr. WEBSTER. Yes, sir.

Mr. Hiss. What did you have in mind when you stated that he would take him "into his confidence", referring to Leon? What did you expect him to try to do when he arrived with regard to your relations with Zuloaga and Zar?

Mr. WEBSTER. It was not entirely with relation to Zuloaga and Zar, but the Army Air Corps in Argentina is a very large organization. Many of its personnel have been trained in European coun-

tries, and they are more or less pro-European in their ideas, and at times a little prejudice will creep into it. So that I presume Leon wished to steer Mr. Travis and let him know who were pro-European and who were more or less open-minded on the subject.

Mr. Hiss. In this letter, Mr. Webster, you also said :

In selling this Falcon to Peru, please handle this, if possible, in the same manner as the other Falcon and Hawk we sold. The payment to be made to me personally and not to the company, as I have certain commissions that will have to be paid.

Do you remember what commissions they were?

Mr. WEBSTER. I believe it was to Mr. Dan Tobin. In fact, it was Dan Tobin.

Mr. Hiss. Your negotiations in the Argentine were very complicated, were they? It was a delicate matter?

Mr. WEBSTER. No; I would not say they were delicate or complicated. It was a hard selling job, but it was not complicated. There was a lot of hard work to it.

Mr. Hiss. At the top of the third page of this letter you state [reading] :

In asking you to lay off all sales negotiations, please do not feel that we do not believe you capable of handling them, but Leon has spent so much time in Argentina and knows his contacts so well and intimately, that I believe we should not upset them in any way. I know that you will appreciate this situation.

Mr. WEBSTER. Mr. Leon had been in Argentina as our resident manager there for 14 or 15 years and was naturally very well acquainted. Mr. Travis, I believe, had never been to the Argentine before. Mr. Leon was planning to return to Argentina in order to pick up that work, but unfortunately his health would not permit it and he did not go back, and for that reason I wished Travis to wait for Leon to get back.

Mr. Hiss. I now introduce "Exhibits No. 321 and No. 322", the first being a letter dated January 19, 1934, from Mr. Owen Shannon, of the Curtiss-Wright Export Corporation, to Mr. C. W. Webster, and it encloses an unsigned memorandum dated January 17, 1934, which Mr. Shannon says is a copy of a letter from Lawrence. That is Mr. Leon?

Mr. WEBSTER. Mr. Leon.

(The letter and memorandum referred to were marked "Exhibits No. 321 and No. 322" and are included in the appendix on p. 905.)

Mr. Hiss. The enclosed memorandum states (reading) :

Your letter came a couple of hours after our telephone conversation. By all means do your best to get Mason to go down at once.

Mason was an employee of the company?

Mr. WEBSTER. Mason was an employe of the Wright Aeronautical Co. whom we were thinking of sending to South America as my own representative.

Mr. Hiss (continuing reading) :

Hewlett may be a better man, but if this boy is a salesman and is loyal, his knowledge of Spanish will take him farther. He will not have much to do for a few months, but that will give him a chance to get acquainted, and Zu—

That is Zuloaga?

Mr. WEBSTER. That is Zuloaga.

Mr. Hiss (continuing reading) :

is happier when somebody from the office is near at hand. Somebody has to be there to be on the inside of things, or the business goes elsewhere. Those fellows detest writing me, with good reasons \* \* \*.

Why did they detest writing?

Mr. WEBSTER. I do not know. I did not write this letter. I do not know what Leon had in mind. I presume they did not wish to go to the trouble of writing.

Mr. HISS. You do not think it was because they did not wish to put themselves down on record?

Mr. WEBSTER. I do not know what the reason would be.

Mr. HISS (continuing reading) :

and are getting tired of being told that I'll soon be back, with the result that I am gradually getting out of touch with the real situation. Men in the various departments are changed periodically and new friends must be constantly made. I feel pretty bad about all this, but as explained in another letter I can not leave the family in the shape it is, and to go for a few weeks now and come back would be just a waste of money.

Trouble from W. was to be expected.

Can you identify Mr. W?

Mr. WEBSTER. Mr. Lee Wade.

Mr. HISS. Whom did he represent at that time?

Mr. WEBSTER. Mr. Wade is more or less a free lance aeronautical salesman. I believe he represents the Consolidated Co. in Buffalo among others. I do not know. I believe he is selling second-hand airplanes down there, more or less free lance.

Mr. HISS (continuing reading) :

He is paying L's expenses and L does all he can for him.

Can you identify L?

Mr. WEBSTER. That is an Argentine officer up here, and I cannot recall his name, but I think it begins with "L", and I think that is what he refers to—

Mr. HISS. Can it be Captain Leporace?

Mr. WEBSTER. Yes; it could be. I think that is the name.

Mr. HISS. Artemis Denaxas is with the Societe Financiere et Technique de Grece S.A., your agents in Greece. Is that correct, Mr. Allard?

Mr. ALLARD. Yes, sir.

Mr. HISS. He has no connection with the Government of Greece?

Mr. ALLARD. None that I know of at all, sir. He is a commercial man.

Mr. HISS (continuing reading) :

Trouble from W. was to be expected.

"W" was a salesman on his own account for airplane equipment?

Mr. WEBSTER. Yes; and I think represented the Consolidated Aircraft Co.

Mr. HISS. Represented the Consolidated Aircraft Co.?

Mr. WEBSTER. I think so.

Mr. HISS (continuing reading) :

He is paying L's expenses.

which you think means Captain Leporace?

Mr. WEBSTER. Yes, sir.

Mr. Hiss (continuing reading) :

and L. does all he can for him. L. has done a lot for Za——

That refers to Captain Zar, does it not?

Mr. WEBSTER. Yes, sir.

Mr. Hiss (continuing reading) :

on one occasion and Za arranged this spree for L. and is giving him free hand.

Then it continues:

Very likely this man will be in Za's place three or four years from now when both are due for promotion. He and his brother owe me a few favors of more than ten years' standing and I am in position to make any arrangements with him to counteract W's influence—

Wade's—

once we are all together. Just now he is not answering my letters, which I suspect, fell in W's hands.

That means Wade's.

With your letter also came the one I was expecting from Ta.

Can you identify "Ta"?

Mr. WEBSTER. I think that is Taravella.

Mr. HISS. Who is he?

Mr. WEBSTER. Mr. Taravella is a civilian engineer, employed by the Argentine Government in a Government factory at Cordoba, Argentina.

Mr. HISS. Has he been in this country also?

Mr. WEBSTER. Yes, sir; he was stationed at our factory for about 2 years.

Mr. HISS. As an inspector?

Mr. WEBSTER. As an inspector and engineer in the selection of certain factory equipment for the Government factory for the production of Wright engines in Argentina.

Mr. Hiss (reading) :

I had asked him to write the real reason for changing their minds about the Falcon and Hawk license. He says that while Travis' demonstration was pretty good, it was not good enough to convince everybody. That is one reason. The others are curtailment of appropriations and the necessity of the engineering staff to get busy and do something of their own or explain what they were doing in Europe when they were sent there to study for five years. He says that neither my presence nor Web's—

that is you, Mr. Webster?

Mr. WEBSTER. Yes, sir.

Mr. Hiss (continuing reading) .

can for the moment rush orders, and that the only thing which could overcome all these obstacles at once would be for the "Jingos" advocating preparedness to get the upper hand or for me to resort to the "old maneuver."

Do you know what he means when he says to resort to the "old maneuver"?

Mr. WEBSTER. No, sir; I have been trying to think what it could be, and the only thing I can think of is to go over the heads of some people who had more say in the matter. That is the only interpretation I could put on that.

Mr. Hiss (continuing reading) :

He means the trick we turned in 1931 when we sold the engine license.

Do you remember the circumstances of the trick you turned in 1931 when you sold the engine license?

Mr. WEBSTER. Yes, sir. At that time we even went to the President there in order to have our engine receive proper or sincere attention. At that time they were manufacturing in Argentina, in the government factory, the French engine, and that contract with the French was canceled and a contract was made with us for the manufacture of our engines in Argentina.

Mr. HISS. Perhaps this will help, Mr. Webster; that is, the next sentence of the memorandum, which states:

Unfortunately, this is not possible with the present set-up in the War Department, the key man being one of the very few not amenable to anything of that kind.

What does that mean in relation to going over somebody's head, Mr. Webster?

Mr. WEBSTER. I would say that would bear it out. I should think going over somebody's head would naturally cause some ill feeling down there.

Mr. HISS. You do not think it is a reference to the "commissions" which you have referred to before?

Mr. WEBSTER. In this case, I do not think it is, sir.

Mr. HISS (reading):

But he is due for retirement this year. \* \* \* Web already knows who the men are, and should be the only one to handle commissions when the time comes.

You were expecting that some commissions would be necessary?

Mr. WEBSTER. Yes, sir; you see when Mr. Leon left down there, it left us more or less without a representative, without a contact there. We were later forced to make a local contact with Gandara & Co., and I made that contract last winter when I went down there, and arranged to pay them a commission in order to handle our local contracts.

Mr. HISS (reading):

Mason, if he goes down there, should not be entrusted with anything of this kind until he has been there six months at least and has proven that he can handle the business. It would be a mighty good idea if you went through the files and took out all letters mentioning names and commissions.

The CHAIRMAN. Who was that letter from?

Mr. HISS. From Mr. Lawrence Leon, at that time a representative of the Export Co., which Mr. Shannon encloses in a letter to Mr. Webster.

Mr. ALLARD. Pardon me, Mr. HISS. He was not a representative of the Export Co., but with Mr. Webster.

Mr. HISS. On Mr. Webster's staff, selling?

Mr. ALLARD. Yes, sir.

Mr. HISS. He had formerly been a representative of the Export Co.?

Mr. ALLARD. Yes, sir.

Mr. HISS. Mr. Shannon sent this to you, as he stated in his letter, "Exhibit No. 322", thinking to be of help to you. What do you think Leon meant by stating:

It would be a mighty good idea if you went through the files and took out all letters mentioning names and commissions.

Mr. WEBSTER. At times the government wishes to deal directly with manufacturers, and our particular predicament in the Argentine at the time was that we had to have somebody down there, and we did not have anybody down there, and the reason for making a contact is that the Argentine Government has always preferred to deal direct with the factories. In fact, for a number of years they maintained a permanent Argentine Naval Mission—commission—here in the United States, quite a large staff, in order to deal directly for purchases.

The CHAIRMAN. How much of the material relating to names and commissions has been taken from the files?

Mr. WEBSTER. To my knowledge there has been none taken out. I did not exactly feel that it was necessary. It was his suggestion, but I did not feel it was necessary.

Mr. HISS. "Exhibit No. 323" is a letter from Mr. Owen Shannon to Mr. J. S. Allard under date of September 25, 1933, regarding the Brazilian Mission.

(The letter referred to was marked "Exhibit No. 323" and is included in the appendix on p. 906.)

Mr. HISS. The mission is where?

Mr. ALLARD. Brazil Mission.

Mr. HISS. To where was it addressed?

Mr. ALLARD. Aeronautical Co.

Mr. HISS. The engine company?

Mr. ALLARD. Yes, sir.

Mr. HISS. That letter reads as follows:

You will be interested in the following quotation from a letter received from our Brazil agents today:

"We are pleased to say that we have had occasion to talk at length with Major Oliveira and Captain Mello since their return from the United States, \* \* \*"

Were they members of a mission sent by Brazil to the United States?

Mr. WEBSTER. Yes, sir.

Mr. ALLARD. They were.

Mr. HISS (continuing reading):

"and that they are highly gratified with all they saw and very much appreciated all the courtesies lavished upon them by your company.

"We may confidentially advise you that the reports which have been submitted by the mission to the Minister of War are highly satisfactory to your organization and likely therefore to yield good results."

Do you think, Mr. Allard, or Mr. Webster, that the "courtesies lavished" upon foreign missions in this country have anything to do with the reports which they later render being "highly satisfactory" to your organization?

Mr. ALLARD. I do not approve the word "lavished", because we have not lavished any attention. That is a Latin-American way of making a statement. I think unquestionably that the attention that we paid to them, the things which we showed them, the demonstrations of ships, certainly had been a contributing factor in their selection and recommendations which they made.

Senator POPE. And the entertainment?

Mr. ALLARD. Yes. It is quite a natural thing to be courteous to visitors here.

Senator POPE. Yes, sir.

Mr. HISS. I am reading now from "Exhibit No. 294", put in evidence yesterday, and which is a report by Melvin Hall, at that time a representative of the Export Co., on conditions in Turkey, dated February 27, 1933. [Reading:]

Hikmet Bey, a young engineer educated in America, has only moderate influence as yet, but is clever enough to assist us fully to build him up to take over Kayseri eventually, and is undoubtedly a strong asset in his present capacity.

Does that refer to a factory in Turkey operated under a license from your company?

Mr. ALLARD. No, sir; it was the Turkish national factory.

Mr. HISS. Did the Wright Aeronautical Co. give them a license?

Mr. ALLARD. No, sir; our planes only.

Mr. HISS. That is what I wanted to bring out.

"Exhibit No. 324" is a memorandum to Mr. Cramer from Mr. Allard. Is that correct, Mr. Allard?

Mr. ALLARD. Yes, sir.

(The memorandum referred to was marked "Exhibit No. 324" and is included in the appendix on p. 906.)

Mr. HISS. Is Mr. Pawley a director of the Export Co.?

Mr. ALLARD. That is right.

Mr. HISS. And is also president of the Intercontinent Aviation, which is a selling agency in China?

Mr. ALLARD. That is right.

Mr. HISS (reading):

Mr. Pawley stated in a recent letter, or cable, that he had a fund of about \$2,000 to take care of the entertainment of General Wong and his party from Canton.

They were touring this country in the last few months; that is, as of May 10, 1934?

Mr. ALLARD. Yes, sir; just about that time.

Mr. HISS. They were seeking to buy aviation equipment?

Mr. ALLARD. No; I do not think so; they were inspecting all aviation, commercial airlines, and factories.

Mr. HISS (continuing reading):

During their visit to this country they were entertained by the following: Mr. Buchanan in San Francisco—

Do you know who Mr. Buchanan is?

Mr. ALLARD. Mr. Buchanan is the manager of the airport outside San Francisco, the Alameda Airport.

Mr. HISS (reading):

Mr. Moseley in Los Angeles—

Who is he?

Mr. ALLARD. Manager of our airport at Los Angeles, Grand Central.

Mr. HISS. Does he manage that?

Mr. ALLARD. I think he, Mr. Buchanan, was a port accountant and the airport was closed and he was more or less a watchman.

Mr. HISS. But an employee of the Curtiss group?

Mr. ALLARD. Yes, sir; at that time he was.

Mr. HISS (reading):

Ralph Damon in St. Louis \* \* \*

Who is he?

Mr. ALLARD. President of the Curtiss-Wright Airplane Co., in St. Louis.

Mr. Hiss (reading):

Buffalo \* \* \*

The plane company in Buffalo is the Curtis Airplane & Motor?

Mr. ALLARD. Yes, sir.

Mr. Hiss. Patterson is the Wright Aeronautical Engine Corporation?

Mr. ALLARD. Yes, sir.

Mr. Hiss (reading):

and the New York office group, mainly Mr. Dooley.

Who is Mr. Dooley?

Mr. ALLARD. Mr. Dooley was an employee for this group, who was later taken over by Export and is now in China, and happened to be here at that time and had the job of entertaining these people.

Mr. Hiss (reading):

I wish you would get together the expense accounts from these various organizations and submit them to Mr. Sanderson of Intercontinent so that we can be reimbursed for these expenses.

Mr. ALLARD. Correct.

Mr. Hiss. The expenses of entertaining foreign visitors are sometimes rather large, are they?

Mr. ALLARD. It depends on what you mean by "large." I think the total expenses of these five or six men were over \$2,000. That is for a couple of months' time here and paying air transportation and railroad transportation.

Mr. Hiss. Mr. Webster, there are a considerable number of former American officers who are now with foreign governments, are there not? Is not that correct?

Mr. WEBSTER. I do not know how many former officers are with foreign governments, Mr. Hiss.

Mr. Hiss. Do you know a Commander Jordan in Bolivia?

Mr. WEBSTER. No. It is pronounced in English "Jordan."

Mr. Hiss. He is not a former American officer?

Mr. WEBSTER. No, sir; he is a Bolivian. It is an English name, but there are a great many English and Irish down there, but it is pronounced differently. He is a native Bolivian.

Mr. Hiss. Commander Strong is an American?

Mr. WEBSTER. I believe so.

Mr. Hiss. I think his name was mentioned previously in the committee hearings.

Mr. WEBSTER. Yes, sir; he is an American.

Mr. Hiss. Commander Strong used to inspect, or used to be a United States Navy inspector at the Keystone factory, did he not?

Mr. ALLARD. I have heard that, but I do not know it. It was before my time.

Mr. Hiss. The Navy has regular inspectors at the factories in the United States with which they do business?

Mr. ALLARD. That is correct.

Mr. Hiss. From which it procures planes?

Mr. ALLARD. Yes, sir.



Mr. HISS. Incidentally, your company's relations with Colonel Jordan have always been very friendly, have they not?

Mr. WEBSTER. Yes, sir.

Mr. HISS. I am reading a letter dated September 13, 1933, being a letter from Mr. Travis to Mr. C. W. Webster, which reads, in part, as follows:

Lopez told me in a confidential and friendly chat yesterday that if it hadn't been for Jordan and two or three others that he named, that the last order for planes would have been canceled and that our competitors would have been given a chance.

Do you know what Colonel Jordan's present position is?

Mr. WEBSTER. He is chief of the air corps in Bolivia at the present time. If you would like to have me explain that, for a great many years aircraft or aviation in Bolivia had been more or less dominated by the Germans and their air-line operations, and, naturally, there are a lot of Germans still there, a number of German people still there in connection with aviation, and there was a very strong leaning toward German equipment; because he had flown both types, he preferred the American types, and for that reason he wished American equipment.

Mr. HISS. "Exhibit No. 325" will be a letter dated April 21, 1934, from J. Samper, on the letterhead of Urqueta & Samper, who are the Export Co.'s agents in Colombia?

Mr. ALLARD. They are.

Mr. HISS. That is addressed to Mr. W. F. Goulding, vice president Curtiss-Wright Export Corporation.

(The letter referred to was marked "Exhibit No. 325" and is included in the appendix on p. 907.)

Mr. HISS. That letter reads, in part, as follows:

Through my good friendship with Comm. Strong I will be able to meet not only Mr. Trunk—

Who is Mr. Trunk, Mr. Webster?

Mr. ALLARD. May I answer that, because I am familiar with Colombia?

Mr. HISS. Yes, sir.

Mr. ALLARD. Trunk headed up a group of pilots and mechanics for Colombia some time this year from this country. I know Trunk only by having seen him. He did it on his own. He is not identified with our company.

Mr. HISS. The letter states further:

I will be able to meet not only Mr. Trunk, but most of the important men that may have come with him. I have enjoyed the confidence and friendship of Comm. Strong, practically since his arrival, and in spite of his complete and unbreakable reserve as far as military matters are concerned, I have been able to ascertain that he is not in the least antagonistic to your products. He is really an excellent man. To my understanding he will be placed by the Ministry as actual head of the aviation activities in this country \* \* \*.

Has that come about?

Mr. ALLARD. I think it has; yes.

Mr. HISS [reading]:

I am confident that once he knows all about the German competition and antagonism to all foreign influence other than theirs, he will take measures to stop their career.

Quite naturally, an American officer would be more familiar with American equipment and would be favorable to American equipment?

Mr. ALLARD. Certainly.

Mr. Hiss [reading]:

I have just received from Irvin—

Does that mean the Irving Parachute or Airchute Co.?

Mr. ALLARD. I believe so.

Mr. Hiss. My information is that Mr. J. C. Willson is a director of the Curtiss-Wright parent company. Is that correct?

Mr. ALLARD. Yes, sir.

Mr. Hiss. He is also a director of the Irving Airchute Co.

Mr. ALLARD. I do not know it for a fact, but I have heard that.

Mr. Hiss. Does your company represent the Irving Airchute Co. in a great many countries?

Mr. ALLARD. In a great many countries; not all countries.

Mr. Hiss [reading]:

I have just received from Irvin—

which means Irving I am pretty sure—

some scarfs to distribute among the pilots here. I am afraid that the propaganda was sent too late, because I was informed definitely that the Government had ordered the consul to place orders with our competitors (Switlik) for the parachutes they are in need of. Since I had to pay something like 20 pesos duty on these scarfs, I will ask you to request from Irvin to deposit in my account, as usual, the corresponding sum in dollars. I am sending them the corresponding vouchers.

#### NEGOTIATIONS IN MEXICO

Mr. Webster, are you familiar with your company's business in Mexico?

Mr. WEBSTER. Yes, sir; in a way, but not entirely familiar with it. I think I can answer your questions.

Mr. Hiss. Mr. Leon also handled some of the negotiations?

Mr. WEBSTER. Mr. Leon made one trip into Mexico while he was out on the coast for his health. He was close by and we suggested that he might combine a business trip and go into Mexico, and also possibly find a place which was more healthful for him.

Mr. Hiss. Can you identify Colonel Aguilar? I will show you a copy of an interoffice memorandum under date of December 5, 1930, from J. S. Allard to Mr. Burdette S. Wright, subject: Mexico.

Mr. ALLARD. I think I would know more about that.

(The memorandum referred to was marked "Exhibit No. 326", and is included in the appendix on p. 908.)

Mr. Hiss. What is his position and what position did he hold in 1930?

Mr. ALLARD. I believe he was the Mexican military attaché here.

Mr. Hiss. In Washington?

Mr. ALLARD. In Washington.

Mr. Hiss. Can you also identify General Azcarate?

Mr. ALLARD. General Azcarate was or may have been the chief of aviation, or at least the head of a division in it, and operated a factory in Mexico City, airplane factory of his own.

Mr. HISS. Mr. Allard, do you think there was anything unusual about your Mexican negotiations? Did they differ from your ordinary negotiations in other countries?

Mr. ALLARD. I should not say so; no.

Mr. HISS. As I have said "Exhibit No. 326" is a letter of December 5, 1930, from Mr. Allard to Burdette S. Wright, a vice president of the Curtiss-Wright parent corporation. That reads in part as follows [reading]:

I realize fully that Colonel Aguilar is not doing all his sales promotion work for us as a kindly gesture, and I would welcome the opportunity of talking with him, inasmuch as we have no representative in Mexico, on the subject of his suggesting some representative through whom he could get his compensation for the work he is doing for us.

Were you proposing, Mr. Allard, to pay Colonel Aguilar, the Mexican military attaché, compensation from your company 4 years ago?

Mr. ALLARD. I do not think it was to be done when he was still military attaché. He was leaving here and going back as a private citizen to Mexico. I know that to be the fact.

Mr. HISS [reading]:

And, incidentally, if he does suggest somebody, I would not hesitate in telling him to plan on getting his compensation through that party rather than direct from us, as I do not think it is good ball for us to show the payment of any commission on any sales to anyone other than our authorized distributors.

Mr. ALLARD. That is correct.

Mr. HISS. Will you explain that?

Mr. ALLARD. Because we could not pay him; he was not sufficiently set up as a business man to be our authorized distributor down there. We later appointed, or at that time had Watson & Phillips, a business house which had been in business there 75 years, I think.

Mr. HISS. That was not because he was an official of the Mexican Government?

Mr. ALLARD. No.

Mr. HISS. This is dated in 1930.

Mr. ALLARD. Yes, sir.

Mr. HISS. Is he not still connected with the Mexican Government?

Mr. ALLARD. Insofar as I know, he is not.

Senator POPE. Do you know he is or not?

Mr. ALLARD. No; I do not know whether he is or not at the present time, but at that time in December 1930, he was quitting as military attaché, going back to Mexico and retiring to private life.

Mr. HISS. May I refresh your recollection by calling your attention to a letter of November 29, 1933, addressed to you signed by Robert L. Earle, who is in your Washington office here?

Mr. ALLARD. That is right.

Mr. HISS. I will offer that letter as "Exhibit No. 327."

(The letter referred to was marked "Exhibit No. 327" and is included in the appendix on p. 908.)

Mr. HISS. On page 3, Mr. Earle says—and this letter is a report of a recent trip by Mr. Earle to Mexico and the date of it is November 29, 1933—

Mr. ALLARD. That is correct.

Mr. Hiss (reading letter) :

General Aguilar claims that he is to be the next Chief of Aviation, but since he has made this claim during the four years that I have known him, it is difficult to put a great deal of stock in his assertions. Add to this the fact that he is now being punished by assignment to a relatively unimportant post for the publishing of a pamphlet in Washington casting discredit on the Mexican Minister of Finance, for which act he was recalled. \* \* \*

Does it appear from that that General Aguilar had been in Washington, where Mr. Earle was, for several years after 1930?

Mr. ALLARD. I do not know.

Mr. HISS. May I ask Mr. Earle, who is present?

Mr. EARLE. General Aguilar I first knew about 4 years ago when he was here as a colonel. He did return to Mexico. He resigned from the Army. But by some stroke he got to be the general in the Mexican Army and then he returned to Washington as military attaché. As my letter indicated, his recall to Mexico was brought about because of this pamphlet that he wrote. Then shortly after that he resigned again from the Mexican Army and is now a private civilian.

Mr. HISS. Do you know the date of his first resignation as somewhere around December 1930, Mr. Earle?

Mr. EARLE. No; I do not.

Mr. HISS. But you think he did resign?

Mr. EARLE. That is what I was told when I was in Mexico; yes, sir. But he had gotten out of the Army and then he had gotten in again.

Mr. HISS. Who are your representatives in Mexico at the present time?

Mr. ALLARD. Watson & Phillips.

Mr. HISS. Do you remember for what reason you gave them your agency?

Mr. WEBSTER. It was at the recommendation of Mr. Leon after Mr. Leon had visited Mexico and had selected them. I believe he also consulted the American commercial attaché and various business houses and selected Watson & Phillips.

Mr. HISS. Did your company believe that they were influential in swinging Government orders?

Mr. WEBSTER. I would not say influential. They were a very good business house and naturally it was necessary to have a good business organization to look after your business.

Mr. HISS. I will offer as "Exhibit No. 328" a letter dated June 13, 1933, from Charles Cunningham, commercial attaché of the Department of Commerce stationed in Mexico, to the Curtiss-Wright Export Corporation.

(The letter referred to was marked "Exhibit No. 328" and is included in the appendix on p. 912.)

Mr. HISS. The letter reads:

For some time we have been in touch with Watson Phillips & Co., Avenida Uruguay 103, Mexico City, with respect to their representing you in the possible sale of military airplanes to the Mexican Government. As a matter of fact, we contributed considerably towards interesting them in your planes as their representative has come repeatedly to our office and talked over with us the possible American representations available and for the purposes now under consideration we strongly urged the possibilities of your Hawk type of machines.

That is the pursuit type?

Mr. ALLARD. Single-seater pursuit.

Mr. Hiss (continuing reading letter):

We are now confidentially advised that the Mexican Government, military department, is contemplating the purchase of anywhere from three to ten planes of the pursuit type, the requirements of which might be satisfactorily met by the Hawk pursuit type.

The Watson Phillips representative called on us this morning and showed your letter of June 9th. This firm feels that for the business that they have in mind, your letter is not sufficiently clear on the matter of protecting them in case they make a sale for you. You are undoubtedly aware of the manner in which purchases of aeronautic equipment are sometimes made by foreign governments, and it is a reasonable desire on their part to be protected in full in the matter of commission to themselves sufficiently large to enable them to meet all requirements.

What requirements in Mexico would Watson, Phillips be faced with?

Mr. WEBSTER. I think more or less the same requirements as other representatives in the way of technical advice and assistance. Watson, Phillips undoubtedly do not know—I know that they are not familiar with aircraft.

Mr. Hiss. Have the commercial attachés of the Department of Commerce been helpful to you in the sale of military planes?

Mr. WEBSTER. In a great many cases; yes, sir. They have worked with us and we have worked with them in all countries, as I believe according to their instructions.

Mr. Hiss. The date of "Exhibit No. 328" is June 13. On June 5, just to refresh your memory, Brigadier General Azcarate, who was head of the President's military staff at that time asked you for a direct quotation on a Wright plane. On June 13, Mr. Cunningham recommended to you Watson, Phillips in the letter which is "Exhibit No. 328."

On June 21 you wrote to Watson, Phillips telling them that you had been in direct communication with the aviation officials of the Mexican Government and therefore you did not wish to have a representative.

On June 29, 1933, Watson, Phillips replied to you and this letter I offer in evidence as "Exhibit No. 329."

(The letter referred to was marked "Exhibit No. 329" and is included in the appendix on p. 912.)

Mr. Hiss. This letter is as follows in part:

Naturally if you wish to work this matter directly we can only wish you every success, but we venture to say that unless you have a representative here familiar with the politics of the matter and with influential connections your chances of obtaining orders are very slender, more especially as the Boeing is being pushed very hard and in all probability will now obtain the order as there is no other hard opposition. We may say also that a representative of the Lockheed is now in this city from their factory in Burbank, Cal., but even he will not get far unless he connects with someone who can put him in touch with the right parties.

We regret your decision in this matter, more especially as we had already taken up this matter in the highest quarters, but naturally you cannot expect us to continue our labours unless we can be sure of some protection and also be in a position to quote.

On June 30, the day after this letter from Watson, Phillips, General Azcarate notified you in regard to your quotation to him, which letter I offer as "Exhibit No. 330."

(The letter referred to was marked "Exhibit No. 330.")

Mr. Hiss. This letter, "Exhibit No. 330", reads:

CURTISS-WRIGHT EXPORT CORP.,  
27 West 57th St., New York, N.Y.

GENTLEMEN: I am pleased to refer to your letter dated the 26th instant, advising you that the Mexican Government cannot consider the purchase of any planes right now, but we will be glad to receive the information that you offer to send, for which reason I don't believe it necessary that your agent come here. We will be glad to hold your offer for whenever the opportunity presents itself.

With nothing further, I am, very truly yours,

JUAN F. AZCARATE,  
Brig. General, Engineer.

Do you think there was any connection between your refusing to accept Watson, Phillips' request that they be your agents and General Azcarate's notifying you shortly after that he had asked for a quotation that they were not in the market for planes?

Mr. ALLARD. No; I do not. No sale was ever made down there.

Mr. Hiss. I offer as "Exhibit No. 331" a letter from Mr. Earle to Mr. Goulding dated July 21, 1933.

(The letter referred to was marked "Exhibit No. 331.")

Mr. Hiss. In this letter Mr. Earle states that:

General Aguilar advises that he has information to the effect that the Mexican Government is definitely going to buy six Cyclone Hawks from us.

The interesting part of the situation is that he is now trying to claim some credit for having influenced General Azcarate in this purchase from us, and I know he is going to try to high-pressure us into making some great concession to him on a commercial airplane for himself. I have told him that I will go to see him on Monday. This is going to be an interesting situation to handle, and I plan to simply tell him that I will put the facts up to you for consideration. That will give us a little breathing spell and time to think up a good answer that will not entail any loss to ourselves and at the same time will appease him.

I offer as "Exhibit No. 332" a letter dated July 24, 1933, from Mr. Shannon to Mr. Lawrence Leon which enclosed a copy of a letter from Watson, Phillips, which letter has already been put in evidence as "Exhibit No. 329."

(The letter referred to was marked "Exhibit No. 332" and is included in the appendix on p. 913.)

Mr. Hiss. This letter states in part as follows:

We have not replied to them further.

We understand from another source here that Azcarate always wants to be taken care of, but is very careful about it and works through some third party. Up to now we have not been able to find out who this party is.

We have not appointed any agents for military sales in Mexico, so we could be free to deal with whomever we found was Azcarate's man.

The prices we quoted could provide for a commission of 5 percent to Azcarate or an agent.

Mr. Allard, was your company willing to pay to Azcarate, a Mexican official, a 5-percent commission on the sale of military planes to Mexico?

Mr. ALLARD. Mr. Webster would better answer that; while it was his company, it was not ours.

Mr. WEBSTER. Conditions in Mexico were a little different. Azcarate still was, I believe, employed by the Mexican Government, but at the same time was operating a private airplane factory and selling airplanes to the Mexican Government. There was no reason, if he was operating a factory of his own and selling planes to the Govern-

ment while he was chief of the air corps, why we should not have worked this way with him. There was nothing secretive about it.

Senator POPE. There is no reason why you should not pay him that commission through a third party?

Mr. WEBSTER. I should think in that case there was no reason why we should not, if he made a profit while still an officer in the Government, manufacturing airplanes for the Mexican Government. The Government paid him a commission, and there was no reason why we should not do the same thing.

Mr. HISS. Would you disclose that commission to the Government?

Mr. WEBSTER. I do not see any reason why we should not.

Mr. HISS. In your contracts with foreign governments, do you customarily report to them the commissions that have been paid on sales?

Mr. WEBSTER. If they request it.

Mr. HISS. Is it frequently requested?

Mr. WEBSTER. At times; yes.

Mr. HISS. I offer as "Exhibit No. 333" a letter dated August 5, 1933, from Mexico, written by Lawrence, who is Mr. Leon, to "Dear Web", who is Mr. Webster.

(The letter referred to was marked "Exhibit No. 333" and is included in the appendix on p. 913.)

Mr. HISS. After receiving the letter of July 24, "Exhibit No. 332", Mr. Leon had notified Watson, Phillips that they were authorized to represent the Export Corporation in carrying on negotiations with Mexico. Mr. Leon's letter is as follows. The letter is dated August 5, 1933.

Here is the situation: First of all, I found at Palacio Nacional that a request was forwarded a month or so ago to Washington, thru the Mexican Embassy for permission to send six flying officers to one of our pursuit fields to receive some training in the event that Boeing or Curtiss ships were purchased (this is how General Aguilar in Washington heard that his Government was about to buy pursuit equipment and made advances to Bob Earl and probably also to United). It seems that our Government turned down the request, and this people feel very peeved about it, knowing that many foreign officers have been trained at U.S. Army fields. Azcarate spoke very frankly to me, stating that a contract with Boeing, which was all ready for signatures, was cancelled by order of the President \* \* \*."

You will remember that on June 30, just one month and a few days before General Azcarate had notified you, just after you had told Watson, Phillips that you did not want a deal with them, that the Mexican Government cannot consider the purchase of any planes right now, although this letter states that there was at that time, a month prior to August 5, a contract all ready for signature with the Boeing Co., which is a subsidiary of United Aircraft, one of your competitors.

Mr. WEBSTER. No contract was ever placed, by the way.

Mr. HISS. Continuing with this letter, Azcarate stated that the contract was canceled by order of the President—

\* \* \* and it has been decided that this equipment shall be purchased anywhere but in the States. He also said that inquiries have been already dispatched to England and Italy for sending the men there as well as purchasing the ships there.

I, naturally, told Azcarate that if he had spoken to us about it we would have solved the problem by either getting the necessary permission from our

War Department or by having the six men brushed up on fast ships at some of our own fields, but he insists that the men must go to a military school.

Did your company think it would have had no difficulty in securing War Department permission for Mexican officers to be trained in the Army at Army fields?

Mr. WEBSTER. I think possibly Mr. Leon was not in as close touch with the situation as he thought he was. He did know that some officers have been trained at Army flying fields in America on many occasions, and he possibly thought that it could be done again. But I do not believe that he was in as close touch with the situation as he thought he was at that time.

Mr. HISS. Your own company had trained men in flying pursuit ships in the past?

Mr. WEBSTER. No. We have never trained men in flying pursuit ships. We have trained them in flying, but not in pursuit ships.

Mr. HISS. Would the training that they receive enable them to handle pursuit ships?

Mr. WEBSTER. Yes; I would say so, if they had the proper training for that work.

Mr. HISS. This goes on to say that—

Azcarate is out for Boeing, and he only inquired about our price in order to show that they are higher than Boeing quotations. He told me the higher performance is not necessary, as Mexico is not going to fight the United States. He is not interested in the Osprey and wants to standardize on P. & W. engines because they already have sixty of them on hand.

These difficulties can be surmounted. My problem was to contact and interest another man with as much influence, and this I did through Watson, Phillips Co. Our man in the Presidencia now is Col. Rodriguez Familiar, a very close friend of the President and his protégé. There will be a lot of squabbling, but I believe the colonel will have his way in a few weeks' time. I have never seen any country where graft is so freely taken for granted.

Watson, Phillips & Co. is the oldest British firm in Mexico having been in business over a hundred years. They are very active and the financial rating is high. I looked up two other firms, but was not as favorably impressed. We need not fear their being partial toward British products; they have been too long in this country, and will favor whoever gives them a better deal.

Referring to Watson, Phillips further he says:

It is mainly on account of their connection at the National Palace that I wrote them the letter, copy of which is enclosed.

That is the letter of August 3, appointing them as agents.

It is an agreement that can easily be terminated by simply writing them another letter, if we want to do so at any time.

Further on in the letter he says:

Besides the six Hawks, sixteen engines are needed, and the technical staff at the shops are working on a report showing all the reasons why a change from a P. & W. to—

That is Pratt & Whitney?

Mr. WEBSTER. Yes.

Mr. HISS (continuing reading):

to Wright should be made. I promised a Dodge sedan to the chief engineer in charge of the shops if he is successful in switching this initial order to us.

Did the company or did you ever rebuke Mr. Leon for such a promise?



Mr. WEBSTER. I believe I did so, personally. Mr. Leon had no authority to make such an offer, and no Dodge sedan was ever given. I am quite sure that we would not have done so.

Mr. HISS. You never got the order finally?

Mr. WEBSTER. No order was every placed except for a few training planes.

Mr. HISS. He says further:

Naturally, all expenses connected with sales must be borne by them \* \* \*

That is Watson, Phillips?

Mr. WEBSTER. Yes.

Mr. HISS (continuing):

except this particular gift to the factory engineer, if the deal goes through, on account of the fact that Watson, Phillips would not make any money on the six Hawks, as 5 percent is barely enough to pay all rake offs and the price cannot be increased, we have quoted \$24,000 to Azcarate. There is a chance that Azcarate will be kicked out soon, though, in which case things will change quite a bit.

This country has been neglected and I wish I could remain here a few months.

The last part of this exhibit is:

According to my cable, this letter should be air-mailed from here, but I have changed my mind; too dangerous not only on account of its contents but also because in order to avoid a lot of red tape and a deposit of \$250 at point of entry, I came as a tourist instead of as a business man. If I were caught, it would be an expensive affair, so I thought a couple of days' delay are preferable to taking the risk.

I will offer as "Exhibit No. 334" a letter addressed to the Export Corporation from Watson, Phillips in Mexico dated August 23, 1933.

(The letter referred to was marked "Exhibit No. 334" and is included in the appendix on p. 915.)

Mr. HISS. This letter says:

The Aviation Department has made an official report to the Presidencia on the various planes offered for the purpose—Boeing, Bristol, and Curtiss. This report has been seen by our representative and is distinctly favorable to your machines.

Do you think Mr. Leon's promise of a Dodge sedan had anything to do with this report being favorable, Mr. Webster?

Mr. WEBSTER. No; this speaks of airplanes.

Mr. HISS. You do not think he made any similar promise in regard to a report on airplanes?

Mr. WEBSTER. I am quite sure he did not.

Mr. HISS. Watson, Phillips also requested you:

Should you by any chance receive any further direct communications in regard to prices we earnestly request you state that you have been obliged to revise your original quotation, either on account of rise in price of material or due to our intervention as agents, and support this figure. This has been done for reasons which you will doubtless appreciate, and we can assure you that same will in no way prejudice your chances of obtaining the order, on the contrary.

We also have to inform you that Colonel Lezama, Assistant Chief of the Air Department, expects to be in Tulsa, Okla., within approximately one week to receive the Fleet planes \* \* \*.

Those are made by the Consolidated Co.?

Mr. WEBSTER. Yes; training planes.

Mr. Hiss (continuing reading) :

\* \* \* recently purchased by the Flying School. This would be a good opportunity for you to interview this gentleman and submit any additional information that you may deem advisable, but we would impress upon you that this should be done in a discreet manner, and without any advertising, as Mr. Lezama does not wish it to appear that he is favoring any particular make of plane.

I will offer as "Exhibit No. 335" a letter from Mr. H. O. Claywell to the Export Corporation, attention of Mr. Shannon.

(The letter referred to was marked "Exhibit No. 335" and is included in the appendix on p. 916.)

Mr. HISS. Do you know who Mr. Claywell is, Mr. Allard?

Mr. ALLARD. I think he is a private individual who lives out in the Middle West some place. He has approached us several times concerning commercial and military planes.

Mr. HISS. This letter is from Mexico and reads in part as follows:

I congratulate you upon your representative who actually is not a commercial one at present, but one of the very highest Government authorities and a very expert one, a splendid gentleman, and an excellent friend of mine.

Do you know to whom that reference is?

Mr. ALLARD. I have not any idea who that is; no, sir.

Mr. HISS. Do you think it could be the man to whom Mr. Leon referred to in his letter as Col. Rodriguez Familiar?

Mr. WEBSTER. I think he is referring to Watson, Phillips. He says "our representative" there.

Mr. HISS. They could not be described as a commercial one but one of the very highest governmental authorities.

Mr. ALLARD. I do not know whom he refers to.

Mr. HISS. I offer as "Exhibit No. 336" a letter from Watson, Phillips to Robert L. Earle dated October 28, 1933.

(The letter referred to was marked "Exhibit No. 336" and is included in the appendix on p. 917.)

Mr. HISS. They say in this letter:

The most important point at this moment is the "financial" end. According to your company's letter of Sept. 7th the price of \$24,000 still stands good and for important deals in the future with the same department, and other reasons, please ask your director to kindly cable us confirming that you maintain above-mentioned price for this deal. For various reasons we have to ask you if you could increase our commission on the above amount from 5 to 10 percent, because in this case we could perhaps obtain the sales contract immediately. If possible our sales price to the Government of \$26,000 should be maintained as this is of utmost importance. Delivery should be as soon as possible and the money for this deal is already set aside.

Please take great care that no news about this proposition should reach Mr. Azcarate. If he should inquire about certain moves in Mexico, please keep him in suspense as this matter must be kept secret until everything has been definitely decided.

In dealing with governments is it customary for your company to keep the negotiations secret from certain of the high officials?

Mr. WEBSTER. No, sir.

The CHAIRMAN. Mr. Hiss, have you developed what the present connection of this man Azcarate is?

Mr. HISS. General Azcarate was at the time of these negotiations Chief of the President's Military Commission, Military Staff in Mexico. Is that correct?

Mr. ALLARD. I do not know it to be a fact. I do not know what his position was.

Senator POPE. That has been developed.

The CHAIRMAN. Yes; that is already developed. But what is his occupation at the present time?

Mr. HISS. "Exhibit No. 327" of November 29, 1933, says that General Azcarate was chief of the President's staff and is now military attaché in Washington.

Mr. WEBSTER. Is he here now?

Mr. HISS. Mr. Earle would probably know.

Mr. EARLE. Yes.

Mr. HISS. Mr. Earle says he is now military attaché in Washington. That particular contract that you were then negotiating never went through, is that correct?

Mr. ALLARD. That is correct.

Mr. HISS. I will offer as "Exhibit No. 337" a letter dated March 2, 1934, from Watson-Phillips to the Export Corporation.

(The letter referred to was marked "Exhibit No. 337" and is included in the appendix on p. 917.)

Mr. HISS. This letter reads:

A special commission which was very busy at the Aviation Department for the last few weeks in making a close study of conditions and movements during 1933, just finished their study and a new program, together with new ideas about this department, are under consideration.

We were informed confidentially of the exact position in this matter, and also were asked confidentially to make out a certain report, which will be modified after we have given same in according to the conditions and possibilities to the department. An entirely new arrangement and system will be established. The Talleres del Departamento de Avlacion will be taken over by a new management and transformed into a factory, similar to the one which Genl. Azcarate once had in Mexico. The civil as well as military aviation construction program will be taken into consideration, but the Military Aviation Department will furnish only the funds necessary for construction, repairs, upkeep of planes for this department. We can tell you that Mr. Calles jun. himself is active in this work already and that his father might be the main stockholder and perhaps director of the new company.

Mr. HISS. In this letter I find this further statement:

In asking for further quotations on armament, state the factory prices, including 10 percent commission, but do not mention the amount of commission in future letters.

The governments frequently do not know the amount of commission your agents receive?

Mr. WEBSTER. They do not know unless they request the information.

Mr. HISS. Referring again now to "Exhibit No. 327" letter dated November 29, 1933, from Robert L. Earle to J. S. Allard, being a report of a recent trip to Mexico City, I find this statement:

The situation now is approximately as follows: With the transfer of General Azcarate to Washington, his influence over purchases by the Government is apparently at an end and one of the most serious obstacles to Curtiss-Wright progress removed. It will be remembered that he has an interest in the factory that built Vought Corsairs under license, and since has done a great deal to push the purchase of Boeing fighters. After he was forced to change his attitude in favor of Curtiss Hawks recently he tried to give the impression that he was out of patience with Boeing for having unexpectedly increased

their prices, but he can hardly be counted on as a loyal Curtiss-Wright supporter.

With General Rodriguez Familiar as the new chief of the presidential staff, it appears that we may expect to receive very favorable consideration. During a very satisfactory conference with him, he expressed admiration of our equipment and agreed entirely with my statement to the effect that the Mexican Government could not afford fighters having performance inferior to the Hawk, when so many governments have already adopted it as standard equipment. From all indications, Watson Phillips have arrived at a satisfactory understanding with him regarding methods of handling the financial phases of the contracts, although he, of course, has nothing to do with the actual drawing up of same. He is a relative of President Rodriguez, to whom Watson Phillips has access through a firm of lawyers.

General Ruiz, who is the Chief of Aviation, leaves matters of technical recommendation and conferences with representatives of manufacturers almost entirely up to Colonel Lezama, his subchief. In leaving us to Colonel Lezama he said that he would back up whatever plan of action we arrived at.

Colonel Lezama, who was trained at Brooks and Kelly Field, is very favorable toward us. He said that with General Azcarate now out of the way the course ahead would be comparatively clear, and that he would do all he could to push the purchase of Curtiss-Wright equipment. He has direct access to General Rodriguez, and it was he, in fact, who arranged for the conference which Mr. Huebner and I had with general. Lezama and Rodriguez F. appear to be in accord and in close touch with each other concerning all negotiations for aircraft.

Colonel Gustavo Leon, who has been designated to make a nonstop flight from Mexico City to Buenos Aires, has apparently full latitude in choosing his airplane in which to make the flight, such purchase to be paid for, of course, by the Government. He was at first interested in the Lockheed, but Watson Phillips have swung him over to a preference for the Northrop, on the assumption that we would be able to arrange for handling this type for the Northrop Company. Leon seems so disposed to take the recommendation of Watson Phillips concerning type of ship (probably due considerably to certain financial arrangements) that I seriously doubt if the builder of a suitable type airplane will be able to sell it there unless the deal is handled through this firm.

General Aguilar claims that he is to be the next chief of aviation, but since he has made this claim during the four years that I have known him, it is difficult to put a great deal of stock in his assertions. Add to this the fact that he is now being punished by assignment to a relatively unimportant post for the publishing of a pamphlet in Washington casting discredit on the Mexican Minister of Finance, for which act he was recalled, and his story seems even less plausible. He insists that the transfer of General Azcarate to Washington does not mean that any of his influence is lost, but I see no reason to believe this. I purposely avoided calling on Aguilar until the last day, as I wished to make it only a courtesy call. Watson Phillips may find it necessary to play along with him to a limited extent for the reason that through his presence in the Intendencia, which is the contracting division of the War Department, even though his post is not of importance, he might be able to seriously delay the signing of contracts, were he so disposed.

Mr. Ponce de Leon, an engineer in the Navy Department, has the task of working up the design of gear necessary for the carrying and handling of a seaplane on the deck of one of the six vessels being constructed for the Mexican Navy by a shipyard in Spain. One or two seaplanes will be purchased for these experiments, and the selection of type will be up to him to a considerable extent, as its use will depend on the ability of space and gear on the vessel to handle it. He and others in the Navy Department have pretty much crystallized their thoughts on an airplane of not more than 250 h.p. I recommended the Fledgling if they must stay in such a low horsepower class, but do not see any particular advantage to this, if a plane more compact and not appreciably heavier can be offered. They were considering the use of a catapult, only to enable a plane to be launched when the water is too rough for take-off from the surface. I recommended against trying to design a catapult, for much experimentation is necessary before a satisfactory one can be developed, and it is not possible to obtain design information from the U.S. Navy as this is confidential information. I pointed out that a sea too rough for taking off

would be dangerous to land in anyway, and recommended that they confine themselves to hoisting a seaplane over the side for water take-offs. I believe this idea will be followed, and I have agreed to obtain information concerning necessary clearances between wings and the ships' hull, and length of hoists to allow for rolls. I hope that we can avoid having to design export ships for catapulting for the time being at least. Our Osprey as a seaplane should be a suitable plane if the catapulting idea is abandoned.

Possible business:

1. There are immediate plans for the development of a pursuit squadron, starting with six airplanes. The money that was set aside for this purpose several months ago was used for other purposes, to meet an emergency of some sort in a different branch of the Army. They are now endeavoring to dig up enough for a 25% deposit on six Hawks, with the idea of providing the remainder from appropriations for the first half of 1934, which money when and if appropriated would become available after January 1st of 1934. They seem convinced that the Hawk is the ship they want, and since proponents of Boeings seems to be out of the way, it appears quite certain that ours is first choice.

One thing which helped interest in the Hawk was the word given by Lawrence Leon to the effect that we would give them a license to manufacture Hawks without any charge for same. There are some who do not believe that they can keep abreast of developments if they manufacture themselves, because of the time required to get new planes into production as the types advance. Since the total number they would build would be comparatively small, this view seems reasonable. With General Azcarate gone there will probably be less pushing for manufacturing rights. I recommended that they consider only completely manufactured planes for this year, all to be built in Buffalo, and that a license, if desired, could be discussed after delivery of these.

Since returning to this country I have heard that President Rodriguez was financially interested in the factory venture which General Azcarate promoted, in which the Corsairs were built, and that through it he lost quite a bit of money. If this is true, he might favor a proposition for further manufacturing in that factory if it held promise of helping him get back some of his losses. If the idea of manufacturing in Mexico were to be entertained, it would, of course, be necessary for us to send someone to Mexico City to discuss it and work out contractual arrangements.

Has your company carried on any negotiations as to licensing the Mexican factory?

Mr. ALLARD. Yes; we have had negotiations along that line, but it has not developed into anything, to my knowledge.

Mr. HISS. Reading further, the letter says:

It might be desirable for an executive of the Export Co. to make one or two trips to Mexico City during the next six to eight months, at which time it might be well to try to talk with the President himself, to be sure that he is in sympathy with us and is satisfied with the way our affairs there are being handled. He seems to be involved in all aircraft purchases.

The CHAIRMAN. Coming back to this man Zar, was he not in fact an agent for your corporation?

Mr. WEBSTER. No, sir; never.

The CHAIRMAN. One cannot follow through the vast amount of correspondence we have been through here this morning without being impressed that he was something more than an official connected with his own Government. You never paid him a commission?

Mr. WEBSTER. Absolutely, not, sir.

The CHAIRMAN. You never paid him any return of any kind for his good will and service to the corporation?

Mr. WEBSTER. No, sir; none whatever. Captain Zar is a very fine type of gentleman. He spent a great many years in the United

States, was trained in the United States Navy, and has a great many friends in the United States Navy. As a matter of fact, his wife is an American girl and he is very American in his thoughts.

The CHAIRMAN. Before recessing the Chair furnishes for the record telegrams received during the morning from Ruth Nichols and Amelia Earhart. These telegrams come as a result, I take it, of testimony that was taken yesterday, in which Mr. Miranda in a letter was undertaking to sell to some South American authority the knowledge of very strong background in the United States and other connections with important people in the flying industry. It was clearly a propaganda letter, a salesman's letter selling his company to probable southern customers.

Miss Nichols' telegram is from Rye, N.Y., and is as follows:

SENATOR NYE,

*Chairman U.S. Senate Arms Investigations Committee,  
The Capitol, Washington, D.C.*

I am exceedingly shocked to learn from tonight's newspapers that in Senate investigation of arms shipment to South America, there was revealed today a letter written by Mr. A. J. Miranda, Jr., including my name along with others in a state of highly dangerous and misleading import to the cause of peace to which I am so extensively interested, both by belief and Quaker heritage.

Since at no time have I ever had dealings with Mr. Miranda, or any one else in armament negotiations, and for the sake of peace to which I have been actively working in plans for specific methods of preventing war, I hereby urgently and respectfully request that the Nye committee demand an explanation from Mr. Miranda as to the meaning of his statement that he found me among other women fliers "useful in the pursuit of business", and in addition requesting a clear, true declaration from him that I have never had any connection with the armament matters being discussed by him in the Senate investigation.

RUTH NICHOLS.

The telegram from Miss Earhart is from New York, and is as follows:

Senator GERALD P. NYE,

*Chairman Senate Munitions Investigating Committee.*

In reference to Miranda's letter introduced before your committee yesterday and his statement he is "intimately acquainted" with me and that I have been "most useful in the pursuit of business", please know I do not recall ever having met Miranda and in no way have I ever been wittingly "useful" to him. I am emphatically opposed to all that has to do with war and activities of munition makers and genuinely hope your committee may curb their devious activities. My attorney investigating Miranda's totally unjustified and damaging use of my name. Looking towards redress if possible.

AMELIA EARHART.

Senator BONE. Mr. Chairman, as I recall, the only reference to both of these ladies was to the effect they flew a certain type of plane, that they regarded it as a very fine plane. I do not recall any attempt to utilize them in connection with acquiring business or utilizing their names.

The CHAIRMAN. I think I recall a letter in which Mr. Miranda did declare that these people, along with other prominent fliers, had been very useful to them.

With that the committee will be in recess until 2 o'clock.

(Thereupon the committee took a recess until 2 p.m.)

## AFTERNOON SESSION

(The hearing was resumed at 3:10 p.m. pursuant to the taking of recess.)

**TESTIMONY OF J. S. ALLARD AND CLARENCE W. WEBSTER—  
Resumed**

**ACTIVITIES IN COUNTRIES ENGAGED IN WAR OR FEARFUL OF WAR**

The CHAIRMAN. Mr. Hiss, proceed.

Mr. HISS. Mr. Webster, in view of the fact that your company sells primarily military planes, is it or is it not a fact that when wars are going on or threatening, your company does more business than in peace times?

Mr. WEBSTER. Well, I would guess that possibly we did a little more. I do not think we would do much more in times of war. For instance, I am speaking now of Latin America. That is primarily the territory I am personally interested in. If you strike an average, I do not think it would be more, Mr. Hiss. I would have to check the records, though; that is, over an extended period, to take an average.

Mr. HISS. The war involving the Chaco territory which is shown on the map between Paraguay and Bolivia, the Chaco territory running down in through there [indicating on map] with Paraguay there [indicating] and Bolivia there [indicating], has been going on in actual force since 1932 and is still continuing; is not that correct?

Mr. WEBSTER. Yes, sir.

Mr. HISS. Your company's sales of planes as reported to the committee show that the country of Bolivia in 1932 and 1933 purchased a total of 24 planes from your company.

Between the countries of Colombia and Peru there has been a dispute involving the Leticia Territory, lying in through there [indicating] with Colombia there and Peru there [indicating on map].

There has been intermittent fighting, or there was, during 1932 and 1933.

On May 24, 1934, a treaty was finally signed by both nations.

During 1932, 1933, and up to April of 1934, according to the information your company has furnished the committee, a total of 50 airplanes was sold to Colombia. During that same period, 1932 and 1933, 4 planes, 1 of which was listed as a commercial plane, was sold to Peru; 3 were sold in 1933, all 3 of those being military planes.

Mr. Allard, have any planes been sold to Peru in 1934?

Mr. ALLARD. Not to my knowledge; I do not think so.

Mr. WEBSTER. I do not recall. In 1934——? I do not think so. I would have to check on that.

Mr. HISS. In the year 1933 you sold to China, according to your records a total of 54 planes.

In Argentina, in 1932, you sold 10 military planes and 2 commercial planes.

During 1932 and 1933 your competitors, the United Aircraft Corporation, according to the information they have furnished the committee, sold 12 military planes to Argentina.

Mr. WEBSTER. Argentina builds a good many of its own airplanes at the Cordova Factory. They buy some engines and build the planes in some cases and in others they build their own planes. That is, if you are striking a comparison between one country that is at peace and another that is at war.

Mr. HISS. No. In fact, I understand that Argentina and Chile—well, Chile has its own factory at Los Cerrillos.

Mr. WEBSTER. That factory belongs to the Curtiss Co. in Chile.

Mr. HISS. That does not appear as sales by the factory. Do they appear as sales of the Curtiss Co.?

Mr. WEBSTER. It would; yes. But the factory in Chile is closed.

Senator POPE. How long has it been closed?

Mr. WEBSTER. I think more than a year.

Mr. ALLARD. About 2 years.

Mr. WEBSTER. About 2 years; yes.

Mr. HISS. Has your company any contracts now under way with Bolivia for delivery of planes in 1934?

Mr. WEBSTER. One contract was partially shipped; but owing to the embargo the balance is held up.

Mr. HISS. Do you know how many planes were shipped in 1934?

Mr. WEBSTER. I could not tell you offhand.

Mr. HISS. A memorandum in your files states that as of July 21, 1934, there were 2 pursuit planes, 3 observation planes, and 4 bombers under contract and partly paid for. Do you know how many of those have actually been released?

Mr. WEBSTER. Five of them were released and shipped and four are still held up.

Mr. HISS. Under the embargo?

Mr. WEBSTER. Under the embargo.

Mr. HISS. In no other country than those mentioned has your company, so far as your records show, as submitted to the committee, other than Turkey, where 19 planes were sold in 1932—sold more than 5 planes, I believe?

Mr. ALLARD. If the records show that, that is correct.

Mr. WEBSTER. I would have to look up the records; I cannot tell you offhand.

Mr. HISS. I will offer as "Exhibit No. 338" a letter of December 27, 1933, from Frank Sheridan Jonas to Mr. Shannon, of the Curtiss-Wright Aviation Corporation.

(The letter referred to was marked "Exhibit No. 338" and is included in the appendix on p. 918.)

Mr. HISS. Can you identify Mr. Jonas?

Mr. WEBSTER. Mr. Jonas is employed by, and represents, the Remington Arms Co., and I think also the Winchester Co., in South America.

Mr. HISS. His brother represents Winchester, does he not?

Mr. WEBSTER. That is possibly correct. I know he did represent Winchester. I think now it is only Remington; yes.

Mr. HISS. Does not Mr. Jonas also represent the Federal Laboratories Co.?



Mr. WEBSTER. I know he did at one time. Whether he does now or not, I do not know.

Mr. HISS. The second paragraph of this letter reads as follows:

The Paraguay and Bolivia fracas appears to be coming to a termination, so business from that end is probably finished. We certainly are in one hell of a business, where a fellow has to wish for trouble so as to make a living, the only consolation being, however, that if we don't get the business someone else will. It would be a terrible state of affairs if my conscience started to bother me now.

The CHAIRMAN. Whose letter is that?

Mr. HISS. That is a letter to Mr. Shannon of the Export Co. from Mr. Jonas representing the Remington Arms Co. and the Federal Laboratories Co.

The CHAIRMAN. What is Mr. Shannon's connection with the airways?

Mr. HISS. Mr. Shannon has been identified as a former employee of the Aviation Corporation, now on Mr. Webster's staff, which is the selling organization in South America.

Mr. ALLARD. If you will pardon me, it is not the Aviation Corporation, but the Export Corporation.

The CHAIRMAN. Has Mr. Shannon any connection at all now, or has he had with the Pan-American Airways?

Mr. WEBSTER. No; he never has.

Mr. ALLARD. Never, to my knowledge.

Mr. WEBSTER. There is another Shannon with the Pan-American-Grace Airways.

Mr. ALLARD. They are not the same.

Mr. WEBSTER. There was no relationship of any sort whatsoever.

The CHAIRMAN. Thank you. That is what we were trying to determine.

I should like to ask the witness frankly, in the light of the experience that you have had for years, in the light of the experience that is generally known now that all competitors have, it is "a hell of a business", is it not, to use Mr. Jonas' language?

Mr. WEBSTER. Well, in what way do you mean, Senator?

The CHAIRMAN. I mean, in the foreign field, where you are so directly in competition with other manufacturers?

Mr. WEBSTER. I would not say that because we are in competition makes it a hell of a business. I think it makes it rather interesting to have competition.

The CHAIRMAN. But the kind of competition that has been shown; I cannot conceive that any American would relish that kind of competition, the necessity of having to engage in the kind of practices that are engaged in to get the business.

Do you really say that you delight in the kind of competition that you have?

Mr. WEBSTER. I would not say I delight in that kind of competition, Senator, but I would like competition in any line of business that I was in. I should think it would be more interesting to have competition.

The CHAIRMAN. Coming to Mr. Jonas' direct point, the fact that trouble and bloodshed and warfare are necessary to the richest profit of your business, are you quite ready to agree that that is, as he expresses it, "a hell of a business"?

Mr. WEBSTER. Mr. Jonas is not in the same line of business we are in.

The CHAIRMAN. I understand.

Mr. WEBSTER. He is speaking of his own business, not of my business.

The CHAIRMAN. You are all making things that enter into the same general activity.

Mr. WEBSTER. Well, we manufacture the same airplanes for the United States Government.

The CHAIRMAN. Surely; but does he not manufacture and is he not selling one and all alike?

Mr. WEBSTER. Well, I do not know whom Mr. Jonas sells to for Remington. I know that he is in South America. I do not believe he sells to the United States Government. We sell the same material—that is when it is released to foreign governments—we sell the same material to foreign governments that we sell to the United States Government and I do not think it is a hell of a business to be in, dealing with the United States Government.

The CHAIRMAN. Very well.

Mr. HISS. I offer as "Exhibit No. 339" a letter dated December 12, 1933, from Samper, the Export Co.'s representative in Bogota, Colombia, to Mr. Goulding, vice president of the Export Corporation.

(The letter referred to was marked "Exhibit No. 339" and is included in the appendix on p. 919.)

Mr. HISS. This letter reads in part:

Thank you, indeed, for the information contained in your letter No. 345 of the 5th inst., and for the enclosures received therewith. These we have read with extreme interest and pleasure, for it is evident that efforts to convince the Government of the need and advisability of making immediate additions to our air force have been effective. The likelihood of failure of the Rio conference has aided us considerably in this endeavor.

Do you know what the Rio conference was, Mr. Allard?

Mr. ALLARD. No; I do not.

Mr. HISS. Just about this time, December 1933, a conference was held in Rio de Janeiro among various of the South American countries looking to a cessation of the Chaco hostilities. Is it not true that a failure of a peace conference at that time would have aided your agents in persuading the governments that they should make immediate additions to their air forces?

Mr. ALLARD. I do not think that is what Mr. Samper refers to here. I think he means the possibility of the failure of the conference would make the government continue with its national-defense program.

Mr. HISS. I offer as "Exhibit No. 340" a letter dated May 20, 1934, signed by William J. Crosswell and addressed to "Dear Parni."

(The letter referred to was marked "Exhibit No. 340" and is included in the appendix on p. 920.)

Mr. HISS. William Crosswell was an agent for the Export Corporation?

Mr. ALLARD. No. He is a pilot and he was with the Curtiss Airplane & Motor Co.

Mr. HISS. That is the Buffalo company?

Mr. ALLARD. Correct.

Mr. Hiss. The letter is addressed to Dear Parm, which is Mr. Hewlett, of the Export Co.?

Mr. ALLARD. That is right.

Mr. Hiss. This letter reads, in the third paragraph:

The minister had to rush back to Bogota because of the progress made at the peace conference. Last night's Bogota paper stated that an agreement had actually been signed, and as nearly as I can gather from other sources, the report is authentic. It therefore looks as tho there is no call for the purchase of more airplanes at this time.

Do you not think from this statement of Mr. Crosswell's that it was his opinion that peace between Paraguay and Bolivia would mean the lessening of the purchases from your company, Mr. Allard?

Mr. ALLARD. That is probably his thought in the matter, if it is in there.

Mr. Hiss (reading):

I have done quite a bit of talking about the value of the demonstrations over Barranquilla and Cartagena from the viewpoints of satisfying the people as to where their taxes have gone. I have also tried to paint a picture to the Minister's aid of the value of such a demonstration over Bogota. If these people can become air-minded enough they will be willing to appropriate enough money to take care of the air force which will, of course, work out ultimately to the mutual benefit of Curtiss and Colombia.

Mr. Hiss. I offer as "Exhibit No. 341" a letter dated July 28, 1933, to Captain Travis from Owen Shannon.

(The letter referred to was marked "Exhibit No. 341", and is included in the appendix on p. 922.)

Mr. Hiss. Captain Travis at this time was on your staff, Mr. Webster, was he not?

Mr. WEBSTER. Yes, sir.

Mr. Hiss. Reading from this letter, "Exhibit No. 341":

We noted that there are good prospects of another order for six to nine planes and sure hope that this comes through soon. As a matter of fact, I was talking with the consul general, Decker, today and he is firmly convinced that the scrap down there will be over within the next month, and in that event we doubt very much if they will purchase any more of the Hawks or Ospreys.

Mr. Hiss. I offer in evidence as "Exhibit No. 342", a letter dated August 14, 1933, from C. W. Webster, to C. K. Travis.

(The letter referred to was marked "Exhibit No. 342", and is included in the appendix on p. 923.)

Mr. Hiss. You say in this letter, Mr. Webster:

If Webster & Ashton are able to work fast enough they may be able to get the additional 9 or 16 planes closed before the war ends.

Webster & Ashton referred to in this letter are your agent in Bogota, Colombia?

Mr. WEBSTER. No; in Bolivia.

Mr. Hiss. That is correct, Bolivia. You say further in this letter:

The consul general in New York seems to feel quite certain that the mess will be cleaned up within a month. I certainly hope we will be able to get some more business before this happens.

I offer as "Exhibit No. 343", a letter dated September 13, 1933, from Cliff to Mr. Webster.

(The letter referred to was marked "Exhibit No. 343", and is included in the appendix on p. 923.)

Mr. HISS. I note this letter, "Exhibit No. 343", is signed "Cliff"; that is Captain Travis?

Mr. WEBSTER. That is correct.

Mr. HISS. The letter proceeds as follows:

The war will probably last for months yet according to the looks of things. It will all depend upon how long Paraguay can keep going. At any rate, the Government is financing the war for another six months and making provisions for a year. They have made arrangements for a loan of Bs. 80,000,000 which they will receive in a very few days, and arrangements for an additional loan of Bs. 25,000,000 if needed.

What is that; what do they mean there?

Mr. WEBSTER. That is Bolivianas, which is the national currency.

Mr. HISS. Then the letter reads further:

Just how much of that will be converted into foreign currency I have not been able to find out, but I presume that the greater part will go for war materials and planes. They can and will use their credit for internal purchases and army pay roll.

Then, at the bottom of page 3, the letter continues:

We cannot neglect Bolivia; they are our best customers at the present time. A small country but they have come across with nearly half a million dollars in the past year and are good for quite a bit more if the war lasts.

The CHAIRMAN. Mr. Webster, on the face of these facts or assertions, there was large advantage accruing to you and your people through any prolonging of the conflict, was there not?

Mr. WEBSTER. It meant additional sales.

The CHAIRMAN. Sufficient to engender a desire, if you could do it, to pull the strings to prolong it?

Mr. WEBSTER. No, sir; I would not say that.

The CHAIRMAN. I am glad to hear you say that.

Mr. HISS. I offer as "Exhibit No. 344" a letter bearing date February 15, 1933, from J. V. Van Wagner to Mr. C. W. Webster.

(The letter referred to was marked "Exhibit No. 344", and is included in the appendix on p. 926.)

Mr. HISS. Mr. J. V. Van Wagner, who signed this letter, was the manager of the Curtiss plant in Chile; is that correct?

Mr. WEBSTER. That is correct.

Mr. HISS. I read from this letter as follows:

As matters now stand it would seem very difficult for us to get an offer for the European Hawk.

That was a plane belonging to the Export Co. in Holland?

Mr. ALLARD. Yes; that is correct.

Mr. HISS. The letter reads further:

There is no hope whatever of the Chilean Government acquiring this machine, and the only way I think you could dispose of it would be your dealing direct with other countries at S. America at present engaged in warfare.

I offer next as "Exhibit No. 345" a letter dated May 15, 1933, from Mr. Webster, addressed to J. V. Van Wagner.

(The letter referred to was marked "Exhibit No. 345" and is included in the appendix on p. 927.)

Mr. HISS. Mr. Webster, in this letter you instructed Mr. Van Wagner as follows:

During this period of political unrest all over South America, circulate as much as you can among officers and people in an effort to obtain information

pertinent to our business situation which may effect sales and shipments in all of the South American countries.

Mr. WEBSTER. Yes.

Mr. HISS. I offer as "Exhibit No. 346" a letter dated April 7, 1934, from Bruce G. Leighton to Mr. T. A. Morgan.

(The letter referred to was marked "Exhibit No. 346" and is included in the appendix on p. 928.)

Mr. HISS. This letter, "Exhibit No. 346", is addressed to Mr. T. A. Morgan, who is president of the parent corporation, Mr. Allard?

Mr. ALLARD. Yes; that is right.

Mr. HISS. The letter is from Mr. B. G. Leighton, who was the European Export representative?

Mr. ALLARD. That is right.

Mr. HISS. I read from this letter as follows:

Here are some important factors which must be kept in mind, as of great possible influence on affairs out here.

That is, bearing on your general affairs?

Mr. ALLARD. No; I think on our affairs out there, and not in general.

Mr. HISS. The letter then proceeds:

A few days ago Mussolini made a speech in Italy in which he talked very frankly about his views regarding Italy's future lying in Asia and Africa. It probably didn't create any stir at home—you may not even have noticed it. But you can believe that it has caused a great stir out here. The Turkish Ambassador has called on El Duce to ask him "What do you mean, Asia, etc.?" El Duce, of course, replied that he didn't mean Turkey. And on the surface all is quiet. But if you know anything at all of the background of Italy's aspirations in Turkey—tangible evidence of which lies always at Turkey's front door in the form of the Italian-mandated islands—you can well believe that these last utterances of El Duce's have made a most profound impression, which mere diplomatic assurances will not dispel.

And under the surface there is every evidence of a determination to see that no stone is left unturned to see that Turkey's defenses are in shape. And aviation defenses are receiving the most serious attention of the big shots in the Government.

The machine-gun episode for Hawks is just one indication. When I cabled you the other day that we have been asked to consider this one as a national emergency, I can assure you that I wasn't kidding. They're in deadly earnest about this.

In 1932 your company sold 19 planes to Turkey?

Mr. ALLARD. Yes, sir.

Mr. HISS. When was the license of the Kayseri factory entered into?

Mr. ALLARD. At that time.

Mr. HISS. They are now manufacturing planes and engines?

Mr. ALLARD. No; they are not doing either at the present.

Mr. HISS. They have a license to manufacture them?

Mr. ALLARD. Of a sort; yes, sir.

Mr. HISS. Have you not found, Mr. Webster, that in making purchases for war purposes governments are better able to acquire funds than at other times for other purchases?

Mr. WEBSTER. You mean during a state of war?

Mr. HISS. Yes; or during a threatened state of war.

Mr. WEBSTER. No; I would not say so, Mr. Hiss.

Mr. HISS. Let me phrase the question this way: When war is going on or is threatened, haven't you found that countries are able to

secure funds for the purchase of material necessary to carry on the war more easily than they have been able to acquire funds at other times for peaceful purposes?

Mr. WEBSTER. I would not say so, Mr. Hiss; no. It has been our experience with other countries that are not in a state of war that they purchase and secure the funds, because they pay in cash. We do not extend credit.

Mr. HISS. Will you refer to this letter which I now show you, being a letter of January 31, 1933, which will be "Exhibit No. 347"?

(The letter referred to was marked "Exhibit No. 347" and is included in the appendix on p. 929.)

Mr. HISS. "Exhibit No. 347" is a letter which you wrote to Mr. Travis, and at that time you said:

The situation at Chaco is liable to blow up any time, and if it does, the natural move for the Bolivian Government to make, and in view of their past performance, would be to default on any payments that are due. Therefore, let's hold them to their contracted payments. If the show does not end this coming summer, they naturally will have to have additional equipment. I realize that the Government is about broke at the present time, but they generally find the funds for munitions when necessary.

Mr. WEBSTER. I was speaking of Bolivia in that present case.

Mr. HISS. You do believe the Bolivian Government is better able to secure funds for munitions than it is for other purposes?

Mr. WEBSTER. No; I would not say that. Naturally, in case of emergency, if they require certain equipment, they have to find the funds in order to purchase it, and if they have to have the equipment they will find the funds.

Mr. HISS. And is war a technical case of emergency?

Mr. WEBSTER. Yes.

Mr. HISS. Then, on the outbreak of war, is it not true that the country can find funds for war purchases more easily than it can for other purposes?

Mr. WEBSTER. It would not be necessary perhaps to have that much equipment in peace time, and in this case that is true. We have a great many contracts with other countries that are not at war, and they always pay for their equipment.

Mr. HISS. I offer as "Exhibit No. 348" a letter dated February 8, 1933, from Mr. Webster to Captain Travis.

(The letter referred to is marked "Exhibit No. 348" and is included in the appendix on p. 930.)

Mr. HISS. In this letter I quote the following:

I am firmly convinced through personal conversation, while in Buenos Aires, that moral and financial support is coming and will continue from Argentine on behalf of Paraguay, and Bolivia will be required to find similar support either through the Standard Oil Co. or through wealthy nationals, such as Patino,

Who is Mr. Patino?

Mr. WEBSTER. Mr. Patino is at the head of the Patino Co., which is a tin company and a very large company.

Mr. HISS. They own tin mines?

Mr. WEBSTER. Yes, sir.

Mr. HISS. I continue reading from this letter:

whose business and financial interests are at stake. I am still of the opinion that before these two "comic opera wars" are finished in the north and south

that practically all of South America will be involved—so watch your step and play your cards accordingly.

Mr. WEBSTER. Mr. Hiss, my comments in connection with, for instance, the Standard Oil Co., are merely my own comments, my own impressions. I have nothing except my observation to base that statement on.

Mr. HISS. It was your opinion at that time that Standard Oil would assist Bolivia?

Mr. WEBSTER. I thought possibly they might assist them. That is the impression.

The CHAIRMAN. You have nothing to base that statement on?

Mr. WEBSTER. No; I have nothing to base the statement on.

Mr. HISS. They have interests in Bolivia?

Mr. WEBSTER. They have very large interests in Bolivia.

Senator POPE. Did you read the excerpt from the first paragraph of that letter, Mr. Hiss?

Mr. HISS. No; I did not read it. But I will read it as follows:

Although you say there is an apparent scarcity of Government funds, I still believe that Bolivia will be required to purchase additional aircraft equipment, and the dollars will be found somewhere when required. In my opinion, the real activity is just beginning, not only in the Chaco, but around Leticia as well. National pride and stubbornness will not permit these countries to quit until they blow up through absolute bankruptcy, and while the show is going on, it is our job as distributors of munitions to get our share. If we don't someone else will.

Senator BONE. Mr. Webster, what is the extent of the Standard Oil Co. operations in Bolivia?

Mr. WEBSTER. Senator, I could not tell you to what extent they do operate. I know they are down there quite extensively.

Senator BONE. Do they operate under their own name?

Mr. WEBSTER. I do not believe that branch of the Standard Oil is called the Standard Oil. It may be West India Oil.

Senator BONE. It is a Standard Oil affiliate?

Mr. WEBSTER. Yes; it is a Standard Oil affiliate, nevertheless.

Senator BONE. Are any of their properties located in the Chaco region?

Mr. WEBSTER. I believe it is just outside of Chaco, not in Chaco, but north of Chaco.

Senator BONE. Do you know to what extent the oil company may have interested itself in the political disturbance down there?

Mr. WEBSTER. No, sir.

Senator BONE. You evidently had in your mind some definite thought that these wars would cause the ultimate collapse of those countries if the fighting was prolonged.

Mr. WEBSTER. It will cause the collapse of any country to carry on a war very long.

Senator BONE. I understand that. It would be inevitable, if they kept on buying extensive munitions of war, that would cause the collapse, if they went into the operations sufficiently.

Mr. WEBSTER. Yes; if they bought enough.

Senator POPE. Do you know which Standard Oil this was?

Mr. WEBSTER. I do not know, sir.

Senator POPE. You do not know whether it would be the Standard Oil of Indiana?

Mr. WEBSTER. I don't know whether the West India goes down that far or not, but it is one of the subsidiaries of the Standard Oil.

Senator BONE. There is one other question, do they hold concessions from the Bolivian Government, or did they have oil resources?

Mr. WEBSTER. I believe the Standard Oil had some concessions in Chaco, but to what extent I do not know.

Senator POPE. To what extent are they developed, have they oil wells down there?

Mr. WEBSTER. Yes; they have drilled wells down there.

Mr. HISS. I offer as "Exhibit No. 349" a letter dated October 26, 1933, from Mr. Webster, addressed to "Owen."

(The letter referred to is marked "Exhibit No. 349", and is included in the appendix on p. 931.)

Mr. HISS. That letter is addressed to Mr. Shannon, when it says

Dear Owen.

Mr. WEBSTER. Yes, sir.

Mr. HISS. I read from the last paragraph as follows:

Hope we can come to some kind of agreement as there is plenty of business here. Lopez told me tonight frankly and confidentially that Bolivia had no intention of making peace until they got what they were after and, if necessary, the entire Patino company could back their stand. Will be waiting for J.A.B.'s opinion.

Senator POPE. What company is that?

Mr. HISS. That has been identified by Mr. Webster as being a tin company owning large tin mines in Bolivia.

Is that a Bolivian company, Mr. Webster, or does it have its control outside?

Mr. WEBSTER. I believe it is a Bolivian company.

Mr. HISS. Mr. Webster, did you ever have reason to believe that Patino was supplying funds to the Bolivian Government in order to carry on the war?

Mr. WEBSTER. I heard Mr. Patino had personally loaned the Bolivian Government funds.

Mr. HISS. I offer as "Exhibit No. 350" a letter signed Pierrot, addressed to "Dear Leon", and dated April 20, 1933.

(The letter referred to is marked "Exhibit No. 350", and is included in the appendix on p. 932.)

Mr. HISS. Pierrot who signs this letter is A. Ogden Pierrot, who is now on your staff?

Mr. WEBSTER. Yes, sir.

Mr. HISS. On April 20, 1933, when this letter was written to Mr. Leon, do you know what his position was, or was he then on your staff?

Mr. WEBSTER. If I can glance over this letter, I probably can tell you. Mr. Pierrot was then United States Trade Commissioner in Rio.

Mr. HISS. In this letter, "Exhibit No. 350", the statement is made:

The Government is, for some reason that I have not figured out, in a great hurry to acquire that number of amphibians, and I know that they are giving preference to Loening. They are also thinking of Douglas.

That refers to the Douglas Co.?

Mr. WEBSTER. Yes, sir.



Mr. Hiss. I read further from the same letter, as follows:

That latter company has a representative here who is about as effective as yours. I am definitely informed that Loenings are wanted, and in all probability you will be hearing of this through Castro Lopez.

I realize that Web is not losing sight of the financial end of things. To my mind, that is one of the most important, and I can say that I feel certain that if exchange is given to anyone in Brazil it will be given to suppliers of the Government, and of all classes of suppliers, those handling war materials come first in the present set-up. If dollar credits are not available in advance, then sufficient milreis to enable you to buy your exchange in the bootleg market will be given. That's where it would be well for you or some other representative to be on the job.

They were your agents at that time?

Mr. WEBSTER. At that time they represented us in Brazil.

Mr. Hiss. I read further from this letter, as follows:

So far as I know he had not even gotten wise to the business yet. The clique that makes the purchases does not feel that it can do itself justice by dealing with them.

Mr. WEBSTER. Mr. Hiss, that particular reference to the financial end of things means the conversion of milreis, or obtaining dollars in exchange. Dollar exchange was very difficult to obtain in Brazil at that time on the things purchased down there, and the agent would be compelled to find these dollars, because the Government was only paying milreis.

Mr. Hiss. I was really interested in the statement that, "those handling war materials come first in the present set-up."

Mr. WEBSTER. Yes, sir.

Mr. Hiss. On March 18, 1933, Mr. W. H. Smyth wrote from Belgrade to Mr. Melvin Hall who was then the representative of the Export Co., and I offer this letter as "Exhibit No. 351."

(The letter referred to was marked "Exhibit No. 351" and is included in the appendix on p. 933.)

Mr. Hiss. Mr. Melvin Hall was then the representative of the Export Co.?

Mr. ALLARD. Yes; that is right.

Mr. Hiss. A reference is made in this letter, "Exhibit No. 351", to possible sales in Yugoslavia, and the letter says:

Even if the French should secure the general order for motors and planes, I believe we should be able to sell at least a few motors to the Air Force on the basis that if and when a war breaks, the Curtiss-Wright Co. will be one of the first in the position to give them quick delivery on date, and it will be well for them to have some practice on these motors so as to know what to expect from these planes.

I understand that Mr. Gould of the Pratt & Whitney Co., has been here for the past week working hard on the air force.

Now, Mr. Allard, do you remember any correspondence your company had with a Dr. Warnshuis?

Mr. ALLARD. No; I do not.

Mr. Hiss. I offer as "Exhibit No. 352" a letter from the Curtiss-Wright Export Corporation to Dr. A. L. Warnshuis, dated February 20, 1932.

(The letter referred to was marked "Exhibit No. 352.")

Mr. Hiss. Perhaps, Mr. Allard, this letter, "Exhibit No. 352", which is addressed to Dr. A. L. Warnshuis of the International Missionary Council, being written by W. F. Goulding, vice president

of the Curtiss-Wright Export Corporation, will help refresh your recollection.

In the letter, "Exhibit No. 352", Mr. Goulding says:

Your name has been suggested to us as the man most conversant with existing conditions in China. We have heard of various movements initiated by Chinese residents in this country, and have observed published announcements that they are organizing groups for the purchase of aircraft to be sent to China for use there.

As we are one of the largest suppliers of aircraft in this country, we are naturally anxious to get in touch with the leaders of such movements and to ascertain whether or not it is a fact that steps are being taken by Chinese residents in this country to furnish aircraft for use in China.

We should appreciate very much any information or assistance you can give us along these lines, and the writer will telephone you on Tuesday, February 23d, and ascertain if you are agreeable to discussing this matter with him.

Do you know whether information was received from Dr. Warnshuis as to the persons interested in the purchase of aircraft in China?

Mr. ALLARD. No; I do not. This is the first time I ever heard of him.

Mr. Hiss. On February 24, 1932, 4 days after that, your company received a communication from one Harry S. Jue, of Worcester, Mass., of the Chinese Patriotic Association of Schenectady, N.Y.

And on February 25, 1932, Mr. Goulding wrote to a Dr. Tehyi Hsieh, Chinese Trade Bureau of Boston, Mass.

On February 25, 1932, Mr. Webster wrote to Mr. Leon in Buenos Aires referring to the possibility of Chinese patriotic associations raising money to buy planes to be sent to China.

Mr. Webster in his letter says:

Thought the Chinese colony in Buenos Aires might be doing the same thing and it might be worth while looking into the situation and seeing if by any chance we could sell a few airplanes for that purpose.

On February 26, Mr. Martin wrote to Mr. Goulding and said:

As I understand it, these ships are to be bought and paid for in this country by a corporation that is as yet to be formed. This corporation is to be made up of wealthy Chinese and American citizens. Dr. Hsieh mentioned a Chester I. Campbell as possibly one of the members. This Chester I. Campbell is head of one of the leading advertising firms and also puts on expositions of different kinds in the Mechanics Building in Boston. Dr. Hsieh also mentioned that the Atlantic National Bank of Boston would have some interest in this.

On March 11, 1932, there was a telegram from Bartlett in California to Curtiss-Wright Export Co., New York. Can you identify Bartlett?

Mr. ALLARD. He was an employee of a flying field or Airport Service Co. at an airport in California, but I do not know which.

Mr. Hiss. The telegram reads as follows:

Large fund contributed by San Francisco Chinese controlled by various factions and tongs. We working very closely and confidentially with them and recent arrivals from China reputedly representing the nationalists.

Senator POPE. Who was it wrote that letter?

Mr. Hiss. The last was a telegram from Bartlett in California to the Export Co.

Senator POPE. Did you say he was employed by your company?

Mr. ALLARD. No; he was an employee of one of the subsidiaries that ran an airport out there.

Mr. Hiss. In 1933 you sold China 54 airplanes, of which 50 were pursuit and 4 training planes and they were all military planes.

Mr. ALLARD. That is right.

Mr. Hiss. Did you, or anyone in your company think there was anything incongruous about writing a missionary for the names of people interested in buying military planes in China?

Mr. ALLARD. Probably not. May I explain, we have had a great many letters along the same lines from Chinese organizations, and no sales have ever been made under these conditions. A great many Chinese born in America or living in America have gotten together a great many times and discussed the possibility of their buying an airplane and sending it back to China as a patriotic gift from them. That is the background of this whole business.

Mr. Hiss. Has your company ever sold planes to one country engaged in a war, and notified the other side of the sale?

Mr. ALLARD. Not to my knowledge; no, sir.

Mr. Hiss. Have you ever said to one country that another country has been acquiring planes from you?

Mr. ALLARD. That would have to be answered by the man who was doing the selling. I never have personally.

Mr. Hiss. Would your company be opposed to that as a matter of policy?

Mr. ALLARD. Notifying one country what another country was buying?

Mr. Hiss. Yes.

Mr. ALLARD. I think conditions would control that a great deal. It would depend upon the relations with the country.

Mr. Hiss. I offer in evidence as "Exhibit No. 353" a letter dated February 17, 1932, from the Curtiss-Wright Export Corporation, signed by Melvin Hall, to A. B. Mercantile, Helsingfors, Finland.

(The letter referred to is marked "Exhibit No. 353" and is included in the appendix on p. 933.)

Mr. Hiss. That letter, "Exhibit No. 353", was addressed to your representative at Helsingfors, Finland?

Mr. ALLARD. Yes.

Mr. Hiss. This letter, "Exhibit No. 353", reads as follows:

We are pleased to advise you for your information that the Lithuanian Ministry of Defense has ordered from us five (5) Challenger engines for installation in their training planes. We believe that you will desire to communicate this information to the Finnish Ministry of Defense.

We would also advise you confidentially that the Turkish Government has passed an order to us for twenty-four (24) Curtiss-Hawk single-seater pursuit planes with Cyclone engines, six (6) Fledgling training planes with Whirlwind engines, together with a quantity of spare engines. This information is not for publication and is to be communicated by you only in a confidential manner, should you deem it desirable to inform the Ministry to this effect.

What is your opinion as to the effect of such information conveyed to one country as to the purchases by other countries, nearby or neighboring?

Mr. ALLARD. Take Lithuania. We are engaged in Finland in the sale of Challenger engines, engines I believe in the training planes, which was not a military plane but really a training plane. I imagine, although I cannot verify it, but I think the records will

show that was public information in the case of Lithuania at the time. In the case of the sale of the Turkish Hawks, that was public information and published in all the newspapers in the world. I do not know why Hall used the wording he did in his letter except probably to show or to indicate to the agent up there he was giving him something very secret, but it was out and did not do any harm or could not do any harm.

Mr. HISS. What, in your opinion, would be the harm in notifying one government of the planes of another government?

Mr. ALLARD. In this instance it was done to secure an order to be placed for the engine—that is, the Finnish Government.

Mr. HISS. There is natural competition between governments as to their military planes?

Mr. ALLARD. No; I do not think so in this case. This was entirely too far removed from Turkey to be of any such connection.

Mr. HISS. Finland and Lithuania are not so far removed.

Mr. ALLARD. That is perfectly right, but that was a training plane, with public information.

Mr. HISS. Training planes are used to train pilots for war planes, are they not?

Mr. ALLARD. As well as commercial planes.

Mr. HISS. Do the Finnish Government and the Ministry of Defense train pilots for commercial planes?

Mr. ALLARD. I do not know that now. A great many governments train their own pilots.

Mr. HISS. In "Exhibit No. 348", already introduced, the letter from Mr. Webster to Mr. Travis, the following statement is made:

While in Peru, and as soon as convenient, give me a frank picture of the Peruvian situation, and do what you can to assist Faucett in closing additional business there. For your confidential information, their friends to the extreme north are still purchasing heavily.

Who would "their friends to the extreme north" be?

Mr. WEBSTER. That would be Colombia.

Mr. HISS (continuing reading):

You might use this in your official conversations but in a very careful and diplomatic manner.

In 1933 your company sold 29 planes to Colombia. In 1933 Colombia and Peru were engaged in a dispute about the Leticia territory, during which clashes broke out at various times. On February 14, 1933, there was a clash between the two forces, and this letter was written on February 10 of the same year, 1933. Do you think that by notifying Peru of the purchases made from you by Colombia, you would tend to get Peru to increase the purchase of military planes from your company, Mr. Webster?

Mr. WEBSTER. Not necessarily. There was no secret up and down the west coast of South America as to what the other countries had. They are all very familiar with the conditions, and they are all sent on the same steamships, and all came through the Canal, and it is public property as to what they were purchasing. There was no secret about it.

Senator POPE. Why should the language be used in a letter "for your confidential information"?

**Mr. WEBSTER.** For his own information. Telling our representative, our employee there, telling him what business relations we are having.

**Senator POPE.** If it was public property and published generally, why should it be so confidential?

**Mr. WEBSTER.** It should not have been in confidence at all. All those planes were shipped out of New York City, and there was no reason why any person should not go down and find out what shipments were being made.

**Senator POPE.** Then you go further and state:

You might use this in your official conversations, but in a very careful and diplomatic manner.

**Mr. WEBSTER.** Yes; I do not think he referred there to any publicity in newspapers. But there is no secret at all about what the countries down there were buying.

**Mr. Hiss.** Again, in "Exhibit No. 355", which is a letter dated February 9, 1933, from Mr. Webster to Mr. Faucett, you say to him, Mr. Webster, the following [reading]:

Please remember that no spare engines have yet been purchased for the Hawks, so please bring a little pressure to bear on the air corps officials and on Mr. Pardo \* \* \*.

**Mr. Pardo** was chairman of a voluntary committee?

**Mr. WEBSTER.** A civilian committee; yes, sir.

**Mr. Hiss.** Getting aircraft and donating them to the Peruvian Government?

**Mr. WEBSTER.** Yes, sir.

**Mr. Hiss** (continuing reading):

and see if this business cannot be concluded in the near future. For your confidential information you might diplomatically inform interested parties that your neighbor to the extreme north is still purchasing in large quantities. Do not overlook such items as bombs, ammunition, machine guns equipment, etc.

(The letter referred to was marked "Exhibit No. 355" and is included in the appendix on p. 934.)<sup>1</sup>

**Mr. Hiss.** "Exhibit No. 356" is a letter of November 1, 1933, from Mr. Goulding to Samper, the Curtiss-Wright representative in Bogota, Colombia. Is that right?

**Mr. WEBSTER.** Yes, sir.

(The letter referred to was marked "Exhibit No. 356" and is included in the appendix on p. 935.)

**Mr. Hiss.** That letter reads in part as follows [reading]:

Meanwhile I think you should concentrate your efforts in endeavoring to get further orders for Hawks and Falcons, as we feel that the Colombia Government, now that they have made such a splendid advance in building up an air force, should not permit these efforts to lag. There is no telling when they will need a very strong air force.

Then the letter further states:

According to Lieutenant Gonzales, the current opinion in Colombia is that the negotiations with Peru will come to naught, in which case Colombia will again be forced with the necessity of a strong air force. We know, as a matter of fact, that Peru has not been idle in adding to their equipment, and unless Colombia maintains and increases their air force which they have now started, they will lose the advantage which they now have.

<sup>1</sup> There was no exhibit marked "No. 354."

In other words, in this case you had already notified Peru of Colombian purchases, and now you were notifying Colombia of Peruvian purchases?

Mr. ALLARD. We notified the agent in Peru; that is correct.

Mr. HISS. "Exhibit No. 357" is a letter of December 16, 1933, from Mr. Tobin, who was then associated with Faucett as a representative in Lima, Peru?

Mr. WEBSTER. Yes, sir.

Mr. HISS. And is addressed to Mr. Owen Shannon.

(The letter referred to was marked "Exhibit No. 357" and is included in the appendix on p. 936.)

Mr. HISS. That letter reads in part as follows [reading]:

The Peruvians apparently have just received a good burning on the Fairey Fox. This ship at sea level cannot catch up with our old Stinsons, with the Stinson cruising at 1,750 r.p.m., and the Fairey running wide open. I'm thinking the Colombians will have a few good chuckles with their new Falcons at all altitudes under 15,000 feet and in all probability at the high altitudes as well. These things are being pointed out to all the officers not concerned with the purchase of the English and French equipment.

Was it a policy of your company to point out to the various governments that the planes which you had sold to their opponents were superior in performance to some of the planes they were buying from other countries, and that, therefore, they should buy from you to get planes of at least equally good performance?

Mr. ALLARD. This is a statement of a representative or agent down there.

Mr. HISS. Did your company ever disavow this statement?

Mr. ALLARD. Not to my knowledge. I think that is common, ordinary sales practice?

Mr. HISS. You do?

Mr. ALLARD. Yes, sir.

Mr. HISS. "Exhibit No. 358" is a telegram of March 15, 1934, from Mr. Webster to Mr. Tobin in Lima, Peru.

(The telegram referred to was marked "Exhibit No. 358" and is included in the appendix on p. 937.)

Mr. HISS. That telegram reads in part as follows [reading]:

Confidentially, your competitors have just placed order 23 additional Falcons, 15 Hawks, but no deposit yet. Strongly recommend Peru make deposit immediately additional Hawks Falcons for delivery priority. Your present schedule ends May 28, but starting May 14 can deliver two additional airplanes each week until June 1, then four each week until July 1 \* \* \*.

Mr. Webster, by this you were recommending to your agent in Peru that there was an order which had been placed by the country with which they were still having a dispute, and Peru could, by making an immediate deposit, secure priority on delivery?

Mr. WEBSTER. They could continue the contract they already had in effect and go on with that contract on products in order to get quick delivery.

Mr. HISS. During this period of 1932 and 1933 you were profiting by the dispute between Peru and Colombia, in that you were selling both sides, when both sides were attempting to increase their military aviation equipment?

Mr. WEBSTER. We sold to both Peru and Colombia; yes, sir.<sup>1</sup> In that connection, Mr. Hiss, we have never taken sides and have striven to be neutral, and have never lined up or taken sides with any particular country.

Mr. HISS. "Exhibit No. 359" is a letter of May 3, 1933, from Mr. Shannon to Mr. Travis.

(The letter referred to was marked "Exhibit No. 359" and is included in the appendix on p. 938.)

Mr. HISS. That letter reads in part as follows [reading]:

During the past few days the New York papers have carried stories of the Bolivian planes bombing some of the Paraguayan rail centers with considerable success. We are glad to see they are at last making some real use of their planes and hope their success will convince them of the advantages they would gain by getting more of the Hawks and Ospreys.

"Exhibit No. 360" is a letter of February 10, 1933, from Mr. Webster to Mr. Leon, who was then in Buenos Aires, Argentina.

(The letter referred to was marked "Exhibit No. 360" and is included in the appendix on p. 939.)

Mr. HISS. That letter reads in part as follows [reading]:

Newspapers the last few days have been carrying stories about the pending and probably political and revolutionary upheaval in Uruguay.

I believe it would do no harm to slide over to Montevideo as soon as convenient and contact the proper officials in an effort to promote the sale of aircraft or any class of munitions.

That is, Montevideo is the capital of Uruguay?

Mr. WEBSTER. Yes, sir.

Mr. HISS (continuing reading):

Also, in this connection, do you think it advisable to make a personal contact with Paraguayan Government officials in Asuncion?

I know that this is a rotten trip to make up the river, but it seems to me that the Bolivia-Paraguay trouble has not yet reached its peak and the conditions instead of becoming better are gradually getting worse. If such is the case, it will be absolutely necessary for Paraguay to find the money for the purchase of aircraft and other munitions. If we are able to sell them anything, we will have to work very carefully and quietly, and possibly work through you, as an individual, as the Bolivian Government would naturally raise "merry hell" if they believed that we were dealing with their enemies.

Mr. Webster, I thought you said that the sales of the various governments were common property in South America.

Mr. WEBSTER. No; I did not make that statement, Mr. Hiss. I made that statement as to Peru and Colombia.

Mr. HISS. As to Bolivia and Paraguay it was not common knowledge?

Mr. WEBSTER. No, sir; not that I know of.

Mr. HISS. "Exhibit No. 361" is a letter of May 17, 1933, signed "Cliff." That is Mr. Travis?

Mr. WEBSTER. Yes, sir.

<sup>1</sup>At the time of the above testimony neither Mr. Webster nor Mr. Allard knew whether the March 1934 Peruvian negotiations had resulted in the sale of any planes. In response to a request of the committee, Mr. Allard notified the committee on November 3, 1934, that from January 1 to September 30, 1934, the Export Co. shipped the following materials to Peru: In May, 1 Rambler—no armament; in June, 3 Hawks—2 guns each and bomb racks; in June and July, 9 Falcons—2 guns each and bomb racks; in August, 4 Travelairs—no armament; in August, plane spares. Motor spares and miscellaneous parts were shipped throughout this period. These shipments totaled \$553,752.80.

Mr. Hiss. Addressed to Mr. Shannon.

(The letter referred to was marked "Exhibit No. 361" and is included in the appendix on p. 939.)

Mr. Hiss. That reads in part as follows [reading]:

You are quite right in assuming that the Bolivians are making good use of our planes in bombing. They have created a real menace to the Paraguayans, as well as a deep fear. The Chief of Operations in the Chaco (Air Corps) has been urging the Government for several weeks to buy six more Ospreys and three additional Hawks and the decision now, after having passed all the minor departments and the general staff, rests with General Kundt, commander in chief of field operations. As I wrote Web, I expect a definite answer from the Government late this week or early next week. Slowness and red tape is still the order of the day here. There also might be a chance to sell some Travelair bombers.

Travelair bombers are commercial planes, are they not?

Mr. ALLARD. Yes, sir; they are.

Mr. Hiss. Which are not usually sold for military purposes?

Mr. ALLARD. Not to my knowledge.

Mr. Hiss (continuing reading):

Some of the "Brass Hats" who are in positions of power here, although they know nothing whatever of aviation, seem to think that the answer to the whole situation is a flock of 4,000-pound bombers. The remark was made that the Ospreys and Hawks were toys because they only carried some 460 pounds of bombs. That, of course, is the natural reaction of these people after all of these bombing expeditions with really good results. They have gone bomb-minded.

As regards bombs and cartridges, Europe has that pretty well sewed up as they can offer them at much lower prices than we possibly could on account of the exchange and cheaper labor.

"Exhibit No. 362" is a letter of February 14, 1933, from James H. Spencer to Mr. Webster.

(The letter referred to was marked "Exhibit No. 362" and is included in the appendix on p. 940.)

Mr. Hiss. Mr. Webster, what was the connection between the Curtiss-Wright Export Corporation and Mr. Spencer?

Mr. WEBSTER. None whatever.

Mr. Hiss. The letter reads in part as follows:

Paraguay, with whom I have been dealing thro' the Minister here in Santiago, and also thro' an official of the same Government in Buenos Aires, have shown an interest in at least the "Hawk" that is here. They made a counter offer for this machine equipped with armament and bomb racks, but the offer was so ridiculously low that Jerry told me that it was no use even to consult you. \* \* \*

On the other hand, Bolivia, with whom I was negotiating, showed an interest, and the Bolivian Minister here did quite a lot of cabling over the subject.

Then Echenique started negotiations at a lower figure—with the result that my early work was lost. As I now understand the situation, Bolivia will buy if Chile will concede the permit to fly these two machines to La Paz.

The difficulty of more than one person dealing on this kind of business is obvious, and Governments will not go very far with any intermediary unless he can show proper credentials. In the present case, it was one of lower price and a desire to buy two planes so that they should not go to the enemy.

Mr. Spencer was authorized to sell for your account if he was able to sell this particular plane?

Mr. WEBSTER. No, sir. There should be another letter, Mr. Hiss, to go with this, a letter from me to Mr. Spencer, dealing with Mr. Spencer, that he had no authority whatever to negotiate sales there.



Mr. HISS. I know, but I have not seen that. Did Mr. Echenique have any authority to negotiate at that time?

Mr. WEBSTER. No, sir.

Senator POPE. Was the purpose of that letter really to sell planes for you?

Mr. WEBSTER. It was an effort on the part of Mr. Spencer to apparently start selling and make some negotiations. He had no authority whatever to represent us and did not represent us, and was so notified, but apparently the second letter that goes with this is not in your records.

Senator POPE. Who was Mr. Spencer? What is his business?

Mr. WEBSTER. He is a member of the firm of Spencer & Waters of Santiago, Chile. At one time, a number of years ago, Mr. Spencer did represent the Curtiss Co., but we made other arrangements later on. This letter should have no bearing whatsoever on our situation, as he has no connection whatever, and had no authority to write such a letter and negotiate for us.

Mr. HISS. "Exhibit No. 344", already in the record, is a letter to Mr. Webster, dated February 15, 1933, from Van Wagner, who was the manager of the factory in Chile. Is that correct?

Mr. WEBSTER. Yes, sir.

Mr. HISS (reading):

Señor M. Cruchaga, the Foreign Minister—and who, at the same time, has been acting minister of national defense—presided recently at an antiwar meeting held in Mendoza with the Argentine authorities, the object being to try and induce Bolivia and Paraguay to cease hostilities and go to arbitration. It was also agreed that neither Chile or the Argentine would lend any assistance to either country with arms or munitions. So, in a nutshell, we can see why it has been so difficult to dispose of the Falcon and Hawk to Bolivia or Paraguay.

At that time those were two planes which the Export Co. owned in South America, which they were trying to sell?

Mr. WEBSTER. Yes, sir; they were used planes.

Mr. HISS (reading):

I do not know from whom Pancho—

That is Echenique?

Mr. WEBSTER. Yes, sir.

Mr. HISS (continuing reading):

obtained permission, and only yesterday we received notice passed down from the Foreign Minister that on no account must the Falcon and Hawk leave the factory.

That is the Chilean factory?

Mr. WEBSTER. Yes, sir.

Mr. HISS (continuing reading):

The only way to get these ships out is for an agreement to be made between the Bolivian and Chilean Ministers, and I am anxious to know what news Pancho will give us tomorrow.

At the same time Jim Spencer is still working on selling the machines to Paraguay, but apparently he is meeting with more difficulties than Pancho.

Do you remember the date of the letter in which you notified Spencer that he was to discontinue?

Mr. WEBSTER. No, sir; but it should have been on or shortly after the letter arrived in New York.

Mr. HISS. Did you also notify Mr. Van Wagner to that effect?

Mr. WEBSTER. I am not sure that I did or not, but it seems quite likely that I did.

Mr. Hiss (continuing reading):

We cannot do any more than we have already done to dispose of the Falcon and Hawk, and you must not lose sight of the fact that Chile represents herself as a peace-making nation and has promised not to provide or assist in providing war material to any of the belligerent S. American countries.

\* \* \* As matters now stand it would seem very difficult for us to get an order for the European Hawk.

That is the one in Holland, already mentioned?

Mr. WEBSTER. Yes, sir.

Mr. Hiss (continuing reading):

There is no hope whatever of the Chilean Government acquiring this machine, and the only way I think you could dispose of it would be your dealing direct with other countries at S. America at present engaged in warfare.

Then there is another reference to Mr. Spencer, as follows:

Jim Spencer has been trying to get an offer from the other side, but nothing has come of it.

I note what you write about Jim Spencer and quite appreciate your attitude before dealing direct with him. In conversation the other day, he told me he had received your letter, so I did not make any comment on what you wrote me.

Do you remember what you had written him?

Mr. WEBSTER. Apparently it was along the lines of my letter to Mr. Spencer.

Mr. Hiss. Did you tell Mr. Spencer if he arranged a sale, you would not sell the machine?

Mr. WEBSTER. I told him that he had no authority whatever to deal and to stop negotiating.

Mr. Hiss. If he had come to you with a particular offer, would your company have turned him down?

Mr. WEBSTER. I do not know, sir. We would have to wait until the time came and see what conditions were then.

Mr. Hiss (continuing reading):

The whole trouble in trying to make deals of this nature is that there is excessive graft to contend with. The Bolivian and Paraguayan Ministers know of our offer and yet they prefer dealing through agents. They both know our figure and the agent's figure, so you can imagine who has to take a share between the sale and purchase prices. Jim—

that is Spencer—

has been working the deal for Bolivia and Paraguay through the Argentine. His figures are the same as Pancho's—

that is Echenique?

Mr. WEBSTER. Yes, sir.

Mr. Hiss (continuing reading):

and he knows perfectly well that his commission is included in anything he can get over \$15,000. If he could make \$1,000 on each plane for himself, I think he would be lucky. The other \$2,000 would be paid to the other intermediaries.

Mr. WEBSTER. I might add there, Mr. Hiss, that many times individuals of this type as they see an opportunity of selling something and making something out of it, they are very quick to take advantage of it. Neither Mr. Echenique nor Mr. Spencer had

authority to sell airplanes for us at that time. In other words, they were free-lancing.

Mr. HISS. May I call your attention to "Exhibit No. 363"—

Senator POPE. Who was your representative at that time?

Mr. WEBSTER. In what place, Senator?

Senator POPE. In Santiago.

Mr. WEBSTER. Santiago, Chile?

Senator POPE. Yes, sir.

Mr. WEBSTER. What was the date of that letter, Senator?

Senator POPE. February 15, 1933.

Mr. WEBSTER. I believe the only man we had there at the time was Mr. Van Wagner.

Senator POPE. Did he have any authority to employ other agents or assistants?

Mr. WEBSTER. No, sir.

Senator POPE. So that his reference to "intermediaries" did not have any particular reference to any agents recognized by you?

Mr. WEBSTER. No, sir. We had instructed him to try to dispose of the two planes which we had on our hands there, and that apparently is what he was doing.

Mr. HISS. As "Exhibit No. 363" I offer a letter dated March 15, 1933, from Van Wagner to you, Mr. Webster, from which I wish to read.

(The letter referred to was marked "Exhibit No. 363" and is included in the appendix on p. 941.)

Mr. HISS. That letter reads in part as follows:

We cabled you on the 13th that the Peruvian Ambassador demanded immediate action with regard to delivery of the Hawk and Falcon, and the following day received your cable: "O.K. delivery."

Were those two planes finally sold to Peru?

Mr. WEBSTER. There was a Hawk and Falcon sold to Peru.

Mr. HISS (continuing reading):

From this message we understood that the \$36,000—held by the Chase National Bank—had been placed to your credit without restrictions.

Now, the whole trouble is in getting permission to fly the ships out of the country. \* \* \* With the present action taken by the Chilean Foreign Minister to foment peace in S. America, he cannot possibly give his consent to allow war material to leave Chile, especially to a country engaged in warfare.

Did your company regard his actions for peace as "fomenting peace", Mr. Webster?

Mr. WEBSTER. I do not believe so. That is an expression Mr. Van Wagner used. I do not believe I would have used that expression.

Mr. HISS. Were the Hawk and Falcon ever released so that they were able to go to Peru?

Mr. WEBSTER. Yes, sir.

Mr. HISS. In spite of the "fomenting of peace"?

Mr. WEBSTER. Yes, sir.

Senator BONE. Do you think that munition firms generally would regard that as a sort of antisocial activity?

Mr. WEBSTER. I would not doubt it a bit, sir.

Mr. HISS. "Exhibit No. 364" is a letter of March 30, 1933, from Mr. Webster to Mr. Van Wagner.

(The letter referred to was marked "Exhibit No. 364" and is included in the appendix on p. 942.)

Mr. Hiss. That letter reads in part as follows:

Was glad to hear that the Hawk and Falcon got away safely and with official permission.

Again please remember to refrain in all of your letters sent to this office from mentioning the name of Orsini. You can always refer to him as "Jones."

Who was Orsini, Mr. Webster?

Mr. WEBSTER. Orsini was an officer in the Brazilian Government, Brazilian Army Air Corps, who had been going under the name of "Jones" in South America at the time I met him.

Mr. Hiss. Was he an official engaged in purchasing planes on behalf of the Brazilian Government?

Mr. WEBSTER. Yes, sir.

Mr. Hiss. Did your company make any sales through Mr. Orsini?

Mr. WEBSTER. Yes, sir; but not at the time that we knew Mr. Orsini's name was Orsini. We sold him under the name of "Mr. Jones." That is the reason I put it in quotations.

Mr. Hiss. Why did you at this time want to refer to him as "Jones" and not "Orsini" in letters sent to the New York office?

Mr. WEBSTER. There had been quite a bit of discussion about a certain transaction which we had in South America. Some planes which I had sold Mr. Orsini, whom I knew as Mr. "Jones" in Buenos Aires and in Santiago, Chile, it later turned out that Mr. Jones was Lieutenant Orsini, who had gone over to the rebels during the Sao Paulo Brazilian revolution, and referred to himself as a Paraguayan, when he purchased this equipment in Argentina and Chile. There was so much fuss about the matter that I did not want to stir it up again, and I told Mr. Van Wagner to refrain from mentioning Mr. Orsini because we did not want to hear any more about it.

Mr. Hiss. Did you not say that any correspondence about Orsini could be sent to your home and not to the office?

Mr. WEBSTER. I believe I did mention that. From time to time I had correspondence sent to my home because I found it necessary to remain at home over a long period of time at that period.

Mr. Hiss. You said awhile ago that Mr. Echenique did not have any authority to act on behalf of your company, did you not?

Mr. WEBSTER. No, sir; he did not.

Mr. Hiss. In this letter, "Exhibit No. 364", you say:

Also do not converse with anyone regarding sales of machines or equipment going to other countries or any transaction concerning them. As mentioned in my previous letter, conditions are becoming very acute and I do not wish our files to contain anything with a bearing on this business. You can always send any necessary letters to my home and thereby keep them out of our files.

Mr. WEBSTER. I believe I referred to Mr. Orsini there.

Mr. Hiss (continuing reading):

It is perfectly all right for Pancho—

That is Echenique?

Mr. WEBSTER. Yes, sir.

Mr. Hiss (continuing):

to mess around with things providing his activities and statements do not conflict with our present arrangements in other countries.

Does not this mean that Echenique could bring in business on a commission basis to you, but he could not represent you officially?

Mr. WEBSTER. He could not represent us in countries where we had regularly established agents.

Mr. HISS. In this same letter, on the last page, you say as follows [reading]:

Do not forget that we still have available Conqueror Hawk in Holland.

That meant a Hawk with a Conqueror engine?

Mr. WEBSTER. Yes, sir.

Mr. HISS (continuing reading):

You might mention that to your friend, the Ambassador—

Is that the Peruvian Ambassador that was referred to previously?

Mr. WEBSTER. I think that is the Peruvian Ambassador; yes, sir.

Mr. HISS (continuing reading):

but in all correspondence regarding this particular individual and subsequent sales, I believe it advisable to carry on your correspondence with me personally instead of running it through the office in case of possible future perquisitions. If you were able to secure the release of the Hawk and Falcon going to Peru, it is assumed that additional permission could be obtained for other operations. Get onto this job immediately and let me have all the information obtainable and what we could possibly expect in the way of Chilean Government cooperation or in the way of cooperation from individuals.

That means in getting the planes for Peru?

Mr. WEBSTER. Getting permission to fly from Chile to Peru.

Mr. HISS (continuing reading):

In one of your last cables you state that the Hawk and Falcon were delivered without armament. What happened to the material in the tail of the Falcon?

Was armament stored in the tail of the Falcon?

Mr. WEBSTER. It was placed there for safe-keeping at the time we stored it. It was there, being stored, and we put it in the tail of the ship so that it would not be stolen.

Mr. HISS. Did Colombia protest about your sale of equipment to Peru?

Mr. WEBSTER. Not to my knowledge, sir.

Mr. HISS. "Exhibit No. 365" is a letter to Mr. Goulding from Mr. Samper.

Mr. ALLARD. Yes, sir.

(The letter referred to was marked "Exhibit No. 365" and is included in the appendix on p. 944.)

Mr. HISS. Mr. Samper was in the field, representing your company in Bogota, Colombia?

Mr. ALLARD. Yes, sir.

Mr. HISS. In that letter the writer states in part as follows:

Whereas I can appreciate your viewpoint regarding your policy of not restricting sales to any one country in a certain geographical division, you can likewise understand that the position taken by the directors of your firm to sell to Colombia's potential enemy has greatly jeopardized future sales possibilities to this country. I have, of course, expended every effort to counteract the unfavorable impression created at the ministry when they received the information, but what the result will be over an extended period of time only time can tell.

Did your company at the same time sell another plane to Peru which was in the possession of a Captain Wooten, United States military attaché in Chile?

Mr. WEBSTER. No, sir; that plane was given to Peru. It had been used considerably and was in rather poor shape, and the Peruvian Government requested that we make them a gift of it, which we did.

The CHAIRMAN. Was not that a rather unusual request for a government to make?

Mr. WEBSTER. No, sir.

Mr. ALLARD. It was an old, worn-out plane.

Mr. WEBSTER. They would probably use it more or less for practice work, instructions, and so forth.

Mr. HISS. I offer as "Exhibit No. 366" a letter dated May 6, 1933, to Mr. Webster from J. V. Van Wagner, Santiago, Chile.

(The letter referred to was marked "Exhibit No. 366" and is included in the appendix on p. 945.)

Mr. HISS. This letter states:

In my letter of 29th April I wrote about a visit we had from Mr. Bofil, who was interested in buying six planes, with armaments, for Peru. We have had another visit from Mr. Bofil, and he showed us a letter he had received from the Peruvian commercial agent in Valparaiso, which proves that the Peruvian Government is actually interested in acquiring six airplanes as soon as possible. According to Mr. Bofil, the commercial agent has more power in these questions than the Ambassador, as he is responsible for the purchase of material and produce for the Peruvian Army. We advised Mr. Bofil that we could not do anything in the matter and it would be necessary to make some arrangement with the Chilean Government if Peru wanted six planes urgently.

Was that because planes made at the Chilean factory were under contract to Chile?

Mr. WEBSTER. No, sir; not at that time.

Mr. HISS. Why would an arrangement have to be made with the Chilean Government?

Mr. WEBSTER. This particular situation, Mr. Hiss, I never did understand. Mr. Bofil I never heard of. Mr. Bofil had no authority—I checked on that in Peru—to do any purchasing for the Peruvian Government. Nothing ever materialized from this, and I am inclined to believe that Mr. Bofil was misrepresenting facts to our representative in Chile.

Mr. HISS. Later on in that paragraph the statement is made:

It seems that Mr. Bofil is well known in the Government and has been at work trying to get the Air Corps to dispose of the three last machines repaired in the factory and three others undergoing repair. The Director of Material was sent out yesterday by Aracena to talk the matter \* \* \*.

He was the Director of Aviation in Chile?

Mr. WEBSTER. Yes, sir.

Mr. HISS (continuing reading):

\* \* \* to talk the matter over with us, and the idea is for us to take over the six planes—in a figurative way—and for us to sell them to Peru. The Air Corps will fix the price, and the money will be placed to your credit in New York. This money will then be utilized in buying modern equipment for Chile. Everything looks pretty hopeful and the Air Corps are anxious that the business results.

So that apparently Chile was willing to go through with a deal if Mr. Bonfil had had proper authority from Peru?

Mr. WEBSTER. I do not think so. I do not think that this had the sanction of the Government. I think whoever Mr. Bofil talked

to in the Chilean Government had no authority whatever to speak for the Government. Nothing whatever materialized. We had no advice from either the Chilean Government or the Peruvian Government to bear out the statements of Mr. Bofil.

Mr. HISS. How were you able to secure a release of Captain Wooten's plane so that you were able to make a gift of it to Peru, Mr. Webster?

Mr. WEBSTER. We asked official permission from the Chilean Government to fly that plane to Peru.

Mr. HISS. Was that plane the property of the United States Government?

Mr. WEBSTER. No, sir; it was our property. We purchased it from the United States Government.

Mr. HISS. It was the property of the United States Government while Captain Wooten had it; is that correct?

Mr. WEBSTER. Yes, sir.

Mr. HISS. Who had furnished it to Captain Wooten?

Mr. WEBSTER. It was ordered by the United States Army Air Corps to Chile for the private use of Captain Wooten, who was military attaché.

Mr. HISS. You then purchased that from the United States Government and made a present of it to Peru?

Mr. WEBSTER. Yes, sir. At the time we purchased it, we had no idea of making a gift of it to the Peruvian Government. It was left on the United States' hands in Chile and they did not want to go to the expense of shipping it back to the States; it was more or less of an obsolete airplane anyway.

Senator POPE. Do you remember how much you paid the Government for that plane?

Mr. WEBSTER. I think it was about \$5,500 or \$6,000, somewhere along that line. I could not tell you exactly.

Senator POPE. And you made a gift of that to the Government?

Mr. WEBSTER. We had flown it ourselves considerably before it was turned over to the Peruvian Government. We used it more for a taxi ship there, to go up and down the coast, to get around quickly for our own business operations.

Mr. HISS. I offer as "Exhibit No. 367" a letter dated the 29th of April 1933 from Santiago, Chile, to Mr. Webster.

(The letter was marked "Exhibit No. 367", and is included in the appendix on p. 946.)

Mr. HISS. This letter is from Mr. Van Wagner to Mr. Webster and it says:

We cabled you this morning that Captain Wooten is still without news from Washington about the ship being taken over by us, and we hope instructions will be cabled him in this respect at any moment, so that we can proceed to take out the U.S. Army signs and paint on the new registration number.

The United States Army signs were painted out and this ship was then given by you to the Peruvian Government?

Mr. WEBSTER. Not until some time later, Mr. HISS. I believe that plane was on our hands almost a year. We had been using it ourselves. We purchased the ship to use ourselves as a taxi plane to get around South America.

Mr. HISS. But at the time you were getting the Army to turn it over to you, were you not attempting then to sell it to Peru as this correspondence indicates?

Mr. WEBSTER. I do not recall whether we offered it for sale or not. The record will speak for itself.

Mr. HISS. This letter, "Exhibit No. 367", says:

Outside Aracena and the Paraguayan Minister, no one else other than the Peruvian Ambassador should have known that Captain Wooten's plane was for sale.

You were attempting at that time to sell it then?

Mr. WEBSTER. Apparently we were attempting to sell it, but we did not and had it on our hands for about a year and used it ourselves and then later on presented it to the Peruvian Government for instruction work.

Mr. HISS. In that same connection I offer as "Exhibit No. 368" a letter dated March 28, 1933, to Mr. Van Wagner from Mr. Webster. (The letter referred to was marked "Exhibit No. 368" and is included in the appendix on p. 947.)

Mr. HISS. In this letter you say:

If you have not already done so, please advise immediately by cable to my personal address any developments in connection with Wooten's Falcon. I prefer to bury this transaction as much as possible as far as the office goes in order to prevent any possible adverse publicity.

The situation involving Peru is becoming very acute and is liable to be more so in the very near future. It looks to me like an embargo.

The CHAIRMAN. Mr. Webster, in the matter that I want to examine you briefly upon, it is first necessary to lay a little foundation in history. If it has not already been made a part of the record it will be that the sales of the Export Corporation to the Federal Government of Brazil in 1932 amounted to \$35,900. That consisted of miscellaneous material and did not include any planes. Is that precisely the case, as you recollect it now?

Mr. WEBSTER. I believe it is, Senator. I would have to check it to be certain about it.

The CHAIRMAN. In September of that year, 1932, is it true that the United States Navy had with the United Aircraft Corporation an order for 29 or 30 planes?

Mr. WEBSTER. The United Aircraft?

The CHAIRMAN. Yes.

Mr. WEBSTER. I could not tell you.

The CHAIRMAN. You could not testify as to that?

Mr. WEBSTER. No, sir.

The CHAIRMAN. It will then be made a matter of record later on that such an order had been placed by the United States Navy; and that the Navy gave the United Aircraft Corporation permission to lay aside the work they were doing for the Navy in order that they could fulfill contracts that were very pressing with the Government of Brazil; that Brazil was demanding unusually quick deliveries and they could not be fulfilled if the United States Government insisted upon the fulfillment of its contract.

On May 25 of 1932, rioting began in Sao Paulo in Brazil.

On June 11 of that year a genuine revolt broke out there at Sao Paulo, with the army, so it has been charged, aiding the revolutionists.



There appears to have been quite continuous fighting throughout the months of July and September and the revolution continued on up into sometime in November.

On November 4, the Brazilian Government after the revolution, seized certain planes from the revolutionists.

On November 4, 1932, Castro Lopez, who was the Export Corporation's agent in Rio, wrote you a letter which is offered as "Exhibit No. 369."

(The letter referred to was marked "Exhibit No. 369" and is included in the appendix on p. 947.)

The CHAIRMAN. This letter is to the effect that among the planes seized from the Sao Paulo government after the revolution were seven Falcons believed to have been smuggled by way of Argentine. The ministry of war, according to this letter, believed that during your stay in Buenos Aires you were instrumental in getting the Falcons to Sao Paulo.

What can you tell us of that, what knowledge do you have of any such transaction?

Mr. WEBSTER. In the late summer or fall of that year I was in Buenos Aires and this Mr. Orsini, or Lieutenant Orsini, whom I mentioned a short time ago, was presented to me by several people there, and in company with another man who was introduced to me as Mr. Jones and the other man as a Mr. Jackson or Johnson—I have forgotten which—and as representatives of the Paraguayan Government.

They inquired if we had any airplanes for delivery—any airplanes in South America for quick delivery. I told them that we had no complete planes, but some that were partially fabricated in our Chilean factory that had been ordered by the Chilean Government, but the Government was unable to pay for them and the plant had been closed.

A price was established, fixed, on those planes, and they were sold to them.

Subsequently stories appeared in the Asuncion Paraguayan's newspaper to the effect that the Paraguayan Government had purchased 10 airplanes from the Curtiss factory in Santiago, Chile. Those airplanes were delivered to Mr. Johnson and to Mr. Jackson, who later turned them over to Orsini and his friends. They were delivered at our factory in Santiago. They took delivery of them at the factory, and their own pilots flew them out of Chile.

So far as we know they were flown to Paraguay until later on it developed that they were flown into South Brazil, into Sao Paulo.

At the time the sale was made we believed we had been selling to a representative of the Paraguayan Government.

The CHAIRMAN. In this letter of November 4 to you by Lopez the opening paragraph makes reference to your departure for the south—"Since your departure for the south." Where did this letter finally reach you?

Mr. WEBSTER. I believe it reached me in New York. It is dated November 4, and I believe I had returned to New York by that time.

The CHAIRMAN. In keeping in part with what you have been telling us, I offer as "Exhibit No. 370" a letter dated January 21, 1933, addressed to Mr. S. Sampaio by Mr. Webster.

(The letter referred was marked "Exhibit No. 370" and is included in the appendix on p. 948.)

The CHAIRMAN. In this letter, Mr. Webster, you wrote that—by the way, who is Sampaio?

Mr. WEBSTER. Sampaio is now our agent in Brazil. At that time, in 1933, he was not our agent. He has since been made our agent in Brazil.

The CHAIRMAN. At that time he was consul general of Brazil in New York, was he not?

Mr. WEBSTER. That is probably a different Sampaio, I am sorry. We have an agent by the name of Sampaio in Brazil. Apparently this is the Sampaio who is the consul general in New York; yes, sir.

The CHAIRMAN. You wrote in this letter of January 21, relative to planes sold to the Santiago factory and later found in Brazil that the entire transaction had been closed.

Mr. WEBSTER. Yes, sir.

The CHAIRMAN. The language was—

\* \* \* I wish to advise you that this entire transaction has been definitely closed, no material is left undelivered, and all funds paid to us have been entirely used.

Mr. WEBSTER. Yes, sir.

The CHAIRMAN. I offer as "Exhibit No. 371" a letter dated January 23, 1933, by Sampaio to Mr. Webster, which is an acknowledgment of your letter of the 21st.

(The letter referred to was marked "Exhibit No. 371", and is included in the appendix on p. 948.)

The CHAIRMAN. This letter requests confirmation of your oral statement that the planes numbering 11 were delivered and funds paid about the end of September 1932 or just before the end of the Sao Paulo revolution. Is that correct?

Mr. WEBSTER. I believe so. I know they were all paid for before they were delivered.

The CHAIRMAN. That settlement came positively before the end of the revolution?

Mr. WEBSTER. Oh, absolutely; yes, sir. In fact, no material was delivered until it was paid for. In fact, it was paid for in advance.

The CHAIRMAN. I should like to offer as "Exhibit No. 372" a letter dated January 28, 1933, from Mr. Webster to Mr. Sampaio.

(The letter referred to was marked "Exhibit No. 372", and is included in the appendix on p. 949.)

The CHAIRMAN. This letter was sent to the consul general of Brazil in New York and relates to a conversation regarding airplanes that were sold in Buenos Aires and delivered at your factory in Santiago, which it was stated eventually found their way into Brazil. The machines, according to this letter, had been delivered and payments made by the end of September 1932 which was before the end of the revolution. Is that the purport of the letter, Mr. Webster?

Mr. WEBSTER. Yes, sir. I might explain this, perhaps it will make it a little more clear to you, Senator. The Brazilian consul general, Mr. Sampaio, in New York, called at our office following my return to New York to inquire into that transaction, and I explained the entire situation to him. He asked me if all the material had been delivered that had been paid for, or whether we still had funds in our possession which he claimed would naturally revert to the Fed-

eral Government. But all the material had been delivered and we had no funds left. In fact, we were paid at the time the material was delivered. That was the reason for that letter. He simply wished me to go on record so that he could send that to his government.

The CHAIRMAN. I understand. Was the Chilean Government aware of the destination of these nine Falcons?

Mr. WEBSTER. I do not believe so. I had nothing whatever to do with the delivery of the planes.

The CHAIRMAN. To get these Falcons from Chile over to Sao Paulo, over what territory would they have to go?

Mr. WEBSTER. They would have to fly across Chile, over the Andes, across the Argentine, across Paraguay, and into Brazil.

The CHAIRMAN. To whom was the plane given to which you referred a while ago as having been given to a government? What government was that?

Mr. WEBSTER. That was the Peruvian Government.

The CHAIRMAN. Is it not a fact that Paraguay was given one plane for the privilege of permitting a landing of these planes in Paraguay?

Mr. WEBSTER. Not to my knowledge. I know that one plane—I afterwards heard that one plane had had a forced landing. This came out sometime later, that one of those planes was forced down in Paraguay and was more or less taken over by the Paraguayan Government. That is merely hearsay, I think. That is gossip.

The CHAIRMAN. You have not any authentic information on that?

Mr. WEBSTER. No, sir. I know that there was a Falcon, one of this same type of planes, in Paraguay, because they purchased, or rather asked for prices—I do not know that they did purchase—on spare parts for that type of airplane, and I know that we had never sold Paraguay that type.

The CHAIRMAN. Chile accomplished a release from its contract with you about that time, did it not?

Mr. WEBSTER. Yes, sir. In order to sell those airplanes, it was necessary to receive a release from the Chilean Government. These airplanes had been contracted for by the Chilean Government to be fabricated in Chile. But a little later they ran into financial difficulties; they were not able to carry out the contract, and the factory was closed. We still had certain funds in our possession which had been paid as a deposit on those airplanes. So that it was necessary for us to arrange with the Chilean Government to sell those airplanes to another customer and in return refund to Chile the sums that had been paid against them as a deposit.

The CHAIRMAN. Did you pay Chile any consideration for this release?

Mr. WEBSTER. I believe they received the money, the advance payment which they had made to us, and I believe also that they received somewhere in the neighborhood of—I think it was a sliding scale of from \$3,000 down per airplane.

The CHAIRMAN. Per plane?

Mr. WEBSTER. Yes.

The CHAIRMAN. So that a figure of about \$32,000 might cover the entire transaction?

Mr. WEBSTER. I am not sure as to the exact amount. I am not in the accounting division.

The CHAIRMAN. Coming back to this thought that the Paraguayan Government had been given a plane for permitting a landing of these planes in Paraguay—

Mr. WEBSTER (interposing). I doubt that that is so, Senator, because I remember reading later on clippings that were sent to me in a Buenos Aires newspaper saying that the plane had been forced down and taken over by the Paraguayan Government; and that the pilot had been imprisoned for a few days. That is merely hearsay. So I doubt very much whether that plane was actually given to the Paraguayan Government.

The CHAIRMAN. The committee has in its possession a report on this particular plane that it believes to be very authentic. It will want this report to be known as "Exhibit No. 373", but it will not be offered for the record, at least at this time.

(The report referred to was marked for identification "Exhibit No. 373.")

The CHAIRMAN. Mr. Webster, I offer now as "Exhibit No. 374" a letter dated May 13, 1933, to Mr. Van Wagner from Mr. Webster.

(The letter referred to was marked "Exhibit No. 374", and is included in the appendix on p. 949.)

The CHAIRMAN. In this letter—again will you say who Mr. Van Wagner is or was?

Mr. WEBSTER. Mr. Van Wagner is or was the factory manager of our plant in Santiago, Chile. He is still in Santiago, but the plant is inoperative at the present time.

The CHAIRMAN. You are making inquiry of him in this letter concerning a reputed inquiry for used planes. That is the general reference of the letter, is it not, Mr. Webster?

Mr. WEBSTER. Yes, sir.

The CHAIRMAN. You say in this letter that the price mentioned is too high for any sale to be possible, and you say further that the Chilean officials must be thinking of the deal last summer and fall "when we cleaned out the Los Cerrillos factory."

What was that deal?

Mr. WEBSTER. That was the 10 ships that we sold out of the Santiago factory and which the Chilean Government made on that sliding scale from \$3,000 per plane down.

The CHAIRMAN. Mr. Webster, would a continuous flight from Chile to Sao Paulo be possible?

Mr. WEBSTER. No, sir; not with that type of plane.

The CHAIRMAN. They would have to land somewhere between those two points?

Mr. WEBSTER. Yes, sir.

The CHAIRMAN. You understand that the fleet did land in Paraguay?

Mr. WEBSTER. No; I do not, sir.

The CHAIRMAN. You have not understood that to be the case?

Mr. WEBSTER. No, sir. I have heard that one plane had a forced landing in Paraguay.

The CHAIRMAN. There is another story to the effect that they were all landed there and all but one took off and went on to Sao Paulo.

Mr. WEBSTER. I doubt it very much, sir. I am not sure, but I doubt it very much from what I know of conditions in the country there. The CHAIRMAN. On February 28, 1933, you, Mr. Webster, wrote to Salvador Sanfuentes. This letter deals quite at length with the commission paid him for the sale of 10 Falcons. In the letter it is stated that the original contract was for 40 planes, and 20 of them were to be Falcons; that only 10 Falcons were ever delivered and paid for; that later an opportunity was had for selling 5 Falcons to another customer, and subsequently the remaining 5 to the same customer; that the arrangement for disposing of these 10 Falcons involved the cancellation of the remaining 10 on order for the Chilean Government and also the cancellation of the 20 additional machines specified in the original contract. The letter then says it was necessary to pay the Chilean Government a commission of \$3,000 on each of the 10 Falcons. In a summary of this letter you say Curtiss-Wright lost \$32,000 on the contract, and you say also that one-third of the payment on that contract was returned to the Chilean Government at the time the contract was canceled.

The letter also refers to the purchase of armaments by Chile and the resale to another customer at exactly cost price.

Was this all part of the same transaction?

Mr. WEBSTER. Yes; that was all a part of the same transaction. He speaks of the 40 planes, and that was a part of the planes contracted for by the Chilean Government as an inducement for us to construct the factory there in Chile. There was one contract for 20 planes and another additional contract for 20, which we had placed before the first planes were fabricated. The second planes were not delivered, and the contract was canceled, so we closed the factory and it has been closed ever since. These 10 planes which were sold to Mr. Orsini were the 10 left on our hands partially fabricated.

The CHAIRMAN. You say it was your understanding that only one of those planes had landed in Paraguay?

Mr. WEBSTER. That is my understanding, and that was a forced landing. I may be wrong, but that is the rumor and the stories I had picked up as I passed through there.

The CHAIRMAN. Where did you understand they did land?

Mr. WEBSTER. I do not know; it would be very difficult indeed to get those planes over there.

The CHAIRMAN. It would be quite impossible to get them over there in one hop?

Mr. WEBSTER. It is impossible.

The CHAIRMAN. It could not be done?

Mr. WEBSTER. No; it could not be done.

The CHAIRMAN. So they had to stop somewhere?

Mr. WEBSTER. They had to stop at least twice. Their gasoline and fuel supply would not be sufficient, and they would have to stop twice, I should say.

The CHAIRMAN. It would be a fairer assumption, if there were two landings, one was in Paraguay and the other had to be in Argentine?

Mr. WEBSTER. That is right.

The CHAIRMAN. Mr. Webster, who was that other customer to whom the five Falcons were sold?

Mr. WEBSTER. That same one, sir.

The CHAIRMAN. The same one?

Mr. WEBSTER. Yes; there were 5 sold at first, then an additional arrangement made for the remaining 5, so that I believe it was 10 in all sold.

The CHAIRMAN. In this letter of February 28, "Exhibit No. 375", I find this language at the top of the page numbered 2, in the first paragraph:

The other matter of 20 percent commission on armament sold to us by Chile is entirely out of order as our customer refused to pay us a higher price than that quoted by the Chilean Government, and this armament was delivered by us to our customer at exactly cost price. This money was retained by Curtiss and applied against the Chilean debt to Curtiss-Wright. This arrangement assisted us in delivering the spares which were on order, and on which you are entitled to your 5 percent commission.

You have no comment to offer on that?

Mr. WEBSTER. No; I was waiting for you to ask the question. This refers to that same customer.

Mr. HISS. That refers to the equipment for those planes?

Mr. WEBSTER. Yes.

Mr. HISS. You sold all the munitions?

Mr. WEBSTER. We had shipped down for the Chilean Government machine guns to go on their own planes, and we were shy a few machine guns, and in order to assist us the Chilean Government sold us a few guns and we turned them over and credited the Chilean Government with the amount covering that.

(The letter referred to was marked "Exhibit No. 375" and is included in the appendix on p. 951.)

The CHAIRMAN. The committee will now recess until 10 o'clock tomorrow morning.

(The committee thereupon took a recess until tomorrow, Wednesday, Sept. 12, 1934, at 10 a.m.)

# INVESTIGATION OF MUNITIONS INDUSTRY

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WEDNESDAY, SEPTEMBER 12, 1934

UNITED STATES SENATE,  
SPECIAL COMMITTEE TO INVESTIGATE THE MUNITIONS INDUSTRY,  
*Washington, D.C.*

The hearing was resumed at 10 a.m., pursuant to the taking of recess, Senator Gerald P. Nye (chairman) presiding.

Present: Senators Nye (chairman), George, Clark, Bone, Pope, and Vandenberg.

Also present: Stephen Raushenbush, secretary, and Alger Hiss, investigator.

The CHAIRMAN. The committee will be in order. Mr. Hiss, you may proceed.

## FURTHER TESTIMONY OF J. S. ALLARD AND CLARENCE W. WEBSTER

Mr. HISS. Mr. Allard, in the course of selling to countries that were either actually engaged in war or on the eve of hostilities, has your company ever furnished pilots to train army pilots for the countries at war, or have you furnished mechanics to countries at war or to repair planes purchased from you and actually used in war?

Mr. ALLARD. We have furnished mechanics to repair airplanes in use. To my knowledge we have never furnished any pilots to train.

Mr. HISS. Do you know whether it is customary for South American countries to request aid and cooperation of airplane companies when they—that is, the countries—are engaged in war? Have you ever heard of any cases of that sort?

Mr. ALLARD. Requested manufacturers for cooperation?

Mr. HISS. Manufacturers or flying companies, operating companies?

Mr. ALLARD. No; I do not know of any cases of that kind.

Mr. HISS. I would like to ask this next question of you, Mr. Webster. I offer as "Exhibit No. 376" a letter of May 19, 1933 signed "Slim." That is Mr. Faucett in Peru, Mr. Webster?

Mr. WEBSTER. Yes, sir.

(The letter referred to was marked "Exhibit No. 376" and is included in the appendix on p. 952.)

Mr. HISS. The fourth paragraph says—

I suppose you know that all our planes \* \* \*

That refers to the Faucett Airline, does it not?

Mr. WEBSTER. Yes, sir.

Mr. HISS (continues reading) :

are on the other side of the "hill", \* \* \*

Does that mean the Andes?

Mr. WEBSTER. Yes, sir.

Mr. HISS (continuing) :

\* \* \* Dan and Red, also \* \* \*.

That refers to two of his pilots?

Mr. WEBSTER. Yes, sir.

Mr. HISS (continuing) :

The Government stopped our coast service on the 21st of April, and Dan, Red, and Pinillos went over on Sunday, 23rd April, in Nos. 4, 2, and 6 \* \* \*.

That refers to planes in the company's operation?

Mr. WEBSTER. Yes, sir.

Mr. HISS (continuing) :

\* \* \* and I took No. 8 over on 4th May. We are just now finishing No. 5, and it will have to go, too, unless the war should be called off soon. Dan and Red are with the Government now.

Did you not understand from that letter that Mr. Faucett felt it advisable, or at any event did send some of his planes to help out in Peruvian military maneuvers?

Mr. WEBSTER. I would like to explain that. Mr. Faucett's company is a Peruvian corporation. It is not an American corporation.

Mr. HISS. Do you know whether the capital investment is American or Peruvian?

Mr. WEBSTER. I am not certain. I know there is some American capital. I know it was originally a Peruvian corporation, financed entirely by Peruvian capital. I believe there is some American capital in it now, but to what extent I am not sure. Also, I have been told that the Peruvian Government took over and pressed into service certain of Faucett's ships. That is what I am told. We have no connection with the Faucett company.

Mr. HISS. I realize that. I was not trying to indicate otherwise. Does not this language indicate to you also that Faucett's pilots were pressed into service?

Mr. WEBSTER. Pressed into service to fly Faucett's ships, as I would gather from this letter.

Mr. HISS. To fly Faucett's ships to the other side of the Andes, or in Government service?

Mr. WEBSTER. I do not know whether they were in Government service.

Mr. HISS. The last sentence of that paragraph says—

Dan and Red are with the Government now.

That rather sounds as though they are actually in the Government service.

Mr. WEBSTER. That I do not know, sir. It sounds to me that those pilots were used to ferry those ships over the hill.

Mr. HISS. Do you know who Mr. Donnelly was? He was one of the employees in the factory in Los Cerrillos. Was he a mechanic?

Mr. WEBSTER. A former mechanic no longer in our employ.



Mr. Hiss. On August 22, 1933, Mr. Van Wagner wrote to you that Donnelly was in the Chaco. I offer this letter as "Exhibit No. 377." (The letter referred to was marked "Exhibit No. 377", and is included in the appendix on p. 953.)

Mr. Hiss. This says in the second paragraph:

Donnelly is in the Chaco and I have not had any news from him since he left. I still have his checks so cannot get a signed receipt for them until he comes back.

Do you know what Donnelly was doing in the Chaco area?

Mr. WEBSTER. I believe he was employed by the Bolivian Government to repair a gas tank. Donnelly was not in our employ at the time the Bolivian Government asked him to come up there.

Mr. Hiss. But apparently your company still owed him checks for past services?

Mr. WEBSTER. I am not sure whether they are checks from us or checks from some other source. I have no idea what Mr. Van Wagner referred to—what checks he referred to.

Mr. Hiss. He is reporting to you; this letter is to you from Mr. Van Wagner, dated August 22, 1933.

Mr. WEBSTER. I assume that they were the balance of any salary, or back salary that he might have coming to him. There is a rule in the Chilean Government that employers must hold a certain percent of their employees' salaries and those to a certain percentage must be paid into the Government, and when that employee leaves that company, he obtains that back salary. It is in the nature of an employees' insurance.

Mr. Hiss. Who was Mr. Berger?

Mr. WEBSTER. Mr. Berger is our mechanic—our field service man.

Mr. Hiss. "Exhibit No. 301", already in evidence, a letter of September 21, 1933, from Travis in Bolivia to Mr. Webster says—

Shorty—

That means Berger?

Mr. WEBSTER. Yes, sir.

Mr. Hiss (reading):

\* \* \* is going to the Chaco next Friday to look things over and give some much needed instructions to the mechanics. This was requested by the pilots, and I left it up to Shorty as to whether he would go or not. He can be of great help there for a couple of weeks, both to us and to the pilots and mechanics.

On September 21, 1933, the Bolivian-Paraguayan hostilities, known as the "Chaco War", were going on, and they are still continuing?

Mr. WEBSTER. Yes. I would like to explain again, Mr. Hiss, as I believe I told you yesterday, that the instructions referred to there are simply as to how to operate those engines.

Mr. Hiss. "Exhibit No. 349", already a part of the record, which is a letter from Mr. Webster to Mr. Shannon—the letter having been written from Bolivia on October 26, 1933—says:

Am writing this letter at midnight. Just came in from dinner after a late session with Lopez and the Minister of War. Our plans have somewhat changed. Cliff, \* \* \*.

That is Mr. Travis?

Mr. WEBSTER. Yes, sir.

Mr. HISS. Who was a pilot?

Mr. WEBSTER. Yes, sir.

Mr. HISS. A former Army pilot, was he not?

Mr. WEBSTER. I believe he was trained in the American Army a number of years ago.

Mr. HISS (reading):

\* \* \* instead of going along with us tomorrow is leaving for the Chaco on Saturday with the Minister of War and the Chief of Staff for a conference with General Kundt and aviation officials at the front. Lopez and the Minister suggested that Cliff fly down there with them, and the job is so important that we decided that if necessary we would have to delay the Argentine business.

That letter indicates, does it not, that your company was doing business on the actual scene of warfare?

Mr. WEBSTER. No, sir. They were having some trouble with the planes there and Travis went down there to see what the trouble was.

Mr. HISS. Was not this with reference to a possible acquisition of planes? The fourth sentence of this paragraph says:

The Government wishes to acquire ten large bombing planes, and it is a choice between Junkers and ourselves. Lopez and the Minister suggested that Cliff fly down there with them, and the job is so important that we decided that if necessary we would have to delay the Argentine business.

Mr. WEBSTER. Apparently that letter does infer that. It was my present impression that it was to go down on trouble shooting.

Mr. HISS. Who was Mr. Brewton?

Mr. WEBSTER. He is also a service engineer, a service man, from the Wright Aeronautical Co.

Mr. HISS. I offer as "Exhibit No. 378" a letter dated November 8, 1933, to Mr. J. A. B. Smith, from Mr. Shannon.

(The letter referred to was marked "Exhibit No. 378", and is included in the appendix on p. 954.)

Mr. HISS. J. A. B. Smith is an official of the Export Corporation?

Mr. ALLARD. No. Mr. Smith is the treasurer of the parent company.

Mr. HISS. With a copy to Mr. Allard. On page 3, referring to the first complete paragraph, the letter says:

Harvey Brewton is here and have spent much time with him. He expects to leave on Sunday's plane to Bolivia and will also probably go down into the Chaco. Shorty Berger is also down there and additional spares, including engines, will undoubtedly be purchased.

Mr. WEBSTER. Mr. HISS, if you will permit me to say so, that does not necessarily mean that they were down there selling. Mr. Brewton has nothing whatever to do with sales. He is a mechanic. He was down there trouble-shooting, as we did before.

Mr. HISS. Earlier I asked Mr. Allard if you had not given instructions on the actual scene of hostilities to foreign mechanics, or if you had not made repairs; and Mr. Allard, as I remember his answer, said that he thought you had only made repairs of ships you had already sold. This was an indication that the men were on the scene and that, taken in connection with some of the previous letters introduced this morning, they were giving instructions to mechanics as well as actually repairing machines.

Mr. ALLARD. Mr. Hiss, those are entirely instructions in the operation which would come under the category of service, repairs. If a man is ruining an engine by improper knowledge of how to operate it, it would save the expense of having to service it, if we told him how to operate it properly; that is all.

Mr. HISS. Then you do agree that your company gives service directions as well as makes trouble-shooting repairs.

Mr. ALLARD. Absolutely.

Mr. WEBSTER. Yes, indeed.

Mr. HISS. At the actual scene of warfare?

Mr. ALLARD. If necessary; yes, sir.

Mr. WEBSTER. This was not at the actual scene of warfare, Mr. Hiss.

Mr. HISS. In the Chaco?

Mr. WEBSTER. It was in the Chaco, but not at the actual scene of warfare. This was back at some supply base.

Mr. HISS. Do you think it was the air base for the Chaco region?

Mr. WEBSTER. No; I believe probably it was the overhaul base, repair base.

Mr. HISS. It was the major repair base for the Bolivian Air Corps, was it not?

Mr. WEBSTER. I do not know whether it was the major base. It was some base. It was not at the actual scene.

Mr. HISS. The base used for the Chaco dispute?

Mr. WEBSTER. Probably.

Mr. HISS. I offer as "Exhibit No. 379" a letter dated December 15, 1933, signed "Tony." That is Mr. Ashton, of Webster & Ashton?

Mr. WEBSTER. Yes, sir.

Mr. HISS. Your agents in Bolivia?

Mr. WEBSTER. Yes, sir.

Mr. HISS. This letter is to Mr. Webster.

(The letter referred to was marked "Exhibit No. 379" and is included in the appendix on p. 956.)

Mr. HISS. Referring to the last paragraph in the letter:

Travis's presence in the Chaco is most important, as the pilots are very friendly indeed toward him and he is very discreet in his ways. Brewton (that is the mechanic), with his knowledge, of course, is also very valuable, so between the two some excellent work must have been done.

Mr. WEBSTER. That is in overcoming the difficulties they were having at the time in the operation of the engines.

Mr. HISS. Have you ever supplied flight instructions to officers who you expected would use those instructions in warfare—officers of foreign governments?

Mr. WEBSTER. Just how do you mean? Do you mean we might give instructions today and 5 years from now those officers would be used in warfare?

Mr. HISS. Do you give gunnery instructions, for example?

Mr. WEBSTER. No, sir.

Mr. HISS. Mr. Allard, may I call your attention to a telegram from you to Mr. Burdette S. Wright dated November 24, 1931, which I will offer as "Exhibit No. 380."

(The telegram referred to was marked "Exhibit No. 380.")

Mr. HISS. This Exhibit "No. 380" says:

Would there be any governmental objection our giving flight training, including some gunnery, to American-born Chinese.

J. S. ALLARD.

Mr. ALLARD. That is correct. At that time we were giving flight training in the flying service, which was discontinued some 2 years ago or a year and a half ago at least.

Mr. HISS. And that included gunnery training?

Mr. ALLARD. No. It did not. We were asking if we could include gunnery training at that time.

Mr. HISS. You did not include gunnery training?

Mr. ALLARD. No, sir.

Mr. HISS. Have you ever supplied personnel as recruiting officials for a foreign government? Have you ever had requests from foreign governments that your company recommend pilots or mechanics?

Mr. ALLARD. We may have had requests. I think the files would disclose that. We probably have had requests.

Mr. WEBSTER. Yes.

Mr. HISS. Has your company ever complied with any of those requests?

Mr. ALLARD. We have possibly recommended mechanical personnel.

Mr. HISS. Have you ever had an agreement with a foreign country whereby you were under obligation to furnish expert instructions in the handling of planes either from the mechanical end or the flying end during any period of time after the purchase of planes from your company?

Mr. ALLARD. Never on the flying end that I know of. We have had—we have supplied or recommended to the governments not on our pay roll, personnel to work in factories.

Mr. HISS. I offer as "Exhibit No. 381" a letter from Mr. Goulding, vice president of the Export Corporation to Mr. Roberto Escobar, acting Consul General in New York for Colombia.

(The letter referred to was marked "Exhibit No. 381" and is included in the appendix on p. 958.)

Mr. HISS. The first paragraph of the letter, Mr. Allard, says:

You know from copy of agreement which I handed you that we had agreed to furnish and recommend certain personnel to go to Colombia. The agreement I have reference to is one dated January 31, 1934, under which we were to furnish an expert in the flying of Condor planes, to accompany the planes to Colombia and remain there for a period not to exceed three months to give instruction at the school fields in the handling of the Condor planes.

On page two, the last paragraph, is—

One of our St. Louis mechanics seems especially interested in making this trip. His name is George Clark, who formerly made trips for us to Latin American countries. He is a very expert mechanic and has a very pleasing personality, speaks Spanish, and in addition to his aircraft mechanical knowledge, is an expert on armament.

An aviator or a mechanic who is an expert on armament is more valuable to your company for such services than one without that knowledge?

Mr. ALLARD. Not to our company; possibly to the customer.

Mr. HISS. "Exhibit No. 378", which has already been made a part of the record, November 8, 1933, from Mr. Shannon to Mr. Smith,

page 2, in the middle of the first complete paragraph, the fourth sentence, reads:

I was also asked to secure about eight good Army bombing pilots who might be available and out of jobs and looking for a little excitement and money to come down with the ships and go to work in the Chaco for the Government.

I offer as "Exhibit No. 382" a letter dated March 30, 1934, from Mr. Webster to Mr. Anthony Ashton, of Webster & Ashton, Bolivia.

(The letter referred to was marked "Exhibit No. 382" and is included in the appendix on p. 959.)

Mr. HISS. Reading from page 2, under the heading "Pilots", in "Exhibit No. 382":

While in La Paz I offered my own services gratis, and as a friendly gesture, to handle the delivery of the Condors. I also agreed, at the request of the Government, to secure some pilots who would remain in Bolivia and handle them in service.

Those Condors were sold for what purpose, Mr. Webster?

Mr. WEBSTER. They were transport planes and bombing planes.

Mr. HISS. They could be used as large bombing planes, and were so sold by your company?

Mr. WEBSTER. Yes, sir.

Mr. ALLARD. But they were never delivered.

Mr. WEBSTER. No; they were never delivered. I might add, Mr. Hiss, that when it was called to my attention it was entirely out of order to supply pilots or assist in engaging pilots for Bolivia, we immediately notified the Bolivian Government it was impossible to do that, and the entire matter was called off.

Mr. HISS. Did you ever employ pilots for Colombia?

Mr. WEBSTER. No, sir.

Mr. HISS. "Exhibit No. 383", which I offer in evidence, is a letter from Mr. Crosswell to "Dear Parm."

(The letter referred to was marked "Exhibit No. 383" and is included in the appendix on p. 961.)

Mr. HISS. The letter, "Exhibit No. 383", is dated April 25, 1934, and is addressed to "Dear Parm." That is Mr. Hewlett?

Mr. ALLARD. Yes.

Mr. HISS. Beginning with the second paragraph of this letter, I read as follows:

I spent last week end in Cartagena with Comm. Strong and the American pilots and mechanics who have recently arrived, 24 pilots and approximately the same number of mechanics. Comm. Strong is in a little hot water, and it is mostly in his interest that I am writing this letter.

Commander Strong referred to was a former American naval officer who was at that time adviser to the Government of Colombia?

Mr. ALLARD. So I understand.

Mr. HISS. Reading further from this letter, it says:

It seems that Comm. Strong left the States with the understanding that pilots were to be recruited who are willing to fight, if necessary, and instruct Colombian students otherwise. Contracts were drawn up accordingly, and everyone was very happy until the press got wind of the movement. The State Department then had to take official cognizance to which they were forced to react negatively in order to maintain a strict neutrality in South America. The pilots were told that passports would not be issued with the fighting clause in their contract, and that should they engage in actual military combat after arriving here, the consuls would be instructed to take up their passports and

they would automatically lose their citizenship. A new contract was therefore drawn up, with the permission of Bogota, which eliminated the fighting clause. It seems that Comm. Strong was not consulted regarding this new contract, and it was his understanding and intention all along that these pilots immediately organize as a fighting squadron and begin training as such at Cartagena.

When Comm. Strong met the pilots and was informed of the above happenings he asked for an immediate decision as to which of the two contracts they intended to keep, letting them know that he would not compromise. If they intend to instruct only, they will fly only training planes, and vice versa, if they intend to fight. They unanimously decided to stick by the second contract—in other words, instruct only.

Comm. Strong is quite incensed as a result of their decision, and I presume that he is sincere in giving the impression that he didn't know of the second contract. At any rate, he wants to take immediate steps to get other pilots down here who are willing to fight. He indicated to me that he will be in hot water with the war minister, who also thought this group would function as a fighting unit (as to who gave the permission for the second contract in Bogota, Quilen sabe?) I therefore told him that I would give you all the dope in order that you may help recruit new pilots if you so desire. He thought that Ralph Damon could interest the Naval Reserve unit at St. Louis, as some of these fellows had previously indicated a willingness to go in for flying of this sort. Please understand, however, that there is no obligation whatever for any action on the part of the Curtiss Co. He wanted you all to know just as another agent, so to speak, for contacting the type of pilot who is desirable.

The Ralph Damon referred to was then the president of the Airplane Co. in St. Louis?

Mr. ALLARD. That is correct.

Mr. HISS. Reading further, the letter says:

He wants men with military flight training (or naval) who have been trained in dive bombing and airplane gunnery. A high type of individual is necessary in order that Colombia may have the best impression possible of Americans, which impression will be reflected by their use of American goods and equipment.

Did your company ever recommend any pilots for Commander Strong?

Mr. ALLARD. Absolutely not.

Mr. HISS. Has your company ever recommended any pilots to be sent to China as instructors to the Chinese?

Mr. ALLARD. Not to my knowledge, Mr. HISS.

Mr. HISS. I offer "Exhibit No. 384", being a letter to Mr. Robert L. Earle from the Intercontinent Aviation, Inc., dated February 6, 1934.

(The letter referred to was marked "Exhibit No. 384", and is included in the appendix on p. 952.)

Mr. HISS. Mr. Robert Earle was a representative of the Curtiss-Wright Corporation in Washington, D.C.?

Mr. ALLARD. Yes.

Mr. HISS. The Intercontinent Aviation, Inc., was the Curtiss group selling agency in China?

Mr. ALLARD. Yes.

Mr. HISS. Reading from this letter, "Exhibit No. 384", it says:

Jack Allard has asked me to write and see if you could obtain from the Army a list of about 25 recent graduates of Kelley Field, together with their service records, from which we could pick a number of them for ferrying airplanes to a foreign country with the possibility that they might obtain employment with that foreign government.

We understand that a number of Kelley graduates have been discharged recently and these are the men to whom we refer.

There exists an opening for a man in China to act as machine-gun instructor, who may also be selected from this list.

Mr. HISS. I offer "Exhibit No. 385", which is a letter from the Intercontinent Aviation, Inc., to Mr. Robert L. Earle, Washington, D.C., dated February 13, 1934.

(The letter referred to was marked "Exhibit No. 385" and is included in the appendix on p. 963.)

Mr. HISS. I read from this letter, as follows:

I talked with Mr. Allard regarding the specifications for pilots and he advised that he does not wish to disclose any information regarding what countries the pilots are to go to. He wishes you to obtain the names of pursuit, bombardment, attack, and observation pilots who are interested in going to a foreign country and a specification from them as to what country they would like to go.

From time to time we have occasion to send men out and we would like to have in our files information concerning a number of such pilots.

We also suggest that you approach the Navy on this subject and obtain a list of Navy-trained pilots who may be available for such work as we at times have occasion to send out airplanes on floats.

I would suggest that you have Lt. Hollidge write us fully giving complete information as to himself with references whom we may contact and that you supply us with as much information as you can concerning him in connection with the position of machine-gun instructor in China.

We are not sure that this position is still open, but it will pay about 800 Hong-kong dollars a month and should afford an opportunity for an Army-trained man to continue his work along military lines.

Who was Lieutenant Hollidge?

Mr. ALLARD. I haven't any information whatever.

#### CURTISS-WRIGHT COMPANY'S ATTITUDE TOWARD EMBARGOES

Mr. HISS. Mr. Allard or Mr. Webster, has your company opposed embargoes on shipments of military equipment?

Mr. ALLARD. Opposed them, in what way?

Mr. HISS. When they have been suggested or proposed or considered in Congress or by other countries with which your company deals, has your company opposed them?

Mr. ALLARD. Not to my knowledge; no.

Mr. HISS. Does your company believe in the policy of embargoes on military equipment?

Mr. ALLARD. I think that is rather a difficult question for me to answer at this time. We believe in the policy, dictates, and laws of this Government or any other government under whose jurisdiction we might be operating.

Mr. HISS. In your sales to various South American countries have there been occasions when you understood that one country with whom you dealt did not wish you to sell to another country, and in order to avoid that you have transshipped your material so that it was invoiced to one country and actually transshipped to another?

Mr. ALLARD. Not to my knowledge; no.

Mr. HISS. "Exhibit No. 378", already a part of the record, from Mr. Shannon to Mr. Smith, with a copy to Allard, in the last part of the last paragraph, reads:

As I told you before, Peru expects to mix things again with Colombia. In this connection, if there is trouble on the part of Colombia objecting to us selling Peru, we can make a deal whereby the material would be intended for the Bolivian Government and shipped along with their orders to Mollendo.

Mollendo is in Peru?

Mr. WEBSTER. Yes, sir.

Mr. Hiss. Reading further it says:

Bolivia and Peru are working very closely together. Chile has now lifted the ban on shipments to Arica for Bolivia and is asking for the business through her ports, but Lopez told me that he did not wish to hurt Peru's feelings and although it was more difficult to ship through Mollendo, he intended to play ball with Peru.

Wasn't that a case of a plan to make transshipments in case one country disapproved of your selling to another country?

Mr. ALLARD. I think it is merely a statement. It is not any plan, and was never considered as such.

Mr. Hiss. I offer "Exhibit No. 386", which is a letter from Mr. Webster to Mr. Van Wagner, dated April 27, 1933.

(The letter referred to was marked "Exhibit No. 386" and is included in the appendix on p. 963.)

Mr. Hiss. I read from this letter, "Exhibit No. 386", as follows:

The Grace Company, owing to considerable pressure from the Colombian Government, has refused to accept shipments consigned to the Peruvian Government or to Faucett, which makes it necessary to ship to the Canal for reshipment on British or Italian vessels.

Faucett was your agent in Peru?

Mr. WEBSTER. Yes, sir.

Mr. Hiss. Reading further, the letter says:

The thought occurred to us that we might circumvent the difficulty by shipping to Arica and reshipping from there to Callao.

Callao is a port in Peru?

Mr. WEBSTER. Yes.

Mr. Hiss. Reading again from this paragraph, the letter says:

Inasmuch as the Chilean Government has closed the port of Arica to Bolivia, it is possible that they will take similar action with Peru. I would suggest that you take this matter up with Dias Lira and see if permission can be obtained to go into Arica and then come back up north to Callao.

Dias Lira was a lawyer in Chile?

Mr. WEBSTER. Yes. That action on the part of the Grace Co. was purely their own action, inasmuch as they had large interests in Colombia, and the Colombian Government simply requested them not to carry shipments to those ports.

Mr. Hiss. Your company, Mr. Allard, owns how many plants abroad which can produce planes or engines?

Mr. ALLARD. The Export Co. does not own any. The Curtiss-Wright Corporation has one in Chile and a part interest in one in China. Those are the only two plants.

Mr. Hiss. Have you any interest in the Argentine or Brazilian factories?

Mr. ALLARD. None whatsoever.

Mr. Hiss. In the event of an embargo such as the embargo now in effect, would you feel free to manufacture military planes in the Chilean factory or in the Chinese factory, although the Government had forbidden the sale within the United States?

Mr. ALLARD. I do not know, Mr. Hiss. That is a policy that would come up at the time such a problem presented itself. It never has come up and we have never given it any consideration.

<sup>1</sup> Mr. Allard later informed the committee that the Curtiss-Wright Export Corporation does own the plant in Chile.



Mr. HISS. There is at present an embargo in Paraguay and Bolivia?

Mr. ALLARD. Yes.

Mr. HISS. Would your company observe any embargo in Chile, where your factory is located?

Mr. ALLARD. Yes; we could not do anything else.

Mr. HISS. "Exhibit No. 364" is a letter dated March 30, 1933, from Mr. Webster to Mr. Van Wagner, and I read from that letter as follows:

Another matter which I wish you would take up immediately and possibly through Diaz Lira is the question involving the possible manufacture in the Santiago plant of airplanes intended for other South American countries. This is in view of a possible embargo on the part of the League of Nations and the United States Government. In other words, would we be permitted to ship material into Chile for assembly and fabrication for such countries as Colombia, Ecuador, Peru, Bolivia, etc.?

I offer as "Exhibit No. 387" a letter dated April 20, 1933, from Javier Diaz Lira to Mr. Van Wagner.

(The letter referred to was marked "Exhibit No. 387", and is included in the appendix on p. 964.)

Mr. HISS. From this letter, "Exhibit No. 387", I read the following:

After a number of conversations that I have had with several officials, I want to confirm to you what I mentioned in my letter of the 10th inst., to the effect that there is not any difficulty, as respects the Government of Chile, in the Curtiss Company extending its activities of building planes for sale and exportation to other countries. There is no regulation, neither in the law nor in the contract, which resulted in the setting up of the factory in Chile that might prevent that activity of the company which you represent.

On the Government's part, the initiative of the factory is considered not only with acceptance but even with evident pleasure, I have today discussed this matter fully with Mr. Diego Aracena, Chief of the Air Force, who told me that he accepted with enthusiasm the notice that the factory would intensify its work and production of airplanes for sale in Chile or in foreign markets.

Mr. WEBSTER. Would you mind reading the rest of that paragraph, Mr. Hiss?

Mr. HISS. Following the words "or in foreign markets?"

Mr. WEBSTER. Yes.

Mr. HISS. Certainly. It reads as follows:

and, knowing the importance and benefit that this would mean to the country and to the advantages that would also accrue to the National Air Force, he would support all protection with reference thereto before the Government.

Mr. WEBSTER. It was the desire of the Chilean Government to create a national airplane or aviation industry in Chile the same as in many other countries.

Mr. HISS. Has your company in any way attempted to evade embargoes or restrictions on military planes by labeling the packing cases by other names than the actual names of the planes?

Mr. ALLARD. I do not think any packing cases have the names of planes on them.

Mr. HISS. What discloses the nature of the shipment, the shipping documents?

Mr. ALLARD. Yes; the shipping documents.

Mr. HISS. I offer "Exhibit No. 388", which is a letter dated April 15, 1933, from the Curtiss-Wright Corporation by S. J. Abelow to Faucett in Lima, Peru.

(The letter referred to was marked "Exhibit No. 388", and is included in the appendix on p. 964.)

Mr. HISS. Who is S. J. Abelow by whom this letter is signed?

Mr. ALLARD. He is a clerk.

Mr. HISS. In the employ of the Export Co.?

Mr. ALLARD. Yes.

Mr. HISS. I read from this letter, "Exhibit No. 388", as follows:

We just received advice by telephone from the Barr Shipping Corp., our forwarding agents, that the Grace Line notified them they would be unable to accept any shipments consigned to you that moved on their steamers via a Colombian port. Evidently the Grace Line is taking a strong hand due to the fact that they have been subject to considerable pressure on the part of Colombian Government authorities in carrying material of a military nature. Our information is that the Colombian Government knows you are buying material for the Government of Peru, and consequently is making every effort to prevent such material from reaching Peru.

And then in the last paragraph the letter reads:

We could declare the material by other terms on the bill of lading so as to throw the steamship company off the track; e.g., we could declare engine parts as "internal combustion parts"; "spark plugs"; other aeroplane parts could likewise be changed; e.g., "steel tubing" in place of aeroplane parts; "lacquer" instead of "dope", etc. etc.

Dope, what is that; is that lacquer?

Mr. ALLARD. It is lacquer; yes.

Mr. HISS (reading):

We suggest you act on this immediately and give us the name of your forwarders by cable, referring specifically to this letter number for our guidance.

Mr. WEBSTER. I have never seen that letter before, and I do not think anything of that nature was ever done, Mr. HISS.

Mr. HISS. I offer "Exhibit No. 389", which is a letter dated March 12, 1934, from Walter J. Decker, Consul General of Bolivia, to Mr. Webster.

(The letter referred to was marked "Exhibit No. 389.")

Mr. HISS. I read from this letter, "Exhibit No. 389", as follows:

I beg to inform you that as per instructions which I have received from La Paz, it is my Government's desire to avoid showing completely, in the cases and the documents covering them, the real content of all shipments of war material.

To this effect I take the liberty of requesting your kind cooperation in issuing strict instructions to all concerned to the following effect:

(1st) That in all shipments made by your firm for the Government of Bolivia the cases must have only the words "handle with care", outside of the ordinary shipping marks, without having any trade names or any other marks or words that may in any way reveal the real contents of the shipment involved.

(2nd) That both the bill of lading and the consular invoice must each show the following as the content of each shipment:

#### MATERIAL FOR THE GOVERNMENT OF BOLIVIA

While the commercial invoice and packing list must be made up in the usual manner, giving full particulars regarding the contents, prices, etc. This will, in no way at all interfere with the respective classification necessary for freight-rate purposes, which is to be filed separately to the steamship line.

Hoping that you will follow these instructions closely and awaiting your reply to the effect that you are in complete accord with the contents of this communication, I beg to remain.

Yours very truly,

(Sgd.) **WALTER J. DECKER,**  
*Consul General of Bolivia.*

**Mr. WEBSTER.** There is nothing unusual or out of order in so marking packing cases. As a matter of fact, we usually only mark them by numbers and by letter.

The **CHAIRMAN.** Is it not a violation of law to deceive in these foreign shipments?

**Mr. WEBSTER.** You are not deceiving. Your invoices show the exact material, and it is just the marking on the outside of the cases.

The **CHAIRMAN.** What can our very efficient Commerce Department do in its effort to ascertain correctly and closely what our exports are, if that is not required?

**Mr. ALLARD.** I do not know what the Department does.

The **CHAIRMAN.** They cannot do that.

**Mr. ALLARD.** Oh, yes; they can. There must be ways of their checking up, because they have been doing it for years.

**Mr. WEBSTER.** All of your papers must show exactly what the shipment is.

The **CHAIRMAN.** The records of the Commerce Department reveal the contents of shipments abroad, and they must be all inclusive?

**Mr. WEBSTER.** Yes.

The **CHAIRMAN.** They do not know there are ways of getting around it.

**Mr. ALLARD.** Speaking from our business alone, with which I am only acquainted, there is absolutely a check.

The **CHAIRMAN.** They are without a check?

**Mr. ALLARD.** No; they have an absolute check, they have a very definite check.

**Mr. Hiss.** Mr. Allard, has your company ever used any of the methods described in these letters, such as transshipments, or mislabeling of materials or any of the other things we have just been through in the last three or four letters, in an attempt to evade an embargo of the United States Government?

**Mr. ALLARD.** No, sir.

**Mr. Hiss.** Did your company enter into a contract with the Government of China in anticipation of an embargo on shipments of military planes to China?

**Mr. ALLARD.** No, sir.

**Mr. Hiss.** I offer "Exhibit No. 390", which is a telegraphic message from the China Co., Shanghai, China, to the Export Co.

(The telegraphic message referred to was marked "Exhibit No. 390", and is included in the appendix on p. 965.)

**Mr. Hiss.** The China Co. is your representative?

**Mr. ALLARD.** Yes.

**Mr. Hiss.** Reading from this message I find the following:

About 1 to 2 months ago I suggested Minister of Finance enter (s) (into) contract (s) acquiring large number (s) (of) military airplane (s) as protection against possible American embargo (upon) stop.

Minister of Finance have signed contract (with) Intercontinent Aviation, Inc., March 29th.

You sold through the Intercontinent Co. in China?

Mr. ALLARD. That is right.

Mr. HISS. I read further from the message, as follows:

For 96 military airplane (s) subject to cancellation 15 days' notice either party (ies) (to).

Is that not rather an unusual provision in any contract?

Mr. ALLARD. No; depending on the contract.

Mr. HISS. No description of planes. Is that unusual?

Mr. ALLARD. No.

Mr. HISS. No prices; is that not unusual?

Mr. ALLARD. No.

Mr. HISS. No delivery date mentioned; is that not unusual?

Mr. ALLARD. No; not when you are negotiating the contract.

Mr. HISS. I read further from the message:

Please notify Department of State of this contract stating that Chinese Government aviation expert (s) to decide about on type (s) at a later date. No publicity of any kind must not be given this matter as Minister of Finance exceedingly anxious (to) transaction not to be known anyone except Department of State official (s).

It must be understood that this is not purchase (s) agreement (s) and is a contract (s) (for) the purpose (s) (of) protecting government against embargo (upon) this contract give us moral advantage (s) over competitor (s).

You do not consider that arrangement was an attempt to evade a possible embargo by the United States Government on shipments of military planes?

Mr. ALLARD. It very definitely states there this is not a purchase agreement, but the contract was never accepted by us or considered in any way. That is a statement made by an agent telling about a contract they entered into. The record will definitely show we referred the matter right back to them, telling them we were not interested.

Mr. HISS. This letter says the contract was signed by the Intercontinent Aviation.

Mr. ALLARD. Yes.

Mr. HISS. Their only connection with your company is they are a selling agency?

Mr. ALLARD. That is right.

Mr. HISS. They are also controlled by the Sperry Corporation, are they not?

Mr. ALLARD. That is right.

#### RELATIONS WITH OFFICIALS AND DEPARTMENTS OF UNITED STATES GOVERNMENT

Mr. HISS. Earlier in your testimony you referred to the severity of competition in perfecting sales of military planes abroad. In the course of that competition, have you found that foreign aviation companies have received the support of their respective governments in perfecting sales?

Mr. ALLARD. Very definitely; very completely.

Mr. HISS. I offer "Exhibit No. 391", which is a letter to Mr. Allard of date July 8, 1930, signed with the initials "R. P. F."

(The letter referred to was marked "Exhibit No. 391", and is included in the appendix on p. 966.)

Mr. HISS. The initials "R. P. F.", is that Mr. Farnsworth?

Mr. ALLARD. Yes.

Mr. HISS. He was at that time an employee of the Export Co.?

Mr. ALLARD. That is right.

Mr. HISS. I read from this "Exhibit No. 391", as follows:

The following is a more or less complete outline of the conversation Mr. Farnsworth had with Fowler Barker this afternoon. Undoubtedly you are cognizant of all these facts, but it will do no harm certainly to jot them down.

Fowler Barker was with the Department of Commerce at that time?

Mr. ALLARD. Yes.

Mr. HISS. Reading further, the letter states:

It seems that Mr. Young recently received rather lengthy reports from the commercial attaché at Buenos Aires and Montevideo expressing their apprehension over strong European aeronautical competition. There is to be a British aircraft carrier in a River Plate around December 21st, carrying about 20 assorted airplanes of English manufacture. Italy has stationed De Pinedo as air attaché in Buenos Aires and is evidently making a strong bid for business. The French position was greatly strengthened by the recent trans-Atlantic flight carrying mail to South America.

There evidently was a consultation between Captain Fleming, our military attaché for Argentina and Uruguay, and the two commercial attachés in these countries, and Leigh Wade, who as you know, is down there representing the Consolidated people.

That is the Consolidated Aircraft Corporation?

Mr. ALLARD. From Buffalo; yes.

Mr. HISS. Then the letter reads further:

This conference resulted in the determination to attempt to arrange some sort of a demonstration from the United States to counteract the European activities. The Department of Commerce will possibly interview the leaders of the aircraft industry here and see what their attitude would be toward sending a group of planes to South America, possibly some of those participating in the National Air Tour this year. It is thought possible that if the manufacturers so desire, a delegation of them will interview Secretary Ingalls and gain his consent for the use of one of our carriers to transport the planes to South America, citing the action of the British as a precedent. Undoubtedly this demonstration if ever made tangible would visit the international aeronautical exhibition to be held at Montevideo during the first half of February 1931.

That is Secretary Ingalls, who was Assistant Secretary of Air, he is referring to?

Mr. ALLARD. For the Navy; yes.

Mr. HISS. Assistant Secretary of the Navy for Air?

Mr. ALLARD. Yes.

Mr. HISS. When he refers to one of the carriers, he means one of the plane transports?

Mr. ALLARD. Yes.

Mr. HISS. The letter then reads further:

I am quite sure that this idea has not been broached to any of our competitors and nothing may ever come of it, but in the event that something does materialize we will at least have had a little bit of warning.

Do you know whether Mr. Ingalls was ever approached on that matter?

Mr. ALLARD. I believe he was, but I do not remember definitely whether he was.

Mr. HISS. Do you remember whether he was sympathetic to it?

Mr. ALLARD. No.

Mr. Hiss. I offer "Exhibit No. 392", which is a letter dated September 29, 1930, from Mr. Wright to Mr. Allard.

(The letter was marked "Exhibit No. 392", and is included in the appendix on p. 966.)

Mr. Hiss. In this letter there is the following [reading]:

I was in Mr. Ingalls' office this morning and his office urged that we push in every way possible the completion of the arranging for the carrier to go to South America. Comdr. Moulton believes that we must take the matter up with the White House by possibly a head of the Aeronautical Chamber of Commerce. I know that you are handling the matter as representative of theirs, together with the help of the Department of Commerce. It looks as though I may be out of town Wednesday of this week at Dayton, but I am hoping that I may be able to delay the trip until Thursday in order to be here when you are here on Wednesday.

I offer as "Exhibit No. 393" a letter dated October 7, 1930, from Mr. Allard to Mr. B. S. Wright.

(The letter referred to was marked "Exhibit No. 393", and is included in the appendix on p. 967.)

Mr. Hiss. This letter, "Exhibit No. 393", is on the subject of naval carrier to South America, and says [reading]:

Thanks for yours of October 3rd on this subject, and as a result, Leigh Rogers and I are today drafting the letter for Fred Rentschler to present to Mr. Hoover.

Mr. Leighton Rogers was then Director of the Bureau of Foreign and Domestic Commerce in charge of the Aeronautics Division?

Mr. ALLARD. Yes.

Mr. Hiss. Mr. Fred Rentschler referred to was an official of United Aircraft?

Mr. ALLARD. Yes; I think the reference to him there is as president of the Aeronautical Chamber.

Mr. Hiss. He was then president of the Aeronautical Chamber, of which Mr. T. A. Morgan is now president?

Mr. ALLARD. That is right.

Mr. Hiss. Will you identify Mr. Merino? I think he has been identified before, however.

Mr. ALLARD. Mr. Webster will have to do that.

Mr. WEBSTER. What date was that?

Mr. Hiss. 1931.

Mr. WEBSTER. I believe at that time Arturo Merino was chief of aircraft of Chile.

Mr. Hiss. "Exhibit No. 394" is a letter from Mr. Webster to Mr. Burdette S. Wright, dated March 11, 1931.

(The letter referred to was marked "Exhibit No. 394", and is included in the appendix on p. 967.)

Mr. Hiss. That letter reads in part as follows:

In line with my telephone conversation this morning, Comandante Arturo Merino B., subsecretario of the interior for aviation, is the chief of all Chilean aviation—army, navy, and civilian. He is the biggest foreign customer we have, and is entirely responsible for all our business in Chile.

During the recent visit of the Prince of Wales to Chile, the Prince personally invited Merino to visit him this spring, which invitation was accepted. His original plan was to proceed to England first, and then visit the United States, but we have persuaded him to visit the United States first in order to witness the Air Corps manoeuvres during May. He has agreed to this program providing an official invitation is extended to him by the U.S. Government through the War Department as a foreign observer.

This means a great deal to us, as Merino has never been out of his own country and has always been partial to European methods and materials until we began to supply him with equipment a few years ago. It is up to us to lean over backward in selling Merino American ideas, methods, and equipment, and upon his arrival here we are arranging an elaborate and extensive program calling for visits to various airports in this country. If possible, we would like to have you arrange for permission to visit various Army and Navy stations and have him meet the Army and Navy Secretaries, and, if possible, President Hoover. This seems advisable and necessary in order to off-set the efforts of the Prince of Wales.

\* \* \* In order to further emphasize the importance of making these arrangements for Comandante Merino I should mention that we have at present orders amounting to \$1,000,000 for the Chilean Government with another million or million and a half ready to be closed within the next month or so.

Has your company ever borrowed from the United States Army pilots to help in demonstrating your planes abroad?

Mr. ALLARD. Yes, sir.

Mr. HISS. Have you found that they have been helpful in making sales?

Mr. ALLARD. Certainly—in making sales?

Mr. HISS. In your making sales?

Mr. ALLARD. Yes; as demonstrators, surely.

Mr. HISS. Were they in active service at the time or had they retired from the Army?

Mr. ALLARD. In most cases that I am familiar with they were in active service on leave, approved by the Secretary of War and Chief of the Air Corps.

Mr. HISS. And you arranged for the leave, requested their leave?

Mr. ALLARD. We assisted them in requesting the leave.

Mr. HISS. "Exhibit No. 395" is a letter of August 12, 1930, from Burdette S. Wright to Mr. Allard.

(The letter referred to was marked "Exhibit No. 395", and is included in the appendix on p. 968.)

Mr. HISS. That letter reads in part as follows:

Colonel Foy of the Military Intelligence Division called Farnsworth to his office this morning and showed him some correspondence received from Major Emer Yeager, military attaché at the American Embassy, Warsaw, Poland. Major Yeager, among other things, said that the performance of our pilots, planes, and motors made a profound impression in Bucharaest and Rumania. He happened to be standing by the side of the chief of Rumanian aviation in Bucharest while Doolittle was doing his stuff. The chief apparently expected the wings to drop off the Hawk at any moment during a power dive and had never seen anything at all like Doolittle's performance.

In Warsaw, Captain Cannon—

That was an American officer?

Mr. ALLARD. That is right; on this tour.

Mr. HISS (continuing reading):

seems to have carried off the honors with his superb handling of the Fledgling. He apparently put it through completely its paces, leaving a firmly seated conviction of the stability, steadiness, and remarkable performance of the plane. As one Pole expressed it, he made it do everything but dance. All in all, the officials, including French and British attachés, were deeply impressed with the power of the motors and the strength of the ships.

Another dispatch deals with the jealousy of the French and English aroused by this flight. Shortly after our demonstration was finished, France made an official flight with high ranking officers to Warsaw and Baltic countries.

This trip was made very secretly and with a minimum of publicity. Major Yeager tells of a flight of British airplanes to twelve Balkan and Scandinavian

countries to be made in September. This is supposed to be merely an official flight of the Royal Air Force, but Major Yeager learned from reliable source that it was definitely planned to offset any good impressions of American aviation made by our Curtiss-Wright tour.

In addition to borrowing pilots from the Army for demonstration purposes, has your company found that other governmental departments or institutions have been helpful in promoting the sale of aircraft abroad?

Mr. ALLARD. Very definitely.

Mr. HISS. "Exhibit No. 396" is a letter from Helsingfors, Finland, dated February 18, 1931, signed by Melvin Hall, vice president of the Export Corporation, to the American Charge d'Affaires at the American Legation at Helsingfors.

(The letter referred to was marked "Exhibit No. 396", and is included in the appendix on p. 968.)

Mr. HISS. That letter reads in the third paragraph as follows [reading]:

I have warning, however, that the decision may be influenced by political considerations, and I have good reason to believe that the Gnome et Rhone Company (French) are bringing considerable pressure to bear in an effort to secure this business for their "Jupiter" or "Mercury" engine which they build under license from the Bristol Aeroplane Co. (British). This pressure is of a nature which reflects little credit on the business ethics of the Gnome et Rhone Co. The Finnish Air Force possesses a certain quantity of Gnome et Rhone "Jupiters" and I believe that some fourteen of these engines are now in the Gnome et Rhone factory near Paris for overhaul. The company apparently agreed to carry out this overhaul free of cost, but once having received the motors they appear now to be using them as a lever, coupled with threats of making difficulties in future with respect to spare parts for the other "Jupiters" in Finnish hands, to force the Finns to divert their projected order for new motors to Gnome et Rhone.

Then the letter continues [reading]:

Our European competitors are undoubtedly using both economic and political arguments against American manufacturers, and have succeeded in convincing certain of the Finnish officials in high authority that America is out of the question, or at least not dependable, for geographical and political reasons, as a suitable source of supply for military equipment. I believe their arguments fundamentally unsound and have attempted to combat them in my communication to the Minister of Defence.

It has been suggested to me, and quite strongly, that it would be very helpful if the American Legation should use its good offices in this instance to combat this propaganda of our European competitors and accredited representatives of their respective governments. Confidentially, I may mention that Col. Vuori, Chief of the Finnish Air Force, who has stated frankly that he favors the "Cyclone" advised me last night that it would do a vast amount of good if the Chargé d'Affaires could talk personally with the Foreign Minister, the Finance Minister, the Defence Minister, and possibly the Minister of Commerce, on the politico-economic situation as it may affect the subject of this memorandum, stressing especially the fact that the United States would be a dependable and rapid source of supply for Finland under all conditions that might conceivably arise. It may be that certain of the grounds for such a contention that I have advanced in my communication to the Minister of Defence will meet with your concurrence.

It is possible that trade arguments will also be advanced against us, which would seem answerable in view of America's friendly relations with Finland, the recent decision of our Treasury Department respecting "dumping" and the vast amounts of money loaned to Finland by the United States and potentially available for future loans.

"Exhibit No. 397" is a memorandum to Mr. Thomas A. Morgan, dated June 19, 1934. That was after this committee had begun its investigations, was it not?



Mr. ALLARD. What was the date?

Mr. HISS. This bears the date of the 19th of June 1934, and we began the 1st of June.

Mr. ALLARD. It must have been; yes, sir.

Mr. HISS. Mr. Morgan is president of the Curtiss-Wright, parent corporation, and president of the Aeronautical Chamber of Commerce?

Mr. ALLARD. Right.

Mr. HISS. Do you know whether this memorandum was ever presented to anybody in the Government?

Mr. ALLARD. Not to my knowledge.

Mr. HISS. Do you know, Mr. Webster?

Mr. WEBSTER. No. I do not know what the memorandum is.

Mr. HISS. It is headed "Importance of the export market to the aviation industry."

(The memorandum referred to was marked "Exhibit No. 397" and is included in the appendix on p. 969.)

Mr. HISS. One of our investigators was informed that Mr. Morgan left a copy of the memorandum with the President and discussed the matter with him.

Mr. ALLARD. If Mr. Morgan made that statement, it is probably correct. I have no personal knowledge of it.

Mr. HISS. With further reference to Major Doolittle, who was referred to as one of the flyers, the Army flyers, do you remember whether Major Doolittle was on the recent board that Newton D. Baker headed up, which recommended an increase in the procurement of Army airplanes?

Mr. ALLARD. Yes, sir; he was.

Mr. HISS. And he is very definitely interested in increasing the number of planes that the United States Government possesses?

Mr. ALLARD. I do not know what the report states.

Mr. HISS. The report recommended an increase.

Mr. ALLARD. If it does, he was an endorser of that.

Mr. HISS. On page 3 of this memorandum, paragraph numbered 8, the committee has been informed that that paragraph was discussed by Mr. Morgan with the President, and it, I assume, represents your company's views of the importance of export business for the aircraft industry?

Mr. ALLARD. I think it does.

Mr. HISS. Paragraph numbered 8, the second sentence, reads as follows [reading]:

In 1933 over one-third of the entire production of aeronautical products was shipped to foreign countries. Aeronautical exports were larger in 1933 than any other year in aviation history. The important part played by exports in relation to our total production is due not only to the sales-promotion efforts and the high quality of our products but is also due to the cooperation the industry has received from the commercial attachés and other United States Government representatives located in foreign countries. These figures are of even greater importance when it is realized that American aircraft available for export is in the obsolescent stage and that it must compete with foreign products which are released for export in many cases after passing the experimental stage.

What do you think Mr. Morgan meant by that?

Mr. ALLARD. Mr. Lodwick?

Mr. Hiss. Yes; Mr. Lodwick. What do you think Mr. Lodwick meant by that in his memorandum to Mr. Morgan?

Mr. ALLARD. Simply that the aircraft, engines, and accessories which are released by the Army and Navy for sale to foreign countries are more or less in an obsolescent stage, so far as the United States Government products are concerned.

Mr. Hiss. But you find that they are sufficiently recent models so far as foreign competition is concerned to enable your company to compete successfully abroad?

Mr. ALLARD. Not all instances. It is getting more and more difficult and foreign governments are releasing later models than our Government releases.

Mr. Hiss (continuing reading):

Foreign countries have likewise assisted their commercial companies in developing business by sending their naval aviation units to foreign countries to demonstrate their latest types of flying equipment. An example of this was the visit of the British Navy to Turkey in 1929, and the flight of 35 Savoia Marchetti torpedo and bombing planes from Italy to Athens, Constantinople, Varna, and Odessa, in June 1929.

The relations of your company with the Department of Commerce have always been very friendly. Is that not correct, Mr. Allard?

Mr. ALLARD. I hope so.

Mr. Hiss. "Exhibit No. 398" is a letter of December 10, 1929, written by Mr. Burdette S. Wright, a vice president of the parent company and a director of the Export Co. to Mr. Leighton W. Rogers, Chief of the Aeronautics Trade Division—

Mr. ALLARD. He is not a director of the Export Co.

Mr. Hiss. Is he an officer of the Export Co.?

Mr. ALLARD. No, sir.

Mr. Hiss. To Mr. Leighton W. Rogers, Chief of the Aeronautics Trade Division, Bureau of Foreign and Domestic Commerce, Washington, D.C.

(The letter referred to was marked "Exhibit No. 398" and is included in the appendix on p. 973.)

Mr. Hiss. That letter states [reading]:

DEAR MR. ROGERS: The Curtiss Aeroplane Export Corporation has recently consummated contracts for the sale of military pursuit airplanes to the Dutch East Indies and to the Siamese Government. These contracts have finally been obtained after several months of work through the combined efforts of our representatives and those of the Bureau of Foreign and Domestic Commerce.

We wish you to know how much we appreciate the splendid cooperation of your Division and of the Bureau and of the assistance given by your men in the field and your office in Washington. It is very probable that the contracts might not have been obtained had it not been for the service which your organization was able to extend, as, of course, there are certain angles of situations and information which can be obtained by an official representative of the United States Government, which would be impossible for a private individual to gain.

I certainly hope that the relations between this company and your Division may always remain as happy as they have been in the past and that you will continue to allow us the privilege of calling upon you for assistance in the furtherance of our foreign business, not only in the countries where you have already assisted us but, I hope, also in more extensive fields included in our future program of expansion. I can see where the assistance you might be able to give us in newer fields which we have not yet reached, could be of even greater service to us than in those where we have already carried on negotiations, as, of course, making the initial step in new territory is the most difficult part, unless contacts have already been established ahead of us and we are able to use them for guidance.

Would it be fair to say that the Department of Commerce has supplied you with additional foreign agents abroad in the sale of aircraft, Mr. Allard?

Mr. ALLARD. Not at all.

Mr. HILL. "Exhibit No. 399" is a letter of December 30, 1929, bearing the initials "R. L. E." That is Mr. Earle?

Mr. ALLARD. Yes.

Mr. Hiss. Addressed to Mr. J. S. Allard.

(The letter referred to was marked "Exhibit No. 399".)

Mr. Hiss. That letter reads as follows:

During my visit to New York several weeks ago we were discussing the best method of sending out export catalogs to the American foreign offices. I discussed this with Leigh Rogers the other day and he says that the Bureau of Foreign and Domestic Commerce will be very glad to send these through in their official pouches to the Commerce Department offices abroad. Where there are no Commerce offices, but consular or other offices of the State Department are located, that he will have them transmitted to the State Department to be placed in their official pouches.

Leigh feels that this will be much safer than sending them direct, as in some countries catalogs in going in are held for payment of duties which would either hold them up for some period of time or obviate any chance of them being delivered at all. All of these may be sent directly to his office if you wish but addressed to the various offices for which they are intended and he will see that they get into the proper channels.

"Exhibit No. 400" is a letter of January 31, 1930, from Burdette S. Wright, an officer of the parent corporation, to Mr. Leighton W. Rogers.

(The letter referred to was marked "Exhibit No. 400" and is included in the appendix on p. 973.)

Mr. Hiss. The third paragraph of that letter reads as follows:

My company has expressed its appreciation in no uncertain terms of the assistance which it has received from the Department of Commerce and in sales problems, especially exports, from the Aeronautics Trade Division. As an example, your aeronautics specialist in South America was instrumental last year in paving the way for, and in the consummation of, a sale for six of our airplanes in Brazil—a market from which we have not received any business for years. Such contributions to marketing constitute aid of original and outstanding value.

Because of the strong competition offered by European aircraft manufacturers in the Far East, the embargo against United States aircraft in Australia (which it has been impossible to have lifted through diplomatic channels and by correspondence) and the missionary work which should be done at this time in the Far East in general—

That is missionary work in the sale of munitions?

Mr. ALLARD. For aircraft, I suppose.

Mr. Hiss (continuing reading):

we are naturally very much interested in having an impartial observer for the aeronautics industry cover those territories in the same manner in which South America has been covered by your Bureau. The time is particularly opportune to have a qualified aeronautics man visit Australia, New Zealand, and, if possible, South Africa. The Chinese market needs attention, particularly because of the price competition offered by European makers.

We have known for some time that the Department was asking Congress for funds to enable it to carry on and extend this foreign field work for the aeronautics industry, and this letter is being written to ask you about the status of that request for appropriations. Frankly, the company wants the assistance which these appropriations will bring into being.

Your company is in favor of increasing the appropriations for maintaining commercial attachés abroad, Mr. Allard?

Mr. ALLARD. We were at that time.

Mr. HISS. Has your policy changed since that time?

Mr. ALLARD. I do not think so; no.

Mr. HISS. "Exhibit No. 401" is a letter from Mr. Leighton W. Rogers, on the letterhead of the Department of Commerce, dated May 12, 1933, to Mr. Webster, marked "Confidential."

(The letter referred to was marked "Exhibit No. 401" and is included in the appendix on p. 974.)

Mr. HISS. That letter, in part, reads as follows:

Kindly refer to my letter of April 14, about the visit of the Brazilian Army air-service officers who arrived yesterday on the "Southern Cross." It would be impolitic, I believe, to mention the proposition mentioned below to the Brazilian group now here.

In connection with their visit, I note from correspondence from our Rio de Janeiro office that Captain Henrique Dyott Fontenelle was not included in the mission and, according to our office, was the principal advocate of Brazil's purchase and virtual standardization upon American aeronautics equipment.

The Rio de Janeiro office suggested that some American manufacturers or group of them might desire to pay Fontenelle's way to this country, taking advantage of the present low steamship rates. (First-class round-trip passages from Rio de Janeiro to Chicago and return now available for about \$250.00, such round-trip passages being good for a period of six months in connection with the Century of Progress Exposition at Chicago.)

It is understood that Captain Fontenelle can arrange to make the trip, insofar as leave from his duties is concerned. This man has been placed in charge of the organization of the observation group of the army.

I quote from a report dated April 13 from Mr. Pierrot, and am pleased to attach the statement referred to therein—

He was the commercial attaché in Rio?

Mr. WEBSTER. Yes, sir.

Mr. HISS (continuing reading):

I have just secured a copy of the recommendations made by Fontenelle during the first two weeks of the revolution, when the War Dept. was in a quandary as to what type of equipment to purchase, and when a tremendous amount of pressure was being brought upon War Dept. officials by French and British manufacturers to buy their equipment. This translation of Fontenelle's report is of particular interest in substantiating the statements I made in my letter to the effect that he, more than any other single flying officer, had been responsible for the purchases of the large number of American planes acquired by the army during the latter months of the revolution.

I am passing this suggestion on to you without any recommendation on my part, as well as to other United States manufacturers likely to be interested and who have been active in the Brazilian market.

The CHAIRMAN. Mr. HISS, what was the date of the suggested request for a squadron of planes or an airplane carrier going south?

Mr. HISS. That was in September 1930. "Exhibit No. 402" is a letter of February 18, 1931, from Mr. Osborn S. Watson, commercial attaché, to Mr. Dickson, charge d'affaires.

(The memorandum referred to was marked "Exhibit No. 402" and is included in the appendix on p. 975.)

Mr. HISS. "Exhibit No. 403" is a letter of March 24, 1931, from Mr. Leighton W. Rogers to Mr. Allard. The memorandum that has been marked "Exhibit No. 402", as will be noted, was enclosed in the letter, "Exhibit No. 403."

(The letter referred to was marked "Exhibit No. 403" and is included in the appendix on p. 976.)

Mr. HISS. The first paragraph of Mr. Watson's report to Mr. Dickson, the chargé d'affaires, reads as follows:

Referring to previous conversations on the subject of the pending purchase of aeronautical equipment by the Finnish Air Corps, for which they have appropriations totalling approximately FMKs 60,000,000 (residue from 1930 to 1931 new allowances), the immediate purchase of 10 airplane engines, possibly 18, at around \$6,500 each, which has been debated for a number of months is, according to my latest information, to be decided on within a week or ten days. \* \* \*

This present engine order is of considerable importance to American aeronautical manufacturers; it represents the first order of any importance for engines for military use to be made available to American manufacturers in as advantageous a prospect, it is definitely the first order for airplane engines which American manufacturers have had as good a chance to get in Finland; if this order goes to America, it opens up very good prospects for future business in Finland, and would very much strengthen the chance for doing business in surrounding countries in the Baltic States and Scandinavia. One of the American companies, the Curtiss-Wright Export Corporation, has devoted considerable time and money in following up this opportunity, which I uncovered in October 1929; in June of last year they sent a demonstrating mission of three airplanes to Finland at large expense and since then have had three highly paid men visit Finland for varying lengths of time. The United Aircraft Export Corporation have also sent one man to Finland in connection with this matter, having shown an active interest in it some months after Curtiss-Wright had earnestly taken it up.

In view of the apparent political sentiment in the Government here against the purchase of American engines, even though the technical board in the general staff prefer the American engines, I believe that it would be of considerable assistance if certain Government officials who might have a say in the final decision could be informed of the facts in the matter, as to American deliveries, etc.

"Exhibit No. 404" is an excerpt from a report to the Director of the Bureau of Foreign and Domestic Commerce, attention Mr. Leighton W. Rogers, which was enclosed in a letter of April 7, 1933, from Leighton W. Rogers, Chief Aeronautics Trade Division, to Mr. William Goulding, vice president Curtiss-Wright Export Corporation.

(The report referred to was marked "Exhibit No. 404", and is included in the appendix on p. 976.)

Mr. Hiss. The letter of April 7, 1933, from Mr. Rogers to Mr. Goulding will be "Exhibit No. 405."

(The letter referred to was marked "Exhibit No. 405.")

Mr. Hiss. "Exhibit No. 405" reads as follows:

You may find of interest and value the attached copy of a letter dated February 23 from Commercial Attaché Watson, at Helsingfors.

Needless to say the attached is strictly confidential.

The report from Mr. Watson, "Exhibit No. 404", reads in part as follows:

In connection with this Czechoslovak purchase, even though it was a proposition of a kind of barter, the very fact that the Finns bought from the Czechs instead of from the English makes me believe to a certain extent that all of this official pressure by the English is not as effective as it might be. I have heard the sentiment voiced recently that perhaps this official pressure proposition has gone a little too far up here. I sincerely trust that this is the case. A few days ago at a dinner the secretary of the legation was talking to Mr. Ryti, the governor of the Bank of Finland, about Finnish Government purchases, and Mr. Ryti categorically stated that it was a Finnish Government policy to buy the best things they could at the cheapest price, regardless of political considerations. This sounds rather funny to me in the face of some recent Finnish Government purchases from England, but I am taking a spark of hope from this Czechoslovak order. I expect our two big companies at home, who really have spent a considerable amount of money up here in Finland, are more or less inclined at this time to let this particular small territory ride for the time being. They have not had anybody up here at all

since I came back. Both of them have very good agents, but I do not think that pressure from headquarters from time to time is a very salutary thing.

I suppose he means "I do think."

Mr. ALLARD. I think so; yes, sir.

Mr. Hiss (continuing reading):

I certainly hope that it may be possible within the not too distant future for some sort of cooperation to be brought about between the American aircraft firms who do a good deal of export, as referred to in Mr. Warner's article about which I wrote you a few days ago, so that we may then be able to take off our coats and dive right into the middle of these Government orders.

Do you still think that the commercial attachés did not act as agents for your own company, when they took off their coats and dove into orders?

Mr. ALLARD. No, sir; I think they were doing their duties at that time.

The CHAIRMAN. The Exhibit would indicate that they not only dove in but dove into the middle of it.

Mr. ALLARD. Right.

Mr. Hiss. It was good diving. "Exhibit No. 406" is a letter from Leighton W. Rogers, Chief Aeronautics Trade Division, Department of Commerce, to Mr. C. W. Webster, marked "Confidential", dated March 12, 1932.

(The letter referred to was marked "Exhibit No. 406" and is included in the appendix on p. 977.)

Mr. Hiss (reading):

As you may have already heard, there is an aviation mission on the west coast from Canton which arrived in Seattle on March 8. It consists of Brigadier General Woo G. Garr, commander of the Second Squadron of the Canton Aviation Bureau, and Colonel S. K. Yee, director of the Cantonese Intelligence Bureau. These officers are representing General Chang Wei Jung, commander of the Canton Aviation Bureau, whom you will recall as former chief of the Nationalist Air Force at Nanking. According to Trade Commissioner Edward P. Howard \* \* \*

He was stationed in Shanghai, was he not?

Mr. ALLARD. He was.

Mr. Hiss. And he is now representing the Douglas Aircraft Company?

Mr. ALLARD. That is correct.

Mr. Hiss (continuing reading):

\* \* \* they came to inspect aircraft factories and advise the San Francisco Chinese regarding airplane purchases for presentation to China.

I could not advise you of their presence in the United States before, since I was requested not to from China. For obvious reasons I urge your keeping the information contained in this letter in strict confidence. Under no circumstances should any publicity be given out about the mission.

I understand that the two officers arrived from Seattle at San Francisco yesterday, where they will stay for approximately 2 weeks. They will then proceed to Los Angeles, Chicago, Detroit, Washington, New York, and Boston. I shall endeavor to arrange it so that they will visit Buffalo.

That is where your plane-manufacturing company is located?

Mr. ALLARD. Yes, sir.

Mr. Hiss. Turning to the last paragraph,

You can get in touch with the mission through our Mr. Wesley Ash, district manager, United States Bureau of Foreign and Domestic Commerce, at 310 Customhouse, San Francisco. In doing so please make no mention of the fact that I suggested this action.

Mr. Rogers is now executive vice president of the Aeronautical Chamber of Commerce, is he not?

Mr. ALLARD. He is.

Mr. HISS. I will offer as "Exhibit No. 407" a letter dated December 3, 1931, from Mr. Goulding to Mr. Hewlett regarding Finland.

(The letter referred to was marked "Exhibit No. 407".)

Mr. HISS. The letter reads:

Mr. Osborn Watson, American commercial attaché, Helsingfors, Finland, is now in this country on a brief leave. He plans to be in Buffalo on December 9th for the purpose of visiting your plant. I have asked him to telephone you upon his arrival and that you will see that he is taken care of.

Mr. Watson is a very fine chap personally, and has been of great service to us endeavoring to sell aeronautical equipment in Finland. We finally succeeded in placing a number of Cyclone engines in operation there. We have hopes of developing this further to include aircraft. Mr. Watson is especially interested in aeronautics.

Anything you can do for Mr. Watson will be greatly appreciated.

I will now offer as "Exhibit No. 408" a letter dated February 21, 1933, from Mr. Goulding to Mr. MacGowan, acting commercial attaché, Bogota, Colombia.

(The letter referred to was marked "Exhibit No. 408" and is included in the appendix on p. 978.)

Mr. HISS. Mr. MacGowan is now in the export business in New York, connected with a former official of the Colombian Government, is he not?

Mr. ALLARD. Is he? I do not know.

Mr. HISS. The letter reads:

DEAR MR. MACGOWAN: I want to acknowledge receipt of your letter of February 1st and extend our appreciation of the great assistance we can always get from your office.

The Department in Washington advised us that they had a cable from you asking us to submit information on the planes that we are able to offer. As we have already passed this information, by cable, to Joaquín Samper \* \* \*.

He was your representative in Bogota?

Mr. ALLARD. And is still; yes.

Mr. HISS (reading):

\* \* \* and knowing his close contact with you, I have simply cabled you in reply that he has all the necessary information.

I will now offer as "Exhibit No. 409" a letter dated May 23, 1932, from Melvin Hall in Paris to Julian E. Gillespie, American commercial attaché, Istanbul, Turkey.

(The letter referred to was marked "Exhibit No. 409" and is included in the appendix on p. 978.)

Mr. HISS. The letter reads:

DEAR JULIEN: The attached copy of a letter to the Secretary of Commerce, which I am enclosing for your information, is self-explanatory.

I am indeed appreciative of the cooperation which we have received from the Department of Commerce and particularly from yourself. Your assistance and wise counsel have been invaluable; and when I say that we are counting greatly upon your good advice and collaboration in our future dealings with the Turkish Government, you know what I mean.

I will now offer as "Exhibit No. 410" a letter dated May 11, 1933, to Mr. Gillespie from Mr. Allard.

(The letter referred to was marked "Exhibit No. 410" and is included in the appendix on p. 979.)

Mr. Hiss. I am referring to the second paragraph on the first page, the last sentence thereof [reading]:

Your courtesy in letting me use your office as you did \* \* \*.

You were in Istanbul for a while?

Mr. ALLARD. I was there 3 months; yes.

Mr. Hiss [reading]:

\* \* \* will always be remembered and your good nature and sound judgment and assistance to me in our discussions of my many problems were priceless.

Yesterday I received your cable about the Kayseri situation \* \* \*.

That was the Turkish manufacturing plant?

Mr. ALLARD. That is right.

Mr. Hiss. To which you gave a license for the manufacture of planes?

Mr. ALLARD. Yes.

Mr. Hiss (reading):

\* \* \* and I am grateful for your thoughtfulness in sending it to me. When you send such cables or incur any expense on Curtiss business, will you please collect the costs from Bob Farnsworth. There is no reason in the world why your office should stand these expenses, and I want your definite promise that you will collect them from Bob.

I have the complete approval of the board of directors to replace Capt. Coon at the factory and to send out the necessary personnel to step up production to completely satisfy the Turkish Government. Today I am interviewing Bob Simon, who has had a vast amount of experience in factory management with Fairchild, Berliner-Joyce, and ourselves. He has been highly recommended by Ted Wright, of our Buffalo plant, and if my interview with him satisfies me, he will probably be the man we will send out, and you may rest assured that we are working just as fast as it is humanly possible, and will get him out there on the earliest boat. Substantially, my plan is to do as I told you when we discussed this problem in your office.

You discussed your sales operations in Turkey thoroughly with Mr. Gillespie?

Mr. ALLARD. Yes. This particular thing refers to the operation of the American personnel who were on the pay roll of the Turkish Government.

Mr. Hiss. I am referring to the last 2 or 3 sentences now of the last paragraph, which read:

The best dope I can get on the situation in the future for Department of Commerce is that even though the Department's activities in foreign fields are curtailed, the good men, such as yourself, will be retained on the job under either the State Department or the Consular Service, or in some manner, and I am sure that nobody will replace you in the matter of value to the Government. Don't worry. We all hope for the best, and you may rest assured that you have some great boosters working for you here.

The CHAIRMAN. Who was Mr. Farnsworth?

Mr. Hiss. Mr. Farnsworth was a representative of the Curtiss Co. This letter was written to Mr. Gillespie, the American commercial attaché.

The CHAIRMAN. Farnsworth was their representative where?

Mr. Hiss. At one time in Washington and later in Turkey; is that correct?

Mr. ALLARD. That is correct; yes, sir.

Senator POPE. Did he comply with your request here and collect the costs from Farnsworth?

Mr. ALLARD. Yes; he did.



Senator POPE. About what would that amount, or what did that amount to?

Mr. ALLARD. It might have been 10 Turkish pounds for a cablegram, which would be, roughly, \$4 or \$5, American. They are all small amounts.

Senator POPE. Did he observe that strictly with reference to all expenses that he incurred in assisting you in your business?

Mr. ALLARD. I could not say, Senator, as to that. I do not know how many expenses he incurred. But he did submit from time to time some items or I paid him personally when I was there, if a cablegram was sent; or if I used his stenographer, I would pay her. They were small amounts.

Mr. HISS. But none the less, as indicated in a previous exhibit, your company was interested in further appropriations for the work of the commercial attachés.

Mr. ALLARD. Certainly.

The CHAIRMAN. Mr. Webster, I want to go back to "Exhibit No. 392", which was your letter to Mr. Allard, you writing from Washington to him in New York, saying:

I was in Mr. Ingalls' office this morning and his office urged that we push in every way possible the completion of the arranging for the carrier to go to South America.

Mr. WEBSTER. That is not my letter, Mr. Chairman.

Mr. HISS. Is it Burdette S. Wright?

The CHAIRMAN. That is what it is; yes. Then, Mr. Allard, I will ask you, perhaps you can answer this question. Was this arrangement made to send a carrier to South America?

Mr. ALLARD. No, sir.

The CHAIRMAN. It was not sent?

Mr. ALLARD. Never sent; no, sir.

The CHAIRMAN. You are, of course, aware of the fact that a carrier is in South America now?

Mr. ALLARD. I have heard there is one that went down there on a shakedown cruise.

The CHAIRMAN. And is now in Rio?

Mr. ALLARD. Yes.

The CHAIRMAN. Have you had any hand in bringing about the designation of that carrier for that trip?

Mr. ALLARD. Absolutely not. I just learned it in the last week.

The CHAIRMAN. I should like for a moment to refer to "Exhibit No. 394" which was Mr. Webster's letter to Mr. Wright concerning the contemplated business of Commander Merino of Chile. In this case, Mr. Webster, you were appealing for an effort to be extended to accomplish a worthwhile reception for Commander Merino when he came, were you not?

Mr. WEBSTER. Yes, sir.

The CHAIRMAN. You were suggesting that an arrangement be made for permission to be extended to him to visit various army and navy stations?

Mr. WEBSTER. Yes, sir.

The CHAIRMAN. And you wanted arrangements made for him to meet the Army and Navy Secretaries and, if possible, President Hoover, himself?

Mr. WEBSTER. Yes, sir.

The CHAIRMAN. Was this arrangement made? Did he come?

Mr. WEBSTER. He did visit Washington. I do not think—I am quite sure that he did not get to see President Hoover, but he met a great many officials in the Army and Navy Air Services.

The CHAIRMAN. Did he visit the Army and Navy stations?

Mr. WEBSTER. He visited a number of them. I do not know that he visited all of them.

The CHAIRMAN. This you thought at the time was advisable and necessary in order to offset the efforts of the Prince of Wales?

Mr. WEBSTER. Partially so, yes, sir; and also to repay the many courtesies that Commandante Merino and the Chilean Government officials had extended to American Army and Navy officials in Chile.

The CHAIRMAN. Does not this all tend very strongly to make it appear that in the business of selling to South American countries arms and war supplies, it has become a battle between the heads of governments primarily?

Mr. WEBSTER. By heads of governments, do you mean a battle among the heads of one particular government?

The CHAIRMAN. No; a battle between the heads of different governments.

Mr. WEBSTER. I would not say so, sir; I do not believe so.

The CHAIRMAN. Here was the Prince of Wales on a goodwill tour in South America. He had gone to Chile and had made a very strong impression. Inviting Commandante Merino to come to Britain and be his guest there naturally would have a tendency to distract Merino from the North American market?

Mr. WEBSTER. It might be so construed, Senator. But the Prince of Wales was very nicely entertained and courteously entertained in Chile and this was simply the return of an invitation to come and visit England.

The CHAIRMAN. But there was a danger that all of this was going to have an effect upon trade.

Mr. WEBSTER. Possibly so; yes, sir.

The CHAIRMAN. And the English makers of planes might get into a market that you had come to get a pretty large percentage of?

Mr. WEBSTER. Possibly so.

The CHAIRMAN. So that there was every advantage to be looked forward to in having American officials here when Merino came here and be as nice to him as the Prince of Wales might have been when he went to Britain, as he planned to do.

Mr. WEBSTER. Possibly so; yes, sir.

The CHAIRMAN. So to that extent we do find agencies of the government fighting for these orders for munitions, do we not?

Mr. WEBSTER. We find agencies of the government—yes—trying to sell the products of their respective countries.

The CHAIRMAN. That is right.

Mr. HISS. Mr. Allard, as a practical matter, do you not frequently find that men who have served as commercial attachés or trade commissioners abroad have established such valuable contacts with foreign governments and with foreign purchasers in general that you frequently are glad to have them become employees of your company?

Mr. ALLARD. I would not say it was a common practice, by a long shot.

Mr. HISS. How about the other aircraft companies in general?

Mr. ALLARD. I do not know. I know of one.

Mr. HISS. Mr. Howard who was formerly in Shanghai is now representing the Douglas Aircraft Co. out there.

Mr. ALLARD. That is correct. That is the only one I know of.

Mr. HISS. Mr. Carleton Jackson, formerly at Rio, is now a representative of the Sperry Corporation?

Mr. ALLARD. I do not think he is a representative. He is doing some work for a lot of different manufacturers in this country.

Mr. HISS. According to the files you say he is a representative.

Mr. ALLARD. Is that so?

Mr. WEBSTER. He is really not a representative.

Mr. HISS. Mr. Pierrot, A. Ogden Pierrot, who was formerly commercial attaché in Rio is now on your payroll, Mr. Webster, is he not?

Mr. WEBSTER. Yes, sir.

Mr. HISS. "Exhibit No. 350" already in evidence is a letter of April 20, 1933, from Pierrot to Leon.

Mr. WEBSTER. That is correct.

Mr. HISS. This reads:

Thanks for your cable. Sorry things turned out as they did, but possibly I can be of use to you even though I am not on the payroll.

Mr. Pierrot was of aid to you even though he was not on the Curtiss-Wright pay roll at that time?

Mr. WEBSTER. Yes, sir; he was trade commissioner.

Mr. HISS (reading):

The thing I'm most interested in now is the matter of representation. Your cable gives me the impression that you are not interested in improving the quality and efficiency of your representation here. If that is the case, I'm afraid you are making a great mistake, for there is a fine order in the air and I should like to see you get it—and if I were with you I'd hope to share to a small degree in the profit.

Mr. HISS. I offer as "Exhibit No. 411" a letter of April 20, 1933, addressed to Mr. Webster from Pierrot.

(The letter referred to was marked "Exhibit No. 411" and is included in the appendix on p. 980.)

Mr. HISS. Mr. Pierrot was not at that time an employee of yours?

Mr. WEBSTER. No, sir.

Mr. HISS (reading):

Had Leon's cable this morning, and want to tell you that I appreciate Leon having thought of me, and that I realize that conditions are not such now as to justify you in adding to the expense of your organization.

I have intended writing to you for some time, that is, for the past two weeks, in connection with your representation here. You've got to get a good outfit with the best possible government connections. Don't lay off this market now in the hope that there will be another mixup which will put the ins out. Even if that occurs, it is no reason why you should sit by and see chances for business go by the boards. There is considerable talk right now, and some degree of certainty, that there is going to be some more buying by the Government.

In connection with the use of Army flyers' help in a demonstration of your planes, in addition to Captain Cannon, who was mentioned as part of the European tour, Lt. James E. Parker was also on that tour, was he not?

Mr. ALLARD. That is right.

Mr. HISS. And Lieutenant Doolittle, who is now, I believe, Major Doolittle, has been on other tours for your company?

Mr. ALLARD. Yes, sir.

Mr. HISS. He toured in South America, did he not?

Mr. ALLARD. That is correct.

Mr. HISS. And also in China?

Mr. ALLARD. Yes, sir. But not as an officer of the Air Corps. He is with the Shell Co.

Mr. HISS. He has now resigned?

Mr. ALLARD. Yes, sir.

Mr. HISS. But at the time he made the trip to Europe he was a member of the United States Army, was he not?

Mr. ALLARD. I think he was.

Mr. WEBSTER. He was not in the Army when he went to Europe.

Mr. ALLARD. He was with the Shell Co.

Mr. HISS. How about when he made the trip to South America?

Mr. WEBSTER. He was in the Army at that time, when he went to South America. He was not in the Army when he went to Europe.

Mr. HISS. Lieutenant Doolittle or Major Doolittle has been helpful in the sale of aviation equipment since he left the Army, as well as while he made these good-will tours; is not that correct?

Mr. ALLARD. That is correct.

The CHAIRMAN. This is the same Major Doolittle who has served on the so-called "Baker Board"?

Mr. ALLARD. That is correct.

Mr. HISS. I offer as "Exhibit No. 412" a memorandum dated July 1, 1929, from B. S. W.—that is Burdette S. Wright—to Mr. Russell. (The memorandum referred to was marked "Exhibit No. 412").

Mr. HISS. Who is Mr. Russell?

Mr. ALLARD. Mr. Russell at that time was vice president of the Curtiss Airplane & Motor Co.; that is, in 1929.

Mr. HISS. That is the engine factory?

Mr. ALLARD. No. That is the airplane factory in Garden City at that time.

Mr. HISS (reading "Exhibit No. 412"):

I saw Steve Early, Washington representative of the Paramount News Reel people, and he is working on the procuring of a Curtiss Hawk from the Army for Doolittle to make some acrobatic pictures over New York City.

Early has obtained authority for the Army to send a plane from Bolling Field to New York to be turned over to Doolittle there. In view of the fact that we may be able to get the caption "Curtiss Hawk" it would be well to have some one get in touch with Jimmie in this matter.

The CHAIRMAN. What is the date of that?

Mr. HISS. July 1, 1929. Of course, any news-reel picture of a Curtiss Hawk with Major Doolittle stunting it would be very good for publicity.

Mr. ALLARD. It certainly would.

#### WAR AND NAVY DEPARTMENTS AID IN FOREIGN SALES OF AIRCRAFT

Mr. HISS. Is it not the official policy of the War and Naval Departments to encourage the American aircraft industry in the development of foreign business?

Mr. ALLARD. I believe it is so stated.

Mr. Hiss. I offer as "Exhibit No. 413" an official memorandum of the Navy Department, Bureau of Aeronautics, dated August 5, 1933. (The memorandum referred to was marked "Exhibit No. 413" and is included in the appendix on p. 981.)

Mr. Hiss. In paragraph numbered 3, under the heading "Policy", there is this language:

The War and Navy Departments will encourage the American aeronautical industry in developing foreign business and assist in such development so far as consistent with national policy and the needs of the national defense.

Have you found that the American Navy or Army officials, when traveling in Europe, have spoken favorably of American military equipment?

Mr. ALLARD. I have no way of knowing what they have done, unless we have been so advised in correspondence.

Mr. Hiss. I will offer as "Exhibit No. 414" a letter of October 12, 1932, to Mr. F. C. Nichols from Mr. Goulding, vice president of the Export Corporation.

(The letter referred to was marked "Exhibit No. 414" and is included in the appendix on p. 983.)

Mr. Hiss. Mr. Nichols is with the Colt's Patent Fire Arms Manufacturing Co. The last paragraph of this letter reads:

In another letter which I have just received from Mr. Farnsworth, \* \* \*

Mr. Farnsworth was a representative of your company?

Mr. ALLARD. Yes, sir.

Mr. Hiss (reading):

\* \* \* he refers particularly to the recent visit of General MacArthur to Turkey, and the fact that General MacArthur was received with great pomp and enthusiasm by the Turkish dignitaries. Naturally, the general was made familiar with the business which we are carrying on with the Turkish authorities, and, apparently, he talked up American military equipment to the skies in discussions which he had with the Turkish general staff. Bob Farnsworth says that for safety sake, he is not putting down in black and white what was said, but I rather gather that your equipment and ours did not suffer from lack of praise.<sup>1</sup>

The equipment to which he refers is Colt's equipment, which would be machine guns and rapid-fire guns in general?

Mr. ALLARD. Yes, sir.

Mr. Hiss. Revolvers and automatic rifles?

Mr. ALLARD. I do not know the list of products that they make.

Mr. Hiss. He finishes the letter with—

This, of course, is for your confidential information.

Mr. Webster, can you explain the background of your sales efforts in Guatemala, Central America?

Mr. WEBSTER. I did not personally handle Guatemala.

Mr. Hiss. I offer as "Exhibit No. 415" a letter of May 28, 1934, from Owen Shannon to Mr. Hewlett.

(The letter referred to was marked "Exhibit No. 415" and is included in the appendix on p. 983.)

<sup>1</sup> On Sept. 13, 1934, Gen. Douglas MacArthur wrote a letter to the committee, denying the above allegations of Mr. Goulding. This letter was read into the record of the morning of Sept. 13, 1934, and appears in part V.

Mr. Hiss. This states in the second paragraph:

We have no agent in Guatemala but make all of our contacts through General John A. Considine, who is a major in the United States Army, loaned to the Guatemala Government.

Major Considine suggests that it would be more satisfactory for us to deal directly with the Government through him rather than attempt to deal through any local agent, as his recommendations are followed by the President in the purchase of all types of military equipment.

Mr. WEBSTER. Mr. Hiss, I do not believe Major Considine is now in the United States Army, although I am not sure. I think he is a retired Army officer employed by the Guatemalan Government. I am not certain about that. That is my impression.

Mr. Hiss. So far as you know, he is very favorable to American equipment?

Mr. WEBSTER. Yes.

The CHAIRMAN. Mr. Hiss, this letter of October 12, by Goulding to Mr. Nichols, concerning General MacArthur's visit to Turkey makes reference to this:

In another letter which I have just received from Mr. Farnsworth \* \* \*.

Is that other letter in evidence?

Mr. Hiss. We have found no copy of that letter; no, sir.

The CHAIRMAN. Mr. Webster, how generally is it true that Army and Navy officers are playing the part that General MacArthur seems to have played there in Turkey, the part pretty nearly of a salesman, which is what is very closely what it looks like?

Mr. WEBSTER. I have had very little experience in that particular line, Senator. That is not my particular territory and I am not familiar with it.

The CHAIRMAN. It makes one begin to wonder whether the Army and Navy are just organizations of salesmen for private industry, paid by the American Government.

Mr. Hiss. I am referring now to a document which I will offer in evidence as "Exhibit No. 416", which is a letter of February 3, 1932, to Mr. Lawrence Leon from Mr. Webster.

(The letter referred to was marked "Exhibit No. 416" and is included in the appendix on p. 984.)

Mr. Hiss. This letter reads:

For your information, I enclose herewith a letter which I wrote Burdette Wright, who is in charge of our Washington office, in regard to the assignment of a U.S. naval officer to accompany the two Argentine naval officers who, we understand, will shortly arrive here for the purpose of selecting and purchasing aircraft equipment.

We are proceeding very cautiously in Washington and believe that when the request is made to our naval intelligence, if it is not already made, we can more or less guide their choice and see that an officer is selected who would most properly fit the job.

I now offer as "Exhibit No. 417" a letter, referring to the same subject, being dated January 29, 1932, from Mr. Webster to Mr. Burdette S. Wright.

(The letter referred to was marked "Exhibit No. 417".)

Mr. Hiss. This letter reads:

I learned today through a confidential source from a friend who is attached to the Diplomatic Service in Buenos Aires that Captain Zar, head of the Argentine naval aviation, has requested our Navy Department, through naval intelligence, for permission to send two Argentine naval officers from the Air

Corps to the United States and have assigned to them on their arrival an officer of the American Naval Air Service for the purpose of advice and assistance in selecting new airplane equipment for the Argentine Navy. This information is supposed to be very confidential. Our Argentine office also knows of this request and in a very short time will have the names of the two officers who will visit the United States.

Inasmuch as our information came to us confidentially from naval intelligence, it may be rather embarrassing to approach them unless we say we received the information from Buenos Aires. The reason for the secrecy on the part of the Argentine Navy is the fact that they wish to sidestep, if possible, receiving quotations from British manufacturers. Their desire is to purchase American equipment, but inasmuch as British prices would be at least one-third below ours due to the difference in exchange, if these quotations are received from England, it would be difficult for the Argentine naval officers to approve American prices.

It occurred to me that you could in some way start preliminary work leading toward the proper selection of the American naval officer to be assigned to the job. I am passing along this information to you for your suggestions.

Regardless of what make of airplanes is selected, our engines will undoubtedly be used owing to our recent engine license contract with the Argentine Government, but we naturally should like to secure the airplane business as well. Captain Zar is a very intimate friend of ours and would prefer Curtiss-Wright airplanes to any others, but he must proceed cautiously so as not to encounter criticism after the selection is made. Please let me have your suggestions at your early convenience.

I offer as "Exhibit No. 418" a letter of June 12, 1933, from Mr. Shannon to Mr. Earle.

(The letter referred to was marked "Exhibit No. 418" and is included in the appendix on p. 985.)

Mr. Hiss. It reads:

We are informed that a Major A. R. Harris has been acting as U.S. military attaché to the legations in all five Central American Republics and Panama.

If this is so, it would probably be very much worth while for you to see him and load him up with Curtiss-Wright dope, catalogs, and so forth. If he is to be in New York before his return south, we would like to have an opportunity to see him.

Of these six countries, we believe we have fairly good agents in Panama and Salvador, both of which have bought Curtiss-Wright equipment. By the way, we just received an order from Salvador last week for three Ospreys, which, we understand, is the first military equipment purchased by them.

We understand Guatemala, Honduras, and Nicaragua are contemplating purchasing planes as soon as they have funds, and as you already know, Honduras is planning to buy two or three ships now.

It is, therefore, important that we use every possible channel to put Curtiss-Wright planes across to all of these countries and Major Harris might prove helpful.

Have the military attachés of the United States proved helpful in putting Curtiss-Wright planes across?

Mr. WEBSTER. Yes, sir; in putting all types of American planes across.

Mr. Hiss. I offer as "Exhibit No. 419" a letter dated May 23, 1933, from Burdette S. Wright to Mr. Webster.

(The letter referred to was marked "Exhibit No. 419".)

Mr. Hiss. This letter reads:

Have just returned from having lunch with Major John Weeks of the Cavalry, who is going down to Chile as military attaché. He is a bachelor and I know that you can give him some real good dope on Chile.

He is leaving Washington the night of May 30, arriving in New York the next morning, and sailing on June 2. This should give him two nights in New York. I have told him that you would like to entertain him one night. He said that he might have to go out with friends one night, but would probably

stay at the Pennsylvania Hotel. We can arrange the details of your meeting him in New York a little later just before he leaves Washington. If he cannot get together with you at night, he will want to see you some time during the day on May 31 or June 1. I hope that this time will be convenient to you. If you are going to be away those days, you might want to come to Washington and see him, but I think it would be pretty good ball to entertain him in New York if convenient.

He seems to be a live, wide-awake chap and is extremely interested in the background in regard to Chilean aviation and our work there and what our plans are for the future.

Senator POPE. Did you entertain him?

Mr. WEBSTER. No; I did not meet him here at all. I met him at Santiago, Chile, sometime later.

Mr. HISS. Has your company been able to secure for your foreign customers the service of American military officers in inspecting planes sold to foreign governments by you?

Mr. ALLARD. The company itself has not been able to. We have assisted the legations of the specific foreign governments by supplementing their requests and acknowledging their willingness to have such inspections made.

Mr. HISS. Have you ever had any difficulty in aiding the legation in securing such requests?

Mr. ALLARD. I think at one time we did.

Mr. HISS. Do you find that difficult at the present time?

Mr. ALLARD. As a matter of fact, we refrain from it at the present time and leave it entirely up to the embassies or legations.

Mr. HISS. I offer as "Exhibit No. 420" a letter dated May 23, 1934, to the Curtiss-Wright Export Corporation from William A. Reeks.

(The letter referred to was marked "Exhibit No. 420" and is included in the appendix on p. 985.)

Mr. HISS. The last page, paragraph marked 7 reads:

If the Argentines desire U.S. Army inspection of their Cyclones when being built at our plant, this can be arranged by getting in touch with us, and we will contact the Army inspector now stationed here at our plant, who will arrange the matter. The Army inspector has been contacted and we have been given assurance that he will be able to arrange this.

This letter is from Mr. William A. Reeks, of the engine company, in Paterson to the Export Corporation with copies to Mr. Chapline, Mr. Lucas, Mr. Kennedy, Mr. Colvin, and Mr. Shepley.

They are all officers of one or the other of the Curtiss companies.

Mr. ALLARD. They are all with the Wright Aeronautical except Shepley. Shepley is with the Export Corporation. I might say there, Mr. Hiss, if I may, that I do not know what the policy is with the individual manufacturing units. I was referring merely to the Export Co.

Mr. Hiss (reading):

The inspection he will give the Argentine engines will be identical with the inspection he customarily makes for the U.S. Army and will include full inspection right through manufacturing, through testing, and to shipping. The Argentines will be required to pay the Army inspector the following for the inspection: Cyclone geared, \$125.00 per engine; Whirlwind 250 direct, \$100.00 per engine.

The following will apply to generators and starters: Per generator, \$5.00; per starter, \$5.00.

Will you please also inform us on this point as to whether or not the Argentines are interested. In most respects such an arrangement as outlined above



will be to the best advantage of the Argentines if they require other inspection than ours. It would undoubtedly cost them much less than if they had their own inspector on the job and they will have the assurance of the U.S. Army inspector, who is stationed at our plant and who is entirely familiar with our engines.

Mr. Hiss. Paragraph 8 reads:

If the Argentines so desire, arrangements can be made so that the U.S. Army inspector certifies the shipping documents to the effect that the engines being shipped are the same as those which A.T.C. has been granted for the type in question.

Mr. Hiss. I read further:

It is not definite whether the U.S. Army or U.S. Navy would issue any written statement to the effect that they are or had bought certain materials. However, we believe we can supply you with copies of statements issued by the Aeronautical Chamber of Commerce, giving the Army and Navy contract awards and showing contract numbers of same.

Have you been able to secure letters of recommendation from the Army or the Navy, Mr. Webster?

Mr. WEBSTER. No recommendations particularly, but referring to their use of certain of the products.

Mr. Hiss. Do the Army and the Navy help the engine and plane companies bear the cost of development of new planes or new engines, Mr. Allard?

Mr. ALLARD. I am not at all familiar with the contracting with the Army and Navy on domestic purchases.

Mr. Hiss. Do they furnish technical assistance in connection with the development of planes and engines?

Mr. ALLARD. Do the Army and Navy furnish technical assistance?

Mr. Hiss. Yes.

Mr. ALLARD. That is clearly in the same category.

Mr. Hiss. I am referring to a letter dated in October 1932, in your files and not a part of the record, in reference to an attack plane which Mr. Webster states was developed by the Curtiss-Wright Co. in conjunction with the United States Navy and Army Air Corps which was used for ground attack on troops, trenches, etc.; and in the same letter Mr. Webster refers to a special gun mount developed by the Curtiss-Wright Co. in cooperation with and for the Army Air Corps.

And I further read from "Exhibit No. 271", which has heretofore been put in the record, being a letter to Consul General Escobar from Mr. Hewlett referring to certain complications appearing in the report by Mr. Trimbach who has heretofore been identified as an armament engineer, he says:

And further, since we have a very limited knowledge of sight installation previously made it is recommended that we should discourage applying this gun to our airplanes until after our own Government has proven them worth while.

That would indicate that the use and experiments by the Government of experimental planes and engines does help you bear part of the cost of development, and that they also furnish technical aid, as indicated by Mr. Webster's letter from which I read, and that they also furnish assistance in trying them out in actual service?

Mr. WEBSTER. I think it is a part of the normal function of the plane that has been developed to have somebody try it out in actual

service. It is not saving us any expense, because we would not build a plane for one particular item.

Mr. HISS. But the tryer in your case is either the United States Army or the United States Navy?

Mr. WEBSTER. Naturally, because any product we sell on export has to be approved by them before we can sell it.

Mr. HISS. Is it not also a fact that the business which the Curtiss Co. does with the United States Army and Navy is really essential for the existence of the company?

Mr. WEBSTER. Certainly.

Mr. HISS. That constitutes a major portion of your business, I believe. In the hearings before the Subcommittee on Aeronautics of the House Military Affairs Committee which were held last spring, at pages 799 and 800, it appears that the total sales of the Aeronautical Co., that is the engine company, from 1922 to 1933, inclusive were \$18,000,000 to the Army and \$25,000,000 to the Navy, and all others \$22,000,000, so that the Army and Navy constituted approximately two-thirds of your total business?

Mr. ALLARD. Yes.

Mr. HISS. Is it not also true that in the last few years the majority of your non-United States military sales have been in the foreign market?

Mr. ALLARD. Yes.

Mr. HISS. At this same place in the hearings referred to it appears your total sales in 1931, other than sales to the United States Government, were listed as \$2,500,000, foreign sales, \$1,500,000; for 1932, total sales, \$1,600,000, foreign sales, \$1,000,000; in 1933, the total was \$1,800,000, and the foreign was \$1,100,000.

In the report of these same hearings at page 1040 is shown a list of the major aircraft activities and that the Navy engines were purchased during the years 1927 to 1933 from one or two companies, the Wright Aeronautical and the Pratt-Whitney.

Do you know whether the United States Government buys any substantial quantities from any other engine company?

Mr. ALLARD. I do not know. The records would show that.

Mr. HISS. Do you know whether the prices of the Wright Engine Co. on its sales to the Army or the Navy are higher than on its sales to other customers?

Mr. ALLARD. I do not know. The Army and Navy audits, I think should show that.

Mr. HISS. Statements filed at this same hearing I have referred to at pages 799 and 800 show during the years 1920 to 1933 the profit on the Army sales was 9.27 percent, the profit on the Navy sales was 14.83 percent, and the profit on all other sales was only 5.81 percent.

In 1925 the engine sales to the Navy netted a profit of 31.88 percent, according to the record submitted by the company; the sales to the Army netted a profit of 93 percent. In 1926 the Navy profits were 21 percent; in 1927 the Navy profits were 29 percent; in 1928 the Navy profits were 44 percent, and the Army 31 percent; in 1929 the Navy profit was 30 percent; and in 1933 the Army profit was 18 percent.

Similarly, with the Curtiss Airplane & Motor Co., in the same hearing at page 1104 it is shown that the total sales for 1928 to 1933, inclusive, were \$4,900,000 to the Navy and \$9,900,000 to the Army,

and only \$5,800,000 to all others. In other words, more than two-thirds of the Curtiss Airplane & Motor Co. business was sold to the United States Government.

In that connection do you know whether your company has ever sold planes or engines to foreign governments at any cheaper price than the same planes or engines were being sold to the United States Government?

Mr. ALLARD. No; not to my knowledge.

Mr. HISS. Will you supply the committee with an analysis of the sales to the Army and Navy currently and of the different types of sales to foreign countries of the same types as the sales to the United States Government and at the same time, and also what prices were paid by your company to its sources of supply, both in the case of engines and in the case of planes, from both companies?

Mr. ALLARD. We will.

Mr. HISS. It is the announced policy of the Army and Navy to limit the export of new designs in the field of aviation to those designs which are a year old or something of that sort?

Mr. ALLARD. I do not know the age of the designs, but they have to be released by the Army and the Navy.

Mr. HISS. You have to have permission and release in any event?

Mr. ALLARD. That is right.

Mr. HISS. Have you found any difficulty in getting releases when you needed them? Have you had difficulty in getting releases when you had an order?

Mr. ALLARD. Not when we had an order, but we have when we wanted to negotiate to meet competition.

Mr. HISS. Assuming a foreign country comes to you and says, "We would like to buy a substantial number of planes", which at that time are on the restricted list of the Army or the Navy, have you experienced any difficulty in securing releases where the order is substantial?

Mr. ALLARD. Yes; I think we have.

Mr. HISS. Would that not be in conflict with the policy of the Army and the Navy to encourage exports?

Mr. ALLARD. No; it would not, because it might be of the very latest product that had not been produced in quantity.

Mr. HISS. Haven't you experienced some difficulty in disposing of what Mr. Morgan describes as obsolescent equipment, and therefore you must attempt to secure releases as promptly as possible?

Mr. ALLARD. Yes.

Mr. HISS. I offer as "Exhibit No. 421" a letter dated April 23, 1934, addressed to Inspector General of Aviation of Peru.

(The letter referred to was marked "Exhibit No. 421" and is included in the appendix on p. 988.)

Mr. HISS. This letter, "Exhibit No. 421", does not bear any signature, and I wonder if you can identify that, Mr. Allard?

Mr. ALLARD. I cannot.

Mr. HISS. This letter states:

We also wish to submit herewith a proposal for the latest type of Curtiss attack plane, known as the "U.S. Army model A-12." Complete specifications and photographs are attached.

This plane is the most modern fighting unit of its type ever developed and has been furnished only to the U.S. Army Air Corps. Providing we have a con-

tract for at least 10 planes, we will be able to secure permission from the U.S. Government to build it for Peru. The selling price for 10 planes CIF Callao, equipt with 5 machine guns and bomb racks, is \$48,950 each and \$6,500 each additional for the pontoon equipment.

We believe we can secure prompt permission from the U.S. Government to accept a contract from Peru and depending upon this we could probably deliver the first machine in Buffalo within 90 days and continue at the rate of one plane each 10 days thereafter.

Is it not a fact that the Army and the Navy policy has been that in order to encourage export abroad, that if you get an order for a sufficiently large quantity, they look with great favor upon releasing it?

Mr. ALLARD. I would not say so, Mr. Hiss; no. In this particular instance I do not know who wrote this letter, but I don't think he knew what he was talking about, whoever he was, in saying we could secure permission. We would try to secure permission.

Mr. Hiss. I offer as "Exhibit No. 422" a letter from Mr. Burdette S. Wright to Mr. Allard, dated February 4, 1931.

(The letter referred to was marked "Exhibit No. 422.")

Mr. Hiss. The Bob Farnsworth referred to in this letter, "Exhibit No. 422", was then in Washington as an employee of the Export Co.?

Mr. ALLARD. Yes.

Mr. Hiss. This letter, "Exhibit No. 422", reads as follows:

Bob Farnsworth was assured informally this morning, by the Office of the Chief of Air Corps, that hereafter, as a general rule, the Army Air Corps would look with favor upon requests for the exporting of military aircraft immediately after production is started upon such aircraft. For various reasons at present they do not desire to change the wording of the policy and will let the matter rest as it is and decide each case upon its own merits.

I think this came directly from General Foulois, head of the Plane Division, and in the future we will not be handicapped by the one year in service stipulation except in very rare instances. At all events, I think we are entirely justified in having Melvin Hall and other members of the Export Corporation start preliminary negotiations upon any and all types of aircraft that we are producing or about to go into production on. However, I think that permission will undoubtedly be withheld to export new-type production planes to France, Italy, England, and possibly Japan.

Mr. Hiss. I offer as "Exhibit No. 423", a letter dated October 16, 1931, from Mr. Burdette S. Wright to Mr. W. F. Goulding.

(The letter referred to was marked "Exhibit No. 423", and is included in the appendix on p. 988.)

Mr. Hiss. I read from this letter as follows:

I understand there are about five or six undelivered O2C-1's coming through at Buffalo for the Navy.

Is that the Osprey?

Mr. ALLARD. No; I think that is the Navy type observation plane from Buffalo.

Mr. Hiss. The letter further reads:

As I wired you, Comdr. Dillon is very much against our taking these ships but I have talked to him and know that we will not lose his friendship should we go over his head.

Doesn't this indicate, in addition to the other, the cooperation you have received from the Army and Navy, that if you are actually in production on a Navy contract you can at times secure a release from the Navy contract and divert the planes or engines in production to

a foreign contract, through the cooperation of the Navy or the Army?

Mr. ALLARD. It has never been done to my knowledge, but we have asked if it could be done in several instances.

Mr. HISS. You remember yesterday Senator Nye referred to the diversion of 29 planes then under contract with the Boeing Co. and another subsidiary the United Aircraft, which were sold to the Brazilian Government on release of the United States Navy?

Mr. ALLARD. Yes, sir.

Mr. HISS. That has never occurred in your case?

Mr. ALLARD. No, sir; it has not.

Mr. HISS. Reading further from this letter, "Exhibit No. 423", it says:

Capt. Cook, the Assistant Chief of the Bureau of Aeronautics of the Navy Department, told me that if it was urgent he would certainly look with favor on helping us out.

Referring back to the policy of the Navy with respect to export restrictions, I now offer as "Exhibit No. 424", a letter dated February 19, 1933, directed to Capt. Hamdi Bey by Melvin Hall.

(The letter referred to was marked "Exhibit No. 424" and is included in the appendix on p. 989.)

Mr. HISS. Capt. Hamdi Bey, to whom this letter is directed, was connected with the technical section, Ministry of National Defense of Turkey, and Melvin Hall was an employee of the Export Co.?

Mr. ALLARD. Yes.

Mr. HISS. I read from this letter, "Exhibit No. 424", as follows:

I enclose a photograph herewith for your information of the Martin bomber which is known as the B-907.

That is made by Glenn Martin Co. of Baltimore?

Mr. ALLARD. Yes.

Mr. HISS. The letter continues:

This plane is still on the secret list of the United States Army and consequently we have not available any detailed performance figures. Should the Government of Turkey be seriously interested in this or any other of the latest types of American bombing planes, we believe that it will be possible to secure release by the United States Army on special application.

Mr. ALLARD. May I make a statement there?

Mr. HISS. Yes, sir.

Mr. ALLARD. Melvin Hall is a salesman and he has often made statements in an endeavor to sell, and they are not always accurate statements.

Mr. HISS. Is Mr. Goulding a salesman, or is he an operating officer?

Mr. ALLARD. No; he is a salesman and vice president.

Mr. HISS. Would you say all of the officials of the Export Corporation are salesmen?

Mr. ALLARD. I should.

Mr. HISS. Including yourself?

Mr. ALLARD. I might be flattered in that.

Mr. HISS. I offer as "Exhibit No. 425" a letter dated February 23, 1932, addressed to Ralph S. Damon from W. F. Goulding.

(The letter referred to was marked "Exhibit No. 425", and is included in the appendix on p. 990.)

Mr. Hiss. On the subject of Keystone bombers, this letter says [reading]:

With respect to deliveries, we understand that you can furnish the first plane within sixty (60) days, two planes per week for the ensuing four weeks, and three each week thereafter. Furthermore, if release of any of the planes which you are now completing for the Army is accomplished, that you would be in a position to give us the first one of these planes in forty (40) days.

Mr. ALLARD. That is correct. It never was done, though.

The CHAIRMAN. It was not done?

Mr. ALLARD. No, sir.

Mr. Hiss. In connection with the release of the Boeing planes, your company received some criticism as to why you could not furnish quick delivery. I think you Mr. Webster were then president of the company?

Mr. WEBSTER. I don't recall it.

Mr. Hiss. I offer as "Exhibit No. 426" a letter dated October 3, 1932, from W. F. Goulding to Mr. Burdette S. Wright.

(The letter referred to was marked "Exhibit No. 426", and is included in the appendix on p. 990.)

Mr. Hiss. I quote from this letter as follows:

Of course, it is embarrassing to answer questions as to why United secured this Brazilian business. I think probably the best answer is as you have given it, to the effect that United was able to get release on U.S. Government contracts to give the best deliveries.

Another matter is the question of financing. Apparently United was able to work this out to their satisfaction, but how it was done I am not entirely aware. As a matter of fact, I think it was worked out in connection with the Farm Board's coffee, but you don't need to tell people this if they don't know it.

Do you know, Mr. Webster, how that financing was worked out?

Mr. WEBSTER. No; I do not, sir.

Mr. Hiss. I offer as "Exhibit No. 427" a letter from Mr. Goulding to Mr. Guy Vaughan of date October 3, 1932.

(The letter referred to was marked "Exhibit No. 427", and is included in the appendix on p. 991.)

Mr. Hiss. This letter is on the same subject, and I quote from it as follows:

You, no doubt, realize that United had under construction for the Government a number of Corsairs and Boeings which the Navy released to permit them to offer excellent deliveries to Brazil. Unfortunately, Curtiss-Wright had no Government contracts which could be diverted for such prompt deliveries. The fact remains, however, that United, having taken this Brazil business, is not in as good a position to give deliveries on other orders for other countries as we are.

Would there be any reason for Mr. Goulding to be using salesman's language there?

Mr. ALLARD. No.

Mr. Hiss. Does that indicate that it was difficult to secure releases from the Government on these contracts?

Mr. ALLARD. I do not know that it indicates it was difficult or not, but we could try.

Mr. Hiss. The sentence I call your attention to is [reading]:

Curtiss-Wright had no Government contracts which could be diverted for such prompt deliveries.

Mr. ALLARD. I know that is his language, but we had no ships under contract for the Army that we could endeavor to get diverted.

Mr. Hiss. Have you or your corporation actually borrowed from the Army or the Navy property to help you fill foreign orders for military planes or equipment?

Mr. ALLARD. Yes; not aircraft as such.

Mr. Hiss. Do you remember in January 1933, whether your company borrowed any flying suits for Cuban pilots, from the Army or the Navy?

Mr. ALLARD. I do not know whether we borrowed them, or whether the Cubans did themselves. They were out at Mitchel Field in the winter and needed the flying suits, and they borrowed them for the trip to Cuba and return, I think that is right.

Mr. Hiss. I offer as "Exhibit No. 428" a letter dated January 7, 1933, from Mr. Carrington to Mr. Hewlett.

(The letter referred to was marked "Exhibit No. 428", and is included in the appendix on p. 991.)

Mr. Hiss. In this letter it states that four pilots will be here Monday and will probably go to Buffalo Tuesday to fly ships away; and then it quotes a telegram, in which the statement is made [reading]:

I ask you to do the necessary with Army or Navy for four winter flying suits which will be returned to them immediately.

Then Mr. Carrington says to Mr. Hewlett:

You will know what to do about the flying suits.

Did your company not actually borrow the flying suits?

Mr. ALLARD. No; I think we called up the flying field and asked them if they could lend these suits to the pilots, that they were Cuban pilots, and it is the courteous thing to do that.

Mr. Hiss. I offer as "Exhibit No. 429" a letter dated February 7, 1934, from Robert L. Earle to Lt. H. E. Regan.

(The letter referred to was marked "Exhibit No. 429", and is included in the appendix on p. 992.)

Mr. Hiss. I quote from this letter as follows:

When talking with you yesterday concerning the need for propellers to meet deliveries on a certain foreign contract, I thought that three 2-bladed propellers would take care of the situation. However, I have since found that our export Falcons do not use the same propeller as the export Hawks and therefore we really need a total of six instead of three.

Then there appears a description of the specific propellers and the letter continues [reading]:

The need for these propellers is occasioned by our having negotiations with a certain foreign government for a number of airplanes which must be delivered within a short period of time. The delivery of the first three Hawks and the first three Falcons, both of which are powered by direct-drive Cyclone engines, must be earlier than we are able to obtain deliveries on propellers. We have contacted all propeller manufacturers and find that Hamilton-Standard can give us the best deliveries, but even these will not be early enough to meet our needs for the first three Hawks and the first three Falcons referred to above. Inasmuch as the entire contract is contingent upon our meeting the delivery requirements of the customer, we are exceedingly anxious to somehow make arrangements to obtain these propellers within the required time.

It would therefore be greatly appreciated if the Bureau of Aeronautics could arrange to loan us three each of the two types of propellers described above, upon our guarantee to replace them in the very near future. We would desire to take delivery on the two-bladed propellers within the next two weeks and will guarantee replacement of them by not later than the first week in April.

The three-bladed propellers will be needed before the middle of March, and we would guarantee replacement of them by the middle of April.

It is presumed that arrangements could be made to have the replacement propellers inspected by the Navy inspector at the Hamilton-Standard Co. as they are built.

The Bureau's kind consideration in arranging for the loan to us of the above six propellers will be sincerely appreciated.

Do you know whether that loan was ever consummated?

Mr. ALLARD. I think it was. I do not know whether we got all of the propellers, but I think we got some.

Mr. HISS. And the Hawks and Falcons to which they were to be attached are military planes?

Mr. ALLARD. That is correct.

Mr. HISS. Have you ever purchased surplus munitions from the United States War Department or United States Navy Department?

Mr. ALLARD. I do not know of any, but the record will show if we have.

Mr. HISS. Have you ever attempted to, or been interested in doing that?

Mr. ALLARD. If we had had a request from a customer for material known as surplus material, we probably have asked for quotations on it.

Mr. HISS. I offer as "Exhibit No. 430" a letter dated September 10, 1929, addressed to Hon. F. Trubee Davison, Assistant Secretary of War for Aeronautics, Washington, D.C.

(The letter referred to was marked "Exhibit No. 430", and is included in the appendix on p. 992.)

Mr. HISS. It does not appear who wrote this letter, "Exhibit No. 430", but it was found in the Washington file of your company. This letter requests that authority be granted by the War Department for the sale of the following material to the Curtiss-Aeroplane Export Corporation, it being understood the same is on hand in the Ordnance Department, to wit: 24 Lewis flexible machine guns, model 1918, 72 ammunition pans or magazines, 12 carriers for 6 magazines, 24 deflectors for shells for Lewis guns, 24 extension-charging handles, 2 fillers for magazines, 2 handles for magazine loading.

And similarly requested authority for the sale of the following equipment, which it is understood is available in the Air Corps, at Wilbur Wright Field, to wit: 12 Duplex Lewis mount type G-2, 12 double trigger control type H, 12 double gun brace type OA-259, 12 scarf ring mounts, 12 ring sights for flexible Lewis, 12 wind vane sights for flexible Lewis.

Mr. ALLARD. You will notice those Lewis guns were model 1918, and I imagine that is war surplus.

Mr. HISS. I offer as "Exhibit No. 431" a letter dated January 21, 1930, addressed to Mr. Burdette S. Wright, and signed F. Trubee Davison, Assistant Secretary of War.

(The letter referred to was marked "Exhibit No. 431", and is included in the appendix on p. 993.)

Mr. HISS. This letter shows that the previous letter, "Exhibit No. 430", was apparently written by Mr. Burdette S. Wright, and I now read from "Exhibit No. 431" as follows:

With reference to your letter of September 10, 1929, relative to the sale of certain Air Corps and ordnance material to the Curtiss Aeroplane Export



Corporation, it has been finally determined that the items listed are in excess of prospective War Department needs in the quantities enumerated.

Before the transaction is consummated, however, it will be necessary for you to obtain the approval of the State Department as to the exportation of the property in question for the purpose mentioned.

Do you know whether that approval was ever secured?

Mr. ALLARD. If the purchase was made, the approval was secured from the State Department, but I do not think it was ever sold.

Mr. HISS. I offer as "Exhibit No. 432" a letter dated October 30, 1930, from J. S. Allard to Burdette S. Wright.

(The letter referred to was marked "Exhibit No. 432", and is included in the appendix on p. 993.)

Mr. HISS. I read from "Exhibit No. 432", as follows:

Thanks for yours of the 29th on the above subject and also on the subject of how certain munitions of war can be declared surplus, and whether or not commercial firms can buy such equipment and resell it to foreign countries at a profit.

It would certainly be nice if it develops that we can buy bombs from the War Department and sell them again at a profit to an approved foreign government.

Do you know whether at present you can buy surplus material from the United States War Department?

Mr. ALLARD. I do not know.

Mr. HISS. Do you know, Mr. Webster?

Mr. WEBSTER. No, sir; I do not know.

Mr. HISS. Do you know whether you have bought any in recent months?

Mr. ALLARD. No.

Mr. HISS. Did you receive any official notice as to whether that was stopped?

Mr. ALLARD. I do not know that, but the record will show, I suppose.

Mr. HISS. I offer in evidence as "Exhibit No. 433" a letter dated April 11, 1933, from Burdette S. Wright, to Mr. C. W. Webster.

(The letter referred to was marked "Exhibit No. 433".)

Mr. HISS. I read the letter, "Exhibit No. 433", as follows:

Due to the establishments of military training for the unemployed, the Secretary of War has suspended all sales of surplus material by the War Department, as they are now short of equipment for this purpose.

It is not known just when this ban will be lifted, but we have been advised that possibly Silverman Brothers, 594 Broadway, New York City, might have some former surplus material on hand which they might sell to your friends.

Mr. HISS. Mr. Allard, I asked you a few minutes back whether you had been able to secure endorsements from Army or Navy officials of your products. I do not exactly remember what your reply was to that question. May I repeat it?

Mr. ALLARD. I think I said that I did not consider them endorsements. We receive statements from certain Army and Navy officials with reference either to the number or type of ship and engine in question, which have been purchased as to what their experience with them is.

Mr. HISS. There is no doubt that the prestige of the United States Army or Navy does carry weight, particularly in South American countries?

Mr. ALLARD. All over the world.

Mr. HISS. Therefore a letter of recommendation from the Army or Navy would be very helpful in making sales?

Mr. ALLARD. Any statement of fact.

Mr. HISS. Mr. Webster, in referring to any letter from the Army or Navy as to the value or quality of your products, you objected to reference to them as being recommendations, did you not?

Mr. WEBSTER. Yes, sir; I believe it is contrary to the policy of the Army or Navy to recommend. They simply state, "We are using this in service." They never recommend.

Mr. HISS. "Exhibit No. 434", Mr. Webster, is a letter which you wrote to Mr. Burdette S. Wright, on March 31, 1933.

(The letter referred to was marked "Exhibit No. 434" and is included in the appendix on p. 994.)

Mr. HISS. That letter in the last two paragraphs reads as follows:

We are also negotiation—

I guess that means negotiating—

for eight or ten Cyclone Falcons for the Argentine Navy to replace Vought "Corsairs" now in service.

The "Corsairs" are made by the United Aircraft group?

Mr. WEBSTER. Yes, sir.

Mr. HISS (continuing reading):

We are up against a serious obstacle in that the Falcon has never been in U.S. naval service, except the Marine Corps and the Argentine Navy will not accept equipment not having been used or specified by the U.S. Navy.

It is the desire of Captain Zar, Chief of Naval Aviation, to use the Falcon or any other suitable and capable Curtiss Wright plane in preference to United Aircraft equipment but we must provide him with all possible data and conversation in support of his ultimate selection of our material. Will you, therefore, kindly supply me as quickly as possible as much information as you can in support of this idea. For instance: How many Falcons were used by the Marine Corps officials to supplement our sales arguments?

Using your own language, Mr. Webster.

Mr. WEBSTER. Yes, sir.

Mr. HISS (continuing reading):

Also how many Falcons used by the Army and their written reaction as to their service and efficiency.

On April 6, 1933, a letter was sent by Mr. Burdette S. Wright addressed to the Secretary of the Navy, apparently in accordance with your letter of March 31, Mr. Webster, "Exhibit No. 434." That will be "Exhibit No. 435."

(The letter referred to was marked "Exhibit No. 435" and is included in the appendix on p. 995.)

Mr. HISS. That letter reads in part as follows:

In connection with possible sale of aircraft to South American countries, we have received a request that we obtain from the Navy Department and from the War Department a statement of the experience these two departments have had with the Curtiss Falcon type of airplane in service. The questions involved include:

- (a) The number of planes of this general type purchased to date.
- (b) The type of missions they have been engaged on such as observation, attack, and light bombing.
- (c) The experience with this type of construction from maintenance and overhaul standpoint.
- (d) Statements that the plane has been adopted as a service type and has rendered good service.

We would more than appreciate a short statement along the above lines which we could forward to our agents for them to use in connection with the possibility of obtaining contracts on this type of airplane.

Any assistance that the Navy Department can give us in this regard will be of great advantage.

"Exhibit No. 436" is a letter from Capt. A. B. Cook, Acting Chief of Bureau of Aeronautics of the Navy, to Mr. Wright, Mr. Burdette S. Wright.

(The letter referred to was marked "Exhibit No. 436" and is included in the appendix on p. 995.)

Mr. Hiss. The letter reads in part as follows [reading]:

The Secretary of the Navy has referred to this office your letter of April 6, and accordingly the following information is furnished—

And then follows a rather detailed statement on the use of Curtiss planes [reading]:

(a) Four OC-1's and 21 OC-2's were delivered between January and May 1928; there are at present seven of these operating with aircraft Squadrons WCEF, San Diego, Calif.

(b) Seven of these planes were used in Nicaragua from February 1928 to June 1931 on observation, ground attack, and light bombing missions; nine were used in China on observation missions; this type has been used in the United States for observation and attack training; individual planes of this type have been used for aerial photography.

(c) The following notes apply to the type of construction, maintenance, and overhaul:

(1) Trouble was experienced with the fuselage cross brace at the forward landing-gear fitting. This brace has to be reinforced with steel.

(2) The webs from the tail skid assembly all pulled out and had to be replaced with steel.

(3) The wing fittings in the center section had to be reinforced.

(4) After the above changes were made overhaul and maintenance conditions were excellent; many of these planes were flown 700 hours between overhauls; engines and parts needing attention were easily accessible.

(5) The following observations may be of interest:

(a) One plane which had been submerged in salt water for 36 hours was corroded so badly that it had to be surveyed.

(b) Longerons struck by bullets were shattered by the impact, there being considerable tearing around the bullet hole.

(c) These planes were originally designed to be powered by the D-12 water-cooled engine; when the P. & W. Wasp was installed a great deal of trouble was encountered with fixed gun fittings.

(d) This plane was used for several years as a Marine Corps observation plane and as such rendered excellent service. The long cruising range was a particularly advantageous characteristic.

Mr. Hiss. "Exhibit No. 437" is a letter which Mr. Webster wrote to Mr. Burdette S. Wright, referred to the letter just read, "Exhibit No. 436." The date of that letter is May 5, 1933.

(The letter referred to was marked "Exhibit No. 437" and is included in the appendix on p. 996.)

Mr. Hiss. Mr. Webster in that letter says in part as follows:

With further reference to the letter from the Navy Department (Capt. Cook) would it be possible to go back at the Bureau with the explanation that the letter requested was for the purpose of assisting us in competing against foreign aircraft manufacturers, especially the British, who are making a very definite effort to crash into the Argentine territory.

We have the inside track on this business and Captain Zar, chief of naval aviation, who was trained at Pensacola and who is anxious to see the Falcon installed in the Argentine Navy, is requesting us to supply him with something to back up his action should he be able to place this business with us.

This particular information regarding Zar, of course, is confidential and is intended for you, and should not be passed along to the Navy, but if the Bureau could reword their letter eliminating the objectional features, it would serve our purpose.

Objectionable features, is meant, I guess.

Using their present letter as a basis, the following suggestion taken from Capt. Cook's own letter would help us a great deal. Please bear in mind and impress upon the Bureau that it has been the policy of the Argentine Navy to use only such ships as are standard or have been used by the navies of the countries from which they purchase.

You then quote a proposed letter for the Bureau to write as follows:

The Secretary of the Navy has referred to this office your letter of April 6, and accordingly the following information is furnished:

Curtiss Falcons have been used since 1928 in Nicaragua and China observation, ground attack, and light bombing missions and in the United States for ground attack and observation training and aerial photography. After a few changes made in the early types, overhaul and maintenance conditions were excellent, many of the planes having flown 700 hours between overhauls.

Mr. Webster, I call your attention to the fact that "Exhibit No. 436", Captain Cook's letter to Burdette S. Wright, on which you say you based this proposed reply lists "observation, ground attack, and light bombing missions" in Nicaragua but not China, where it refers only to observation missions. In the proposed letter which you sent to Mr. Wright you have changed that so that you suggest that the Navy say that the—

Curtiss Falcons have been used since 1928 in Nicaragua and China on observation, ground attack, and light bombing missions \* \* \*.

Mr. WEBSTER. I think that is probably a typographical error, but it does not make any difference.

Mr. HISS. I do not believe there has been any attack work in China.

Mr. WEBSTER. It is just an error.

Mr. HISS. You will note also that you say, "After a few changes made in the early types", and the wording of the Navy was, "After the above changes were made"; and there is no reference to early types.

Mr. WEBSTER. Yes, sir.

Mr. HISS. You further state in the letter to Mr. Wright [reading]:

It is highly important that we get such a letter and it seems to us that the Navy would be perfectly justified in writing such a letter to assist us in overcoming foreign competition and establishing American aircraft in Argentine naval service.

"Exhibit No. 438" is a letter from E. J. King, rear admiral, United States Navy, and Chief of the Bureau of Aeronautics, addressed to Mr. Burdette S. Wright, under date of June 28, 1933, which is after your letter, "Exhibit No. 437."

(The letter referred to was marked "Exhibit 438".)

Mr. HISS. That letter states [reading]:

MY DEAR MR. WRIGHT: The Secretary of the Navy has referred to this office your letter of April 6th, and accordingly the following information is furnished: Curtiss Falcons have been used since 1928 in Nicaragua and China on observation, ground attack, and light bombing missions,—

The Navy made the same typographical error you made, Mr. Webster.

Mr. WEBSTER. Yes, sir; I probably went off on that.

Mr. Hiss (continuing reading):

and in the United States for ground attack and observation training and aerial photography. After a few changes in the early types—

the Navy was adopting your language instead of saying "After the above changes—"

[Reading]:

overhaul and maintenance conditions were excellent, many of the planes having flown 700 hours between overhauls.

That is signed "E. J. King."

That is identical with the language which you proposed?

Mr. WEBSTER. Yes, sir.

Mr. Hiss. "Exhibit No. 439" is a letter from Burdette S. Wright to Mr. Webster, under date of June 29, 1933.

(The letter referred to was marked "Exhibit No. 439".)

Mr. Hiss. That letter reads as follows:

I am very sorry that it took us so long to get a new letter for you from the Navy on the services of Curtiss Falcons.

Attached hereto is a new letter which states the Navy's success with these airplanes in the manner which you desire.

Would you not say, Mr. Webster, that that did constitute a letter of recommendation actually written by your company for the Navy simply to adopt?

Mr. WEBSTER. Yes; it might possibly be considered as a letter of recommendation.

Mr. Hiss. "Exhibit No. 440" is a letter of February 5, 1932, from Mr. Burdette S. Wright to Mr. Allard.

(The letter referred to was marked "Exhibit No. 440" and is included in the appendix on p. 997.)

Mr. Hiss. That letter reads in part as follows:

I am attaching hereto a letter signed by Admiral Moffett replying to my letter in which I requested information on the O2C-1 airplanes in connection with our interest in selling to the Dominican Republic.

This is not a very elaborate statement, but represents what was finally decided upon after they had written two or three different samples. This can be used as an official letter in connection with the Export Co.'s efforts to sell to the Dominican Republic.

Admiral Moffett's letter, "Exhibit No. 441" does not bear date, being on the letterhead of the Navy Department, Bureau of Aeronautics, and being addressed to the Curtiss Aeroplane & Motor Co. That is the aeroplane company in Buffalo?

Mr. ALLARD. Right.

(The letter referred to was marked "Exhibit No. 441".)

Mr. Hiss. "Exhibit No. 441" reads as follows:

In reply to your letter of recent date you are advised that about eighty of your model O2C-1 airplanes are being used as observation planes in the Marine Corps and in the training of aviators in the Naval Reserve Force.

I am pleased to be able to inform you that favorable reports have been received from the foregoing activities concerning the service utility of this model.

In regard to the policy of restriction, can you remember any time when not only have you been successful in securing release of restriction to the extent indicated by the evidence, but when you have actually asked the Navy to impose a restriction because it was con-

venient to your business interest, and so have used the restriction to your aid rather than to your hindrance?

Mr. ALLARD. I do not recall off-hand.

Mr. Hiss. May I call your attention to a letter of July 19, 1933, which will be "Exhibit No. 442", which is a letter to Mr. Earle from Mr. Hewlett, with a copy to Mr. Goulding?

(The letter referred to was marked "Exhibit No. 442" and is included in the appendix on p. 997.)

Mr. Hiss. That letter reads in part as follows:

At the present time there is stationed at Consolidated Aircraft, inspecting some trainers which are being built for Mexico, a Capt. David Chagoya Rodriguez of the Mexican Air Corps, who has requested permission to visit our plant at the earliest possible opportunity. Captain Chagoya is not particularly interested in anything outside of training activities, however, in view of the fact that the Mexican Government at this time has under consideration the purchase of a number of Pursuit airplanes, on which the Export Company has been negotiating and the further fact that he is interested in our Hawks I believe a special effort should be made to secure permission for this visit.

In the above connection, you will recall that we were turned down by the Naval Intelligence Division and the U.S. Air Corps some time ago due to a letter which we had written—

That is the company—

reflecting upon the fact that we had on our production floor, certain Army and Navy experimental jobs, which we did not consider it desirable for foreigners to view. However, since that time these experimental jobs have all been removed within the experimental department, with the exception of the A-12 production job and this has not proceeded to the point that, within the next 15 days, there should be any objection by the Air Corps for anyone to see same, as practically all the parts built up are in detail and are located in our feeder shops and in reality no one could see anything worth while or of such interest to allow them to copy. At the time we wrote this letter, you recall,—

That must be the letter on which the Navy and the Air Corps based their refusal—

Mr. ALLARD. Yes, sir.

Mr. Hiss. (continuing reading):

that same was considered desirable inasmuch as certain Japanese officers desired to visit the plant and we were building numerous planes for the Chinese.

Then the next to the last paragraph reads as follows:

However, recently we have secured permission from our Government allowing General Chang Hung Wan of the Chinese Army to visit our plant which permission was signed by Lt. Col. Nelsen and we therefore feel that by regulated contact you can, without doubt, secure permission for this Mexican.

In view of the condition that he is interested in making an immediate trip to the plant it would be appreciated if you will advise me by wire as to the results of your contact with the Intelligence bureau.

In other cases you have been able to secure permission for foreign buyers to inspect planes in production at your plant, with a fair degree of regularity, have you not, when you so desired it, Mr. Allard?

Mr. ALLARD. I think when it met with the policies of the Government we have always been able to get that done. A great many of them have been turned down.

Mr. Hiss. "Exhibit No. 443" is a letter from Mr. J. A. B. Smith to Mr. B. S. Wright, dated January 29, 1932.

(The letter referred to was marked "Exhibit No. 443" and is included in the appendix on p. 998.)

Mr. Hiss. That letter reads in full as follows:

I understand from Mr. Webster that two Argentine Navy officers are being sent to this country to look over aviation materials and that we were named by the Navy Intelligence to have a Navy officer designated to accompany them to this country.

If you will look into this and let me know the name of some Navy flyer who is friendly to our equipment and who would be acceptable to the Bureau of Aeronautics, I think I can get Captain Ellis, who is head of the Navy Intelligence, to ask for the particular officer whom you might pick out.

In the memorandum to Mr. Morgan, which is "Exhibit No. 397", already introduced in evidence, the memorandum being dated June 19, 1934, written after the present investigation of this committee began, there is a statement which reads as follows:

The greater the number of countries purchasing our airplanes and engines, the greater our knowledge of the potentiality of their air force. Our pilots, mechanics, and salesmen procure very valuable knowledge of flying conditions, terrain, available landing fields in foreign countries, which would be of great military value in case of an emergency.

Is it not true, Mr. Allard, that it is very important for your company to maintain, and that your company does have, as a seller of military equipment, a confidential relationship with your foreign customers?

Mr. ALLARD. Just how do you mean, Mr. Hiss?

Mr. Hiss. Do you not consider that military strength and military secrets are of a confidential nature, and if your company should learn of any of them in the course of its business, it would want to retain and not disclose the information, on the ground that it was confidential. Is not that correct?

Mr. ALLARD. Yes; certainly.

Mr. Hiss. Therefore, this statement in the memorandum to Mr. Morgan, which we understood Mr. Morgan discussed with President Roosevelt—

The greater the number of countries purchasing our airplanes and engines, the greater our knowledge of the potentiality of their air force. Our pilots, mechanics, and salesmen procure very valuable knowledge of flying conditions, terrain, available landing fields in foreign countries, which would be of great military value in case of an emergency—

is rather an exaggerated statement? You would regard such information as confidential and would not turn it over to the United States Government?

Mr. ALLARD. Certainly not. That states that the pilots, mechanics, and salesmen gather this information for themselves, and I certainly would not hesitate to turn over to my Government here any information that it wanted, that I thought would be of any value to them. That is why I joined the Army.

The CHAIRMAN. Would you volunteer the information?

Mr. ALLARD. To the Army?

The CHAIRMAN. Yes, sir.

Mr. ALLARD. Yes, sir; confidentially, certainly. I think it is a duty, a patriotic duty.

Mr. Hiss. Now I call your attention, in this connection, to "Exhibit No. 444", being a letter under date of May 24, 1934, that is

this past May, from Mr. Robert L. Earle to you, Mr. Allard, with a copy to Mr. Hewlett.

(The letter referred to was marked "Exhibit No. 444" and is included in the appendix on p. 999.)

Mr. Hiss. That letter reads as follows:

When talking to Capt. Kenney, the working Air Corps representative on the Joint Aeronautical Board, today, he said that, while we do not have to do it, he thought as a matter of courtesy we should submit copies of all contracts and agreements with foreign governments to the Joint Aeronautical Board in order that they might know that the interests of the United States Government were being safeguarded, insofar as concerned military secrets. He said that this would help a lot when they were considering whether or not they should permit foreigners to visit our plants, in that if they knew we had a contract or agreement with the government represented it would expedite and possibly insure favorable action.

We told Capt. Kenney we knew nothing about our practice in matters of this kind but would be glad to forward his suggestions to you. The matter was called to Capt. Kenney's mind when talking about a couple of Rumanian inspectors and he would also like to know if we have a contract or an agreement with that country.

"Exhibit No. 445" is a letter of June 25, 1934, last June, from you, Mr. Allard, to Mr. Robert L. Earle.

(The letter referred to was marked "Exhibit No. 445" and is included in the appendix on p. 999.)

Mr. Hiss. That letter reads in part as follows [reading]:

I have delayed answering your letter of May 24th on the subject above mentioned—OC-712—as I wanted to check into the matter very carefully. It is my opinion that our business does not permit of our furnishing copies of contracts and agreements with foreign governments. As a matter of fact, many times our business is done without any written contract or agreement. However, as you know, the interests of the U.S. Government are very well safeguarded as we do not sell at export any equipment not released by the U.S. Government services.

But you have had very little difficulty in securing release of Government planes. Do you agree to that?

Mr. ALLARD. How?

Mr. HISS. I say, you have not had much difficulty in getting Government models released for export, have you?

Mr. ALLARD. When one was ready to be released.

Mr. HISS. The letter states further as follows [reading]:

I shall be very happy to show the Joint Aeronautical Board, at any time, just what business we have done in the past, which will bear this out, but it must be borne in mind that our business with foreign governments is strictly confidential as it is obvious that one government is not interested in having other governments know all of the details of the business.

Mr. ALLARD. That is true.

Mr. HISS. Is it not also true, Mr. Allard, that in order to meet foreign competition your company is continually urging the Navy and the Air Corps to release their latest developments?

Mr. ALLARD. Certainly.

Mr. HISS. So that you can sell them abroad?

Mr. ALLARD. Certainly.

Mr. HISS. But you have been careful when you may have released information that the Army and Navy had specifically authorized its release?

Mr. ALLARD. Information?

Mr. HISS. With respect to development of planes or engines.



Mr. ALLARD. Yes, sir.

Mr. HISS. May I call your attention to a letter of March 14, 1931, "Exhibit No. 446", from Mr. Robert P. Farnsworth to Mr. C. W. Webster.

(The letter referred to was marked "Exhibit No. 446" and is included in the appendix on p. 1000.)

Mr. HISS. That letter reads [reading]:

DEAR WEB: I have been able to secure for you "G-1", "G-2", "G-3", and "G-4" plans for the Air Corps exercises of 1931. This information is definitely not for publication, was secured by me in the face of a definite order prohibiting its issuance, and I beg you to be very careful in the manner in which you give this information to Merino.

He was then a Chilean aviation official?

Mr. WEBSTER. Yes, sir.

Mr. HISS. Mr. Farnsworth in this letter continues [reading]:

There are no particular military secrets contained therein and I know that if there were the War Department would not object to Chile's knowing them, but the point is they would prefer to give this to Chile themselves rather than through another agency such as us. Please keep tight hold on these four pamphlets and bring them back with you when you return.

Mr. WEBSTER. They were given to them by the United States Government.

Mr. HISS. For this use?

Mr. WEBSTER. Yes, sir; during the public maneuvers here.

Mr. HISS. These were given to Mr. Farnsworth by the United States Government?

Mr. WEBSTER. No; given to Chile.

Mr. HISS. At the time Mr. Farnsworth had given you these, which you had apparently requested, the United States Government had not given them to Chile?

Mr. ALLARD. No; but they were definitely not released for press publication. It was the itinerary.

Mr. WEBSTER. That means press publication and not turning over to Chile.

Mr. HISS. He says:

This information is definitely not for publication, was secured by me in the face of a definite order prohibiting its issuance, \* \* \*.

Mr. ALLARD. I think he means its press issuance.

Mr. HISS. You do not think that means its issuance to him?

Mr. ALLARD. No, sir; not to Farnsworth.

Mr. WEBSTER. That is newspaper publication.

Mr. HISS. I think the letter speaks for itself.

On August 24, 1933, "Exhibit No. 447", Mr. Allard, you wrote a letter to Mr. Leighton in Europe.

(The letter referred to was marked "Exhibit No. 447" and is included in the appendix on p. 1000.)

Mr. HISS. This is a long letter and over on page 5, at the top of the page, you state:

On my way back from the west coast, I stopped at Buffalo and spent about 3 hours with Burdette Wright. Ted was out.

That is Ted Wright?

Mr. ALLARD. Yes.

Mr. Hiss (continuing reading):

We discussed how to get the information to you in view of the American Government's present very rigid attitude on the release of information on new and experimental aircraft. There is a new espionage act in the United States which has caused the Army and Navy to become all the more definite and determined in preventing information from getting out on these planes. We can't give out any information on the YO-40, the A-12, the F11C-3, or the F11C-1. I know how important it is to you that you have information on the results of tests on these ships so that you can quote on a Turkish plane of high performance. Our position with both the Army and Navy is such that we are not justified in pushing them any further. It is downright dangerous; and I don't think it would do any good, and it might do some harm, for you to go direct to Admiral King or anybody else.

As I said in a previous letter to you, I believe you can read through ambiguous remarks, so here goes. *Janes All the Worlds Aircraft* has published some data on the YO-40.

That is other than the ones as referred to by you?

Mr. ALLARD. Correct.

Mr. Hiss (continuing reading):

Information already published on the A-8 is pretty good, and you know what a different motor installation might do. I have already told you how much retractable undercarriage adds to airplane performance. A 14-cylinder motor for small planes of around 200 m.p.h. can be expected to improve performance from 3 to 6 miles per hour, as compared with equivalent horsepower from a Cyclone. When you get back from this trip you will have a better idea of what you will require in the future under similar circumstances, and I think we can load up your mind and our inside vest pocket with enough dope so that the situations can be handled. They are doing everything possible in Buffalo to complete flight tests on the demonstrator Hawk with 4-barrel carburetor—

At that time the 4-barrel carburetor could not be released for export?

Mr. ALLARD. Yes, sir; it could. It was on commercial planes. It is on all the Douglas planes.<sup>1</sup>

Mr. Hiss (continuing reading):

but there was a hitch in the program due to the Navy's borrowing the only 4-barrel we had, and we are just receiving from Wright a replacement. On the Douglas transport the use of the 4-barrel carburetor as compared to the 2-barrel added about 30 horsepower per motor. Every new single-motored or bi-motored transport I have seen recently has retractable landing gear and controllable pitch propellers, which I am told add from 3 to 10 miles per hour to the top speed.

Mr. HISS. This retractable landing gear was a new development?

Mr. ALLARD. No; not particularly new. It was a recent development.

Mr. HISS. And the controllable pitch propellers were new?

Mr. ALLARD. Yes, sir; but released for export.

Mr. HISS. Then you state [reading]:

Do you get it? It's almost like a code.

In the original letter that appears in capitals.

Mr. ALLARD. That is correct.

Mr. HISS. What did you mean by that, Mr. Allard?

Mr. ALLARD. I will explain the whole two paragraphs, if I may. It was definitely our policy not to release any information, and I

<sup>1</sup>("Exhibit Nos. 449 A to E, inclusive", in reference to above were introduced in hearings of Sept. 17 (see part VI), and are included in the appendix of this volume on pp. 1010, 1011, and 1012.)

refused to do it, to Mr. Leighton, on the ships which are specified in my letter. I had just returned from Turkey myself and Leighton had replaced me over there, and I knew what Leighton was up against, and he was asking for the information on these airplanes, if such information had been released by the Army and Navy, so that he could take as an engineer and aeronautical man and compute what performance he could give the Turkish Government on the then existing type of aircraft they had in service over what we had sold them some 2 years previously.

I knew that he did not need the information which he was asking for. I knew what information he needed and proceeded to give it to him. That information, for example, was on the Hawk airplane, of which Turkey had 24. He wanted to add a retractable landing gear, which anybody could do. That was published, and those retractable landing gears were used on all airplanes. Practically all commercial airplanes have them.

He wanted to know what the performance was on the F11C-3 airplane, because among other features it had a retractable landing gear.

I gave him the information that a retractable undercarriage would add 3 to 10 miles per hour to the performance of the airplane, which would have stepped up the performance of the Turkish Hawks by 3 to 10 miles per hour. I did not give him any information on the construction or type, details of general performance characteristics on the F11C-3 or the F11C-1, which he was asking for.

On this YO-40, that was published, which I stated here in the letter, in Janes All the World Aircraft, the information released by the Air Corps, which was public, and the same thing with the A-8, a liquid-cooled engine. He wanted to know the difference in performance between an airplane equipped with a liquid-cooled engine, which was the Falcon, which at that time we were trying to sell Turkey, but they wanted an air-cooled engine in the airplane, because there were air-cooled engines throughout in the Hawks which they purchased from us.

So that I gave the information I stated, and he already knew what an air-cooled different engine installation would do to an airplane, and in dictating this, as one officer to another officer in a company, in a jocular way, I said, "It's almost like a code" and "Do you get it?" It was a perfectly innocent remark or a normal statement in talking to Leighton. There was absolutely no information given in this in any way, shape, or manner. No engineer, no pilot—I have been flying for 17 years myself and it is impossible to get the performance on any of the airplanes on which information was not already released by the Air Corps from that paragraph of my letter.

**MR. RAUSHENBUSH.** Mr. Allard, why did you not simply tell him how many miles per hour the plane could do with all those changes?

**MR. ALLARD.** Because I did not know what other characteristics he was going to have to combat in Turkey. That is, whether they wanted changes in gas tanks or other items. I was telling him that with a retractable landing gear, which could be put on the airplane, that he would add 3 to 10 miles per hour.

**MR. HISS.** One other line of inquiry, Mr. Allard, which I would like to take up in this connection: Has the art of dive bombing been

a fairly recent development on the part of the United States Army and the United States Navy?

Mr. ALLARD. I do not think so. I think that is referred to in those letters of Admiral King and Admiral Moffett.

Mr. HISS. I do not think so.

Mr. ALLARD. Dive bombing?

Mr. HISS. We will look back.

Mr. ALLARD. I do not know. It goes back to the Hell Diver airplane, around which the moving picture was made several years ago.

Mr. HISS. Here is Admiral Moffett's letter, "Exhibit No. 441" [handing paper to witness].

Mr. ALLARD. I think it was Admiral King's letter.

Mr. HISS. You mean the one which was written after Mr. Webster's?

Mr. ALLARD. The one which was written before or after.

Mr. HISS. There is Cook's letter and there is King's letter [handing papers to witness]. Not dive bombing.

Mr. ALLARD. Not dive bombing.

Mr. HISS. Has the Navy permitted dive-bombing tactics to be sent abroad by American aviation companies who happened to be familiar with those tactics?

Mr. ALLARD. I do not know.

Mr. HISS. "Exhibit No. 448" is a letter dated October 8, 1932, from Mr. Robert L. Earle to Mr. A. B. Carrington, of the Export Co.

(The letter referred to was marked "Exhibit No. 448", and is included in the appendix on p. 1004.)

Mr. HISS. That letter reads in part as follows [reading]:

It will not be possible to offer any dissertation in detail on the method employed by the Navy in dive bombing for, as we have advised the Export Company before, the Navy considers this information as confidential and will not permit it to be passed out. The following statement, however, may serve your purposes:

"Single-seater and two-seater airplanes in use by the U.S. Army and Navy are not constructed to enable bomb sights to be used for the dropping of bombs while in horizontal flight. It is impossible to locate such a sight where a pilot or his gunner could effectively employ this instrument with the needed degree of accuracy. For this reason, such sights are used only in large, slower airplanes especially constructed for this type of bombing.

"Both branches of the American service have found that greater accuracy can be obtained in the placing of bombs of comparatively small size such as used with single-seater and two-seater airplanes by the releasing of these bombs while in a dive. In the dropping of bombs in this method the pilot uses the same sight which he employs in connection with fixed guns. He simply aims the airplane itself at the target, drops his bomb or bombs while the airplane is in a dive, then pulls out and resumes normal flying. It is for this reason that airplanes constructed for the U.S. Army and Navy are built to withstand considerable diving but do not make provision for the installation of bomb sights of the type used in horizontal bombing."

Mr. Earle further says:

The above is simply my own statement of the bombing methods employed but I hope it will suit your purposes.

That was in 1932.

Mr. ALLARD. Yes, sir.

Mr. HISS. Were the officials of the Export Co. in Europe advised at that time that the details of dive bombing should not be made public?

Mr. ALLARD. I do not think they were advised that, unless the question came up for some specific purpose.

Mr. Hiss. On January 18, 1934, Mr. Allard, you wrote a letter to Mr. Leighton, which will be marked "Exhibit No. 449."

(The letter referred to was marked "Exhibit No. 449" and is included in the appendix on p. 1005.)

Mr. Hiss. On page 2 of that letter, the third paragraph, you state as follows [reading]:

On the subject of dive bombing,—

This was written January 1934, whereas Mr. Earle's letter was 1932.

Mr. ALLARD. Yes, sir.

Mr. Hiss (reading):

On the subject of dive bombing which you refer to in your letter of December 12th, and which is apparent in copies of your proposals to the Government on new business, this is a matter that is most delicate by nature. You refer specifically in your protocol to the Ministry of Defense on the Kayseri factory project, under the heading "Test Flights of the Planes," page 6, as follows: "Diving bomb tests will be included this time in the official tests." We have been nosing around in the Bureau in Washington, discreetly, and find that they hold as most strictly confidential their dive-bombing tactics and procedure, and they frown upon our even mentioning dive bombing in connection with the Hawks or any other airplane to any foreign powers. It is absolutely unwise and unethical at this time, and probably for some time to come, for us to indicate in any way that we know anything about the technique and tactics of dive bombing and to include such tests in official tests, or to have any pilot demonstrate or instruct in dive bombing, would be just about the worst thing that could be done at this time. I can see no objection to your referring to dive bombing in conversation, but you should plead absolute ignorance as to the technique employed or why or how we can use dive bombing in our services here. If any Navy officials, or any of the Navy officers now located in Turkey, or who might visit there, or replace the present officers, should get hold of any proposal from us in which we refer to dive bombing, it would snap right back to Washington and I am afraid it would seriously react against our Navy relations which are too good now here to upset in any way. I know you can appreciate this and I also know that you will take the necessary steps to remove from present negotiations any reference to dive bombing, and keep the mention of them out of any formal contracts or even proposals. *I cannot stress the importance of this too much.*

I realize that you are fighting against European competition that seems to have airplanes that are a little faster than ours. However, I know that you also know of all the sales arguments against the extra speed and, particularly, how they obtain it in foreign equipment. It is done at a definite sacrifice on the life of the engine and, probably, the airplane; it is done at a sacrifice of maneuverability and military load; and if those features in the Hawk do not offset a few kilometers difference in speed, plus the fact that the ship will withstand power dives of high velocity and stand a punishing to which this type has been subject for years in our services at home, I do not know how you can compete.

It may be all right for Bob—

That is Farnsworth?

Mr. ALLARD. Yes.

Mr. Hiss (continuing reading):

To put on a dive bombing show to show the strength of the airplanes, but to refer in contract to dive bombing, or endeavor to teach dive bombing, is what I am cautioning against doing.

Senator BONE. Mr. Allard, can you tell us what percentage of your Curtiss-Wright business, in dollars and cents, is done with the United States Government, in both military planes and those used in other services?

Mr. ALLARD. I cannot off-hand. The records have been furnished the committee, and have been gone into this morning.

Senator BONE. Do the studies which were put in the record indicate what percentage of the business, in dollars and cents, has been done with other governments?

Mr. ALLARD. Exports? Yes, sir.

The CHAIRMAN. Off-hand, what percentage of your total business is with the United States Government?

Mr. ALLARD. I think it was about 66 $\frac{2}{3}$  percent.

Mr. HISS. About two thirds.

Mr. ALLARD. Yes, sir.

Mr. HISS. And of the other business, the majority in recent years has been foreign sales, of which the majority has been with foreign governments. Is not that correct?

Mr. ALLARD. Yes, sir; by far.

The CHAIRMAN. Mr. Allard, do you know Major Doolittle very well?

Mr. ALLARD. Yes, sir; I served with him during the war.

The CHAIRMAN. What position does he occupy? Do you know?

Mr. ALLARD. Yes, sir; he is manager of the aviation department of the Shell Oil Co., headquartering in St. Louis.

The CHAIRMAN. Is he in any way connected with the procurement division of the Army at Chicago?

Mr. ALLARD. Not to my knowledge. I do not know, sir.

Mr. HISS. Mr. Allard, do you know how many officials of your company are former Army or Navy officers, or have been in the Army Reserve Corps or the Naval Reserve?

Mr. ALLARD. I do not know how many, but it could easily be found out. We can get that.

Mr. HISS. You yourself served as a pilot?

Mr. ALLARD. Correct, during the war.

Mr. HISS. And Captain Travis was a former Army pilot, was he not?

Mr. ALLARD. So I understand.

Mr. HISS. And Major Doolittle was helpful in demonstrating. Major Melvin Hall, formerly with your company, was an Army aviator during the war, was he not?

Mr. ALLARD. I understand he was aide to General Mitchell during the war.

Mr. HISS. Captain S. C. Coon, who was at the Turkish factory at one time, was a former Army or Navy man?

Mr. ALLARD. I know he was an Army man during the war.

Mr. HISS. Mr. Theodore Wright was a former Army man or Navy man, was he?

Mr. ALLARD. I do not know, but I can find out easily.

Mr. HISS. Mr. Leighton was a former lieutenant commander, was he not?

Mr. ALLARD. Of the Navy.

Mr. HISS. Mr. Chapline of Wright Aeronautical was a former Army officer?

Mr. ALLARD. No, Navy officer.

Mr. HISS. In the hearings before the Subcommittee on Aeronautics of the Committee on Naval Affairs of the House of Repre-

sentatives, at page 600, there is a list of men who are now employed by aviation companies who were formerly in the United States Navy.

Referring to the Eclipse Co., which is a part of the General Motors group, we find Lt. Comdr. C. H. Havil; and Lt. Jens Soucek.

General Aviation had Lt. C. H. Schildhauer.

Could you furnish the committee with a list of all the officers, former Navy or Army officers, including Reserve Corps, of both the Army and Navy, that is, in any capacity in the Army or Navy, who are now with the company and what their duties are?<sup>1</sup>

Mr. ALLARD. Take the officer and employee list of the company at the present time?

Mr. HISS. Yes, sir.

Senator BONE. Do you consider that your company is an enterprising one?

Mr. ALLARD. I hope so, yes, sir.

Senator BONE. And that it is applying to aviation the very latest features of aerial navigation?

Mr. ALLARD. I should say so, yes, sir.

Senator BONE. Is there any doubt in your mind as to that?

Mr. ALLARD. Not as a pilot.

Senator BONE. From the mechanical side, do you think your company and other aviation concerns in this country are applying the very latest principles?

Mr. ALLARD. I certainly do.

Senator BONE. I take it your company and other companies have research work going on all the time?

Mr. ALLARD. Yes, sir.

Senator BONE. So that you are attempting to keep abreast of all the changes made?

Mr. ALLARD. We are attempting to keep abreast of all the changes made.

Senator BONE. And that information is made available to the Government?

Mr. ALLARD. Yes, sir.

Senator BONE. Would you say that the United States Government, then, has the very latest word in efficiency of planes that it is building and will build?

Mr. ALLARD. At the present time and under present conditions of appropriation and so forth, yes, sir.

Mr. HISS. Mr. Allard, in the memorandum previously referred to and marked "Exhibit No. 397", the memorandum of June 19, 1934, from Mr. Albert I. Lodwick, who was an employee of the parent corporation—

Mr. ALLARD. Yes, sir.

Mr. HISS (continuing). To Mr. Thomas A. Morgan, the president of the Curtiss-Wright parent company, who was also the president of the Aeronautical Chamber of Commerce—

Mr. ALLARD. Yes, sir.

Mr. HISS. And who, according to the records of the Army Ordnance Association is or has been a member of the executive committee of the St. Louis post of that association—on the last page of

<sup>1</sup> The above-requested list was furnished to the committee by Mr. Allard and is included in the appendix on p. 1013.

this memorandum, which one of our investigators is informed was discussed by Mr. Morgan with President Roosevelt in June, after this committee was formed, the following appears:

Congressional investigations, embargoes, pacifistic talk, and propaganda will doubtless cause some of our present customers to buy abroad due to the uncertainty of delivery and the uncertainty of obtaining spare parts in the future. The greater the volume of aviation business in this country, the better our national defense.

Your company does not look upon embargoes or peace talk or congressional investigations with favor?

Mr. ALLARD. Yes, certainly. If all the powers in the world will join in them; but there is no good for us to put on an embargo or talk peace and let this business go to foreign competitors and give them the business.

Senator BONE. How do you suppose that the world could arrive at a state of mind where it can begin to discuss peace, unless peace is talked?

Mr. ALLARD. It has been talked for centuries, has it not, Senator?

Senator BONE. Would your company suppress all discussions on the desirability of peace?

Mr. ALLARD. No; I do not think that I am in a position to say what my company would think of a subject as great as that now.

Senator BONE. There was some reference during the course of the hearing to "fomenting peace", and I believe you made some observations upon that.

Mr. ALLARD. Yes, sir.

Senator BONE. How would you, Mr. Allard, find a way to bring about a different attitude of mind among the nations of the earth except by talking peace? Could you suggest any other way?

Mr. ALLARD. No; I do not think so.

Senator BONE. It is part of our duty to inquire into the whole picture, and I am wondering if you can suggest any way by which the world can finally get rid of some of the things which confront us except by discussing the desirability of peace.

Mr. ALLARD. That has gone on for centuries, has it not, for a great many years?

Senator BONE. I understand, and murder has gone on for centuries, but we still have laws with respect to it, and larceny has gone on for centuries, but we still have laws with respect to it. We do not find ourselves confronted with a sense of frustration in dealing with these things, but still continue the laws on the statute books.

Mr. ALLARD. Certainly.

Senator BONE. Would you suggest that we abandon all efforts to have peace?

Mr. ALLARD. Oh, no; obviously not.

Senator BONE. To what extent would you suppress that sort of thing? I do not mean that in an odious sense, but I mean to turn it down.

Mr. ALLARD. I think, Senator, that it is entirely too great a subject for me. It is beyond my comprehension to give any solution to it. The great world powers have been trying for years to get a solution to this problem, and I certainly am not equipped to give any judgment on it now. I wish I could.



The CHAIRMAN. How seriously do you feel that the great world powers have undertaken this task?

Mr. ALLARD. I only hope that they have, Mr. Chairman. I would not have any way of knowing how seriously they do it. I am not close enough to the powers to know.

Senator BONE. I take it that you, as a private citizen and as a business man, would not want to see the world engaged in another such thing as occurred between 1914 and 1918?

Mr. ALLARD. I certainly would not.

Senator BONE. What do you think might happen to western civilization in the event another conflict of that kind ensued, considering the financial and economic conditions we have in the world today?

Mr. ALLARD. I would not care to see that happen, Senator.

Senator BONE. We are not asking you to deliver a lecture or anything of the kind.

Mr. ALLARD. I hope not.

Senator BONE. But what do you think might happen to western civilization in the event that the world got embroiled in another conflict of that kind?

Mr. ALLARD. Frankly, I do not know. I do not think any one could forecast what happened to us prior to the war. I certainly know I did not have any idea what would happen. I would not attempt to guess.

Senator BONE. Were you astounded by what did happen?

Mr. ALLARD. Probably I was a little too young to be astounded by it at the time, sir.

The CHAIRMAN. Do you think the world could stand another conflict of that kind?

Mr. ALLARD. I do not know.

The CHAIRMAN. There is a doubt in your mind, is there not, and you are wondering, as others of us are, whether the world could withstand another conflict like that of 15 years ago?

Mr. ALLARD. Yes, sir; that is correct.

Senator BONE. You would be fearful of the economic and political changes that would be brought about by a war of that kind?

Mr. ALLARD. Yes; probably.

Senator BONE. Why do you not say it would be? You say it would probably be.

Mr. ALLARD. I do not know that that is the only thing I would be fearful of. There are a lot of other things besides political and economic things to consider in a world conflict. I do not know what would happen. I do not know what this world would look like.

Senator POPE. Do you think the activities of the munitions makers, such as disclosed here, with the assistance of Government officials in Europe, and even in America, are promoting peace or a peaceful attitude among the nations?

Mr. ALLARD. I do not think it is hurting peace, Senator, until all the world powers get together and establish some definite basis of world peace. They have been talking of it for years, but the mere sale of munitions or aircraft by us or anybody else is not detracting from the possibility of peace.

Senator POPE. Do you think that all the facts which have been brought out at this hearing, as to the intrigue indulged in, particularly by the European countries, in South America and in Europe, is having no effect at all, so far as promoting a peaceful attitude in the world is concerned?

Mr. ALLARD. Not unless all the powers of the world get together and stop it. One stopping it is not going to answer the problem.

The CHAIRMAN. Mr. Allard, if I am not mistaken, it was Lord Cecil, who has been in pretty constant attendance upon these disarmament conferences and peace conclaves, who declared that a very ominous factor entering into all the negotiations had been the influence of the munitions makers the world over. Now, that being the case, are you not ready to concede that the munition makers perhaps are taking a larger hand in opposition to understandings than we might wish to have?

Mr. ALLARD. I do not think I can answer that, Senator.

The CHAIRMAN. Perhaps I should not expect you to.

Mr. ALLARD. I would have to think it over.

The CHAIRMAN. But the attitude, such as I attributed to Lord Cecil, is an attitude not at all unlike that our own American emissaries bring back as being things standing in the way of understandings.

Gentlemen, you will understand yourselves to be excused, and the committee will reconvene at 2:15 o'clock.

(Witnesses excused.)

(Thereupon, at 1:20 p.m., the committee took a recess until 2:15 p.m.)

This concludes the record of the Curtiss-Wright Export Corporation. The committee at this point took up the case of the E. I. du Pont de Nemours & Co., which is printed in part V.

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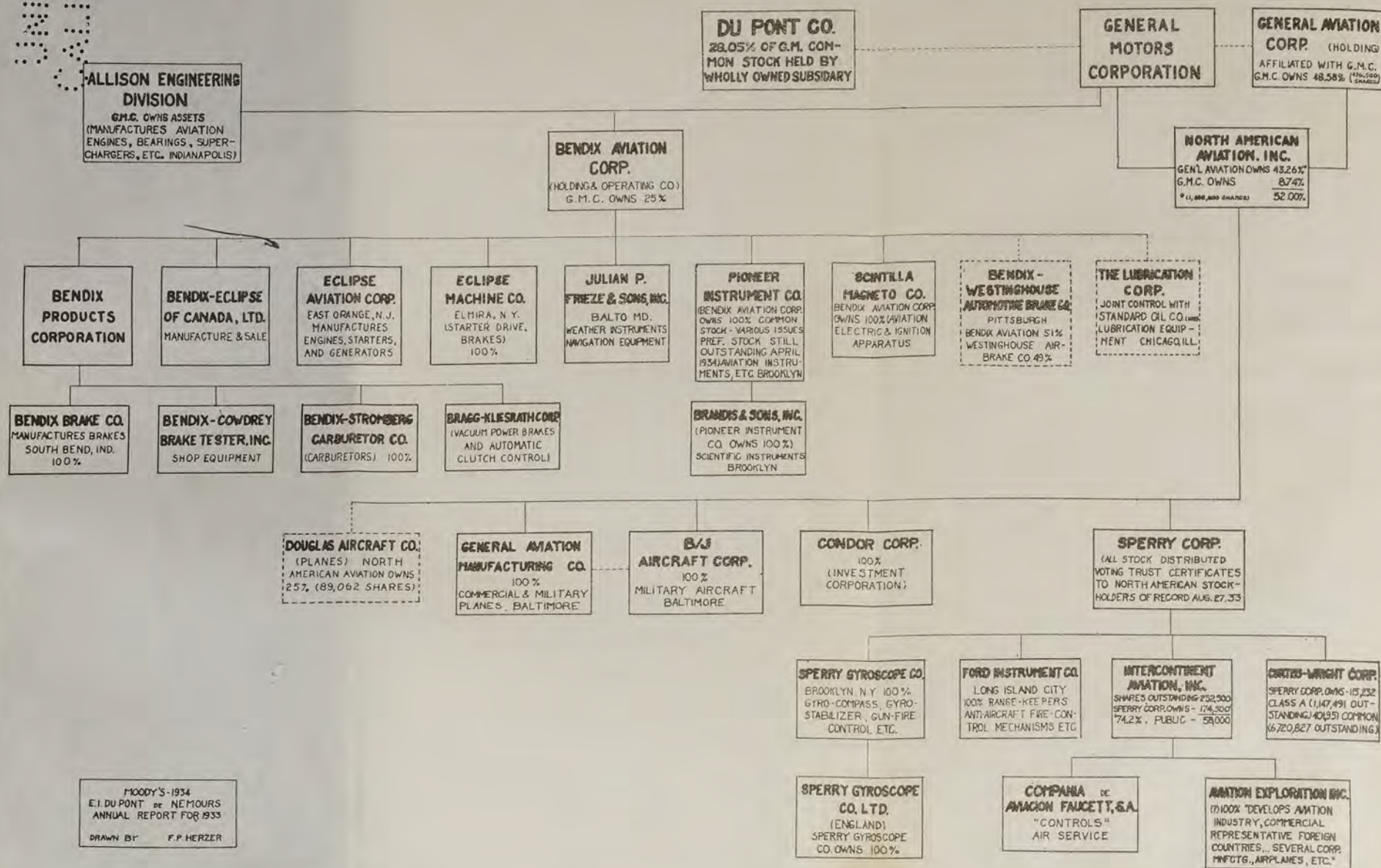
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# DU PONT - GENERAL MOTORS AIRCRAFT MANUFACTURING INTERESTS



## APPENDIX

### EXHIBITS

("Exhibit No. 268" appears on facing page)

"Exhibit No. 268-A" is a list of stockholders in Curtiss-Wright and is on file with the committee. (See p. 693.)

#### EXHIBIT No. 269

[Copy]

WATSON, PHILLIPS & CIA. SUOS., S. EN. C.,  
AVENIDA URUGUAY No. 103 APARTADO POSTAL 67,  
Mexico, D.F., March 23rd, 1934.

#### AGENCY AGREEMENT

CURTISS WRIGHT CORPORATION,  
*R.C.A. Building, 30 Rockefeller Plaza, New York City.*

DEAR SIR: We duly received your letter of the 15th of January, with which you enclosed copy of your sales agent agreement, and regret having left this matter pending for so long, but we expected to discuss the points which we wish to bring up now, with one of your representatives upon his visit to the country, which at that time we believed would take place in the near future.

We believe the agreement appears to be quite suitable, and the only points which we shall draw your attention to, are the following:

We note that we are allowed the agency solely for military airplanes and engines, and that no mention is made of civil machines. Although it is scarcely likely that we may obtain an order for civil airplanes, we presume you will have no objection to our soliciting same, should opportunity offer.

We note that we are merely named in the agreement as "Soliciting sales agents", and that we may not act in any more official capacity than is outlined in the agreement, which we believe might rather restrict us in our representations before Government departments in case of necessity, as if we are considered by them your official representatives, they will properly expect us to be in a position to make definite offers and close contracts on your behalf, for indeed, as you know these matters are indefinitely delayed whilst negotiations are in course, but it is always the case when the Government officials make a decision, they wish everything to be done with extreme rapidity, and having to refer matters back to you, might be prejudicial to your interests and ours.

Clause 3. We note the conditions with regard to the payment of commissions, and believe that this clause should be amplified to provide for some form of commission to be payable to us on orders for machines to be delivered in Mexico, which may be placed direct with you in the United States. The possibility of such orders may be remote, but we feel that due to our friendship with the officials of the aviation lines here in Mexico, and the propaganda which we have made on your behalf, this may ultimately result in planes being bought in the United States by these airways, and we believe that in that case, we should be entitled to some remuneration.

Our comments with regard to our position as representatives of yours as above, specially refers to our ability to collect on your behalf down payments which may be made by the Government, as unless we are in a position to do this, you will readily appreciate that any other form of payment may be prejudicial to your interests, as we are always particularly careful to see that

before we accept any Government orders, we have received part payment in cash before submitting the order. We would be glad to have your advices in this connection in due course.

As we are informing you under a separate letter, the Government holidays commence today and last to the end of this month, consequently all negotiations must remain pending until that time. This is particularly unfortunate, as it only means further delay, but we really believe that in the near future something definite will be forthcoming as the Government simply must have new motors and planes, and it is certain that these will be ordered before this term of office has passed; consequently matters may come to a head in time in the month of April.

We are assured that our connection with the various departments are satisfactory, and that if anything is to be ordered it will be from your firm, it is only that the delay is very depressing.

Awaiting your advices in connection with this matter with much interest, we remain

(Signed) WATSON, PHILLIPS & CIA.

CHEP/tvz.

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EXHIBIT No. 270

[Copy]

ANKARA, February 20th, 1934.

MR. J. S. ALLARD,  
Curtiss-Wright Export Corp., RCA Building,  
30 Rockefeller Plaza, New York.

DEAR JACK: This letter is in follow-up of exchange of cablegrams regarding Caldwell—yours of 16 February asking if I felt situation justified additional help in Europe, and my reply of Feb. 17, saying, "Think it advisable have additional permanent European representation for some time in view of developments." I suggest you hold Caldwell in Europe until receipt of letter.

This letter is a sort of review of lengthy correspondent we have had in the past on the general subject. Before writing this letter I have reread much of that correspondence. I don't ask you to take the time to do the same thing, because it is long, but I do particularly ask you to read again the latter part of my long general letter addressed to Tom Morgan on October 26th, and my recent general letter of February 14th—mailed two days before receipt of your Febr. 16th cable.

I have been out here for nearly eight months. Although I've spent most of my time in Turkey I haven't for a moment forgotten that Turkey is after all only a part of the larger general European job. I believe that my contacts with other parts of Europe plus the flow of information correspondence that has been forwarded me regarding affairs elsewhere in Europe, has kept my perspective fairly straight. Bill Kennedy's recent trip here has given me side lights which serve to fill in the blank spaces in the picture—particularly the K. L. M. story. I have had plenty of opportunity to talk with people who have intimate dealings in other countries in Europe.

Everything I have seen, read, and heard, seems to justify a conclusion that our experience in Turkey isn't just a special isolated case, but that it may be looked upon as a problem typical of airplane sales in Europe. With certain variations in detail to meet special local conditions, our experiences in Turkey may be taken as a point of departure on which to build our European sales policy (excepting such countries as England, France, Italy, and Germany, which are industrialized *producing* countries and where licensing is our only possibility).

If that hypothesis is even half correct it means that we've got to be prepared to make more permanent contacts, and to spend more *time* in those countries where we're looking for business. And that means more people on the job on a permanent assignment basis.

Right here I would like to set down briefly a number of conclusions that have been forming in my mind while I've been sweating over this job—and constantly champing at the bit because of my complete inability to break loose from Turkey to run down the numerous interesting possibilities for business that are continually being reported all over Europe.

I. When you sell airplanes in Europe you deal with governments. You are dealing in military equipment, which is invariably and popularly looked upon as vital to the personal safety of every individual. (Remember that in Europe civil air transports are usually looked upon as military planes in disguise.) The basic problem in Europe isn't so different from the problem of dealing with our own Government at home as one would at first suppose. There are differences in details but the underlying basic requirements and general strategy are remarkably similar when you get down to final cases. In Europe you're dealing with twenty-odd governments, each one of which is as fussy as the one Government we deal with at home.

II. Occasional visits to the big shots at the top side stir up a measure of passing interest, but in the final analysis they don't do a whole lot of good unless they are backed up by everlasting hammering at the rank and file, through personal contacts with subordinate section chiefs, and on down through the pilots and mechanics in the operating units. If the operating personnel don't like your stuff, the big shots on the top side rarely, if ever, have the nerve to buy it.

III. Palm persuasion is a far less potent factor than it is reputed to be. In certain cases in some countries it helps somewhat in getting a favorable hearing, but it is far less general than one would suppose. Competition is too keen, and gossip too searching, for the art of palmistry to thrive. There have been a lot of political heads chopped off because of it, and it is becoming constantly less popular.

IV. Personal acquaintances and friendships—and the confidence and good will growing out of them, are as potent a factor in Europe as they are at home. The only difference is that it takes longer to establish them in Europe than in America, first because of differences in language, and second because the average European is less given to accepting strangers on faith than is the American.

V. The competition is at least as keen, and it is more varied, in Europe than in America. Political conditions are far less stable, changes in assignments of personnel to important positions of responsibility and authority are far more frequent and sudden. That means that you must always be prepared to see the work of months badly battered and suddenly in need of major overhaul. The wider and more varied is your acquaintanceship the less you are likely to be disturbed by such changes. (I have, for example, just received word from Greece that their whole aviation program has been at a standstill as result of a sudden change in the Minister of Aviation and sweeping changes in the entire headquarters staff.)

VI. Due to the very nature of the product, and the general conditions under which it operates, the airplane sales job is largely a "sales engineering" job, which requires an intimate knowledge of the technical features of our product, at least a fair acquaintance with the technical features of the competitors products, and a fair acquaintanceship with general strategic and tactical problems. Further, because there usually enters the problem of local manufacture (see my letter of October 26th) you've got to have at least a general acquaintance with manufacturing principles. If there are any agents available who have the required technical qualifications I have yet to hear of them. Demaxas and Admiral Gerondas in Athens are the nearest approach I've found yet, but they fall far short of full qualification. Your agent can act as your general contact, he can keep you acquainted with the general situation, see that you meet the people worth seeing, do your translating and interpreting, help with banking connections, etc., but he can't sell your goods nor negotiate your contracts. *When it comes to primary selling* (I except miscellaneous spare parts and accessories which follow inevitably in the wake of primary sales) *you've got to have a direct representative of the home organization on the ground.* And that direct representative has got to know his stuff, because he's invariably up against the best selling organizations in Europe who have their home organization near at hand, and demonstrators available. In this connection it is well to remember that the best agents (that is those who have the best connections) are those who carry a number of lines. No agent who is worth his salt can afford to handle your line as a specialty—at least until you've become firmly enough established to assure a continuing flow of profitable business. Therefore your agents need constant punching by personal visits to keep them on their toes.

VII. It follows inevitably from the foregoing that to *book orders*, in Europe you've got to have pretty complete direct representation on the ground—at



least until you've become firmly established. Without such representation you'll get lots of nibbles and occasional hot inquiries, and spend a lot of money sending cables and mailing literature, but you'll book few orders for profitable business. You can't sell aircraft in Europe by correspondence or through detached agents.

VIII. Due to the very rapid pace of technical and tactical development in aviation, it follows from VI that your representatives in the field *must* have frequent personal contacts with progress at home, through personal visits to the factory organizations where they can see what is going on, and learn what our own people are thinking about. Of equal importance is that the factory organizations must have first hand personal reports from the field regarding what is going on. Correspondence is a very unsatisfactory medium for such interchange of ideas. *No representatives should be left out in the field for more than a year. He gets too far behind, and when he gets too far behind he just can't hold up his end when it comes to the knock-down drag-out fight, into which all sales in Europe apparently develop before you walk out with a signed contract.* (In that respect the situation in Europe doesn't seem to be any different from that at home. I gather that the Douglas episode wasn't any bed of roses. When I get too discouraged at delays and difficulties involved in this Turkish battle I console myself with the recollection that the Douglas battle started nearly a year before I left for Turkey.)

IX. One man can't *begin* to cover all of Europe effectively, no half of it. Europe isn't very large in point of distances, but it is a whale of a big territory in term of time and convenience of communication. It has some twenty-seven governments in it, in the majority of which are potential markets that we are trying to reach. Each government considers itself just as important, and each is just as fussy and at least as red-tape ridden, as is our own Government. A representative just can't "drop in" on Ankara from Paris. It's a four-day journey, each way. It takes just about as long, costs about as much, and is a lot less convenient to "drop in" on Oslo from Ankara as it is to "drop in" on Oslo from New York. "Sizing up" a situation comes closer to being a two-months' job than two days.

X. And, finally, successful selling requires demonstration. Our European competitors use demonstrators. I don't know of any airplane sales in Europe that haven't been preceded by demonstrations, either by taking the product to the customer, or bringing the customer to the product. (Let's not forget that in our Turkish sales we did both.)

I'm convinced that if we're going to do a job in Europe we've got to do a good job. If we don't do a good job, we're going to keep on answering cables, mailing reams of literature, spending a lot for rail fare and hotel bills and sundries, getting all hot and bothered about new prospects that are continuously cropping up (more often than not at widely separate points), but in the end booking few real orders.

I don't know that there is paying business to be had in Europe, but I believe there is. I believe that the prospects are at least good enough to warrant absorbing the expense of putting some additional help in the field for sufficient time and under the required conditions to make a really thorough investigation of the whole territory, so that we can lay out a coordinated plan based on knowledge of cold facts rather than on rumors or enthusiastic agents' reports (which are likely to be half baked and biased, for obvious reasons).

There's no news in that for you, of course. Realizing it, you started out a year ago to make a personal investigation; and spent about four months in Turkey. I started out last summer with a nicely planned itinerary and with the same objective, but I haven't got much further than you did—in nearly eight months. You sent Morrie Caldwell out for a short visit. He's had to stick three months, but so far as I have learned the Norway and Persia deals have got only so far as to the drawing of preliminary proposals. That's no fault of Morrie's I am sure. It's just another instance of the same old story. I'm morally certain that no worth-while business can be concluded in Europe in less than three months, or if the man on the job relaxes his presence for an instant before the signatures are on the dotted line, and advance payments are in hand. If we're not ready to see these various things through to the very end regardless of advance itineraries, I'm convinced that we'll be better off in the long run not to start on them in the first place. That's why I've stuck close to Ankara in spite of holidays, Greece, Beograd, Bucarest, and all the rest, and its why I believe I ought to continue to stick until the job is exactly 100% finished. Once that's done, I'll be only too happy to light out for other



parts. If we do less than a finished job, about all our promotional work accomplishes is to build up a market for some European competitor to snatch away from us at the last minute.

While I'm on this subject of what constitutes a finished job, I'd like to jot down a brief summary of the position in Turkey, which will, I believe, be well consolidated if we can get this new Kayseri project definitely closed up.

We have Curtiss-Wright products in the two leading air bases in Turkey, which means continuing avenues of contact. We have one pilot in each of those air bases acting in the capacity of instructor in advanced formation flying, blind flying, etc., and from all reports they are doing excellent work and building prestige for Curtiss-Wright among all the operating personnel and making lasting friendship and contacts. These pilots, incidentally, are on the Turkish pay roll and are costing us nothing. Joe Gody is looked up to and cordially respected and liked by the entire maintenance force at Eskisehir, and we have now sent him down to Izmir to dig in there. Hunter and his crew at Kayseri have gained the complete respect and admiration of the entire manufacturing and engineering personnel of the Turkish Air Force and have established a wide circle of acquaintances and friends that is of inestimable and lasting value. Bob Farnsworth has formed a circle of personal acquaintances and firm friendships all along the line that is equally invaluable. I have been fortunate enough to be able to establish personal relations on a plane of evident mutual confidence and trust with the highest authorities in the Government. There are four specially selected Turkish leading mechanics now in America in the hands of Curtiss-Wright. (They've cost us a lot of headaches, to be sure, and it was a bull that they got there, but there they are; and their presence can be, and should be, seized upon to impress the mechanics with the merits of Curtiss-Wright and of American methods; the training and indoctrination we give them during their year in our organization at home can be made an invaluable asset in future activities here.) There are four selected Turkish pilots in America now for a year's tactical training in the U. S. Army, another point of contact open to us for firmly establishing the Curtiss-Wright idea in the minds of men who will doubtless be very influential in Turkish air activities in future years.

We have established the complete groundwork for establishing Curtiss-Wright in a position of high prestige throughout the whole structure of the Turkish Air Forces, and of the Government—a position which is not duplicated by any competitor and which cannot be duplicated short of at least two years of careful and costly effort. Basically our potential position in Turkey today is excellent. It remains only to close this present pending contract to definitely perpetuate (and strengthen) that position for at least a year to come.

With this contract for keeping Kayseri occupied the rest of this year closed, our preferential position in Turkey will carry on and improve steadily on a self-supporting basis from sheer inertia. This contract is like the final coat of paint on a carefully built and expensive house. With it the house will last; without it we'll have to face continuing bills for repairs so long as we elect to stay in it.

I repeat that if we are to do this job in Europe at all it must be a good job, and that means more personal contact and more permanently assigned personnel on the European territory.

We've already tacitly admitted that, without fully realizing it, in sending out various "temporary" assignments—Caldwell on the Persian and Norway job; Kennedy to KLM (a special job, but this trip was extended to additional necessary contracts); my special trip of two years ago; Arthur Nutt's special trip; your special trip; Guy Vaughn's special trip. Each one of these special trips results in reports of this or that lead, this or that prospect encountered that "ought to be followed up, I couldn't do it because I hadn't time." Either these unanimous reports are cock-eyed or else we don't do as much and as continuous contacting as we should. Somebody ought to have followed up the old matter of Wasp-Cyclone replacements in KLM. Somebody ought to follow up the Hensley lead in Rumania. Somebody ought to be following the Athens situation right this minute; somebody ought to be following the situation in Beograd and LOT in Warsaw, etc., etc. But just who? And how?

I haven't dared leave Turkey for reasons with which you are fully familiar. Bob couldn't leave, with all the mess at Eskisehir and Kayseri to clean up. His presence here has been indispensable during the preparation of detailed specifications and contract provisions for the new project. His experience and detailed knowledge of the local situation have been invaluable.

Bob has ideal attributes for handling general European contract work. He has brains, personality, sound business sense, guts—everything you could possibly ask for, but he is (through no fault of his own) greatly lacking in the essential element of complete familiarity with the internal workings of the producing organization. Paterson, Buffalo, and St. Louis are quite unfamiliar to him, as are all their products of the past couple of years. Bob's place now is back home for an intensive tie-in with the working organization. Give him three to six months there and you can put him up against anything in Europe on his own. Without that background he is under a heavy handicap. He has been away from home now more than 2 years. It is neither fair to him, nor in the interest of Curtiss-Wright that we should delay his return longer. I don't need to tell you that he needs a trip home, or that C.W. needs to have him take a trip home. You'll be glad to receive news that he is about to get it. As I have said before, up until now I couldn't have got along without him here. But with the last of the 18 Hawks accepted, Bruce Buckley or Sam Irvin available to fill in the gap on Fledgeling and Kayseri Hawk tests, the new specifications, contract drawn, I've given him instructions to pull up stakes and start home within the next 10 days. He'll be on his way before this letter reaches you.

It is not alone for the purpose of rounding out Bob's experience that I feel it necessary to have him go home now. Bob will learn a heap from Paterson, and Buffalo, and St. Louis, but I venture the assertion that P.B. and St.L. have also a good bit to learn from the boy who has been through the mill on this end. You'll be tempted to hold him in the New York office. Please don't. Get him out to the factories, regardless.

With Bob going back there is certainly more than enough to keep both Morrie and me busy in Europe. Please don't forget that I've been out eight months now, that I'm beginning to lose my familiarity with what's going on at home. Sometime before very long I've got to be getting back there for at least a brief visit, for there are all sorts of things that I've got to catch up on that can't be handled otherwise than through personal contact. Retractable gear Hawk. Shrike. Airline dope for the projected Turkish project. Cargo ships for Greece. (What are the sales arguments to keep Condors in the picture in the face of certain Douglas competition and existing United competition), both of which have materially higher specifications to offer and hence appeal to the military elements strongly (don't forget that European transport planes are in reality considered merely as bombers in disguise). I should get up to Italy, France, and England to see all this new military stuff that we've been hearing so much about. (Mecid Bey told me today of reports they have received of a 430-km Hauriot single seater in France for example). What's going on in Russia, Germany, and Poland? You may know all about these things back home, but that doesn't help me to answer embarrassing questions out here. And if I go on up into western Europe for any length of time now who's going to cover the various interesting leads that are crying to be covered in the Balkans? And if this airline project goes through in Turkey (and it seems as likely to as any other interesting prospect that I know of in Europe) who is going to run that show?

I'll not continue longer on this line. I hope I've said enough to make it quite plain that if all these various reports and inquiries that we've been receiving from all over Europe are worth any attention at all, they are worth serious investigation. And if we are to investigate them seriously I repeat my conviction that we've got to have more people permanently assigned to Europe than we now have.

I'm not recommending a big organization. I'm not even recommending a European office, though I recognize the merits of Morrie's arguments in this regard. I'm frank to say I don't know enough about it yet. But I am recommending that you definitely and permanently assign Morrie to this European job, and direct him to report to me for instructions. My first move will be to meet him somewhere and compare observations, experience, and opinions, lay out a tentative definite plan of action, and send it along to you for check and revision.

I believe there's business to be had in Europe, profitable business, but it is going to require a lot of careful work, hard scratching, and patience, to get it.

We can't get it by "temporary" flying trips to Europe. We've got to keep everlastingly at it, with permanently assigned personnel. We need Morrie in Europe for an indefinite period, and we need Bob Farnsworth back as soon as he's caught up with goings on at home.

For reasons which I have explained at length in my letter of February 14, I believe now is a favorable opportunity to dig into the European market, and I believe the extra help and a couple of demonstrators will justify their expense.

Sincerely,

(Signed) **BRUCE,  
BRUCE LEIGHTON.**

P.S.—I have been over all these matters with Bob repeatedly and at length. We are in full agreement. I'm mailing a copy of this and my letter of February 14 direct to Morrie, for his study and comment.

EXHIBIT No. 271

MAY 29TH, 1934.

**Mr. ROBERTO ESCOBAR,**  
*New Weston Hotel, 49th Street & Madison Avenue,  
New York City.*

DEAR MR. ESCOBAR: In accordance with your request for a statement as to the installation of the Driggs 37 mm gun in Hawk and Falcon airplanes, resultant from Mr. Driggs' trip to Buffalo, I have had this matter up with our armament engineer, Mr. Trimbach, who has submitted a report as covering his contacts with Mr. Driggs, extracts from which follow:

"Mr. L. L. Driggs, of the Driggs Ordnance Engineering Co., 19 West 47th St., New York, visited our plant on May 10th to discuss the possibilities of installing subject gun in the Hawk and Falcon airplanes for Colombia.

"Characteristics of the gun as obtained verbally from Mr. Driggs are as follows:

	<i>Inches</i>
Over-all length.....	64.8
Length of receiver.....	33
Length of barrel.....	31.8
Over-all height.....	7 $\frac{3}{8}$
Center of barrel from bottom of gun.....	2.5
Width of receiver from center line to R.H. side for 30 rd. magazine..	4
Width of receiver from center line to L.H. side for 30 rd. magazine..	8
C.G. location from aft end of gun.....	22 $\frac{3}{4}$
Clearance required below receiver for operation of action.....	6
Clearance required below receiver for magazine, 10 rds. deep.....	18
Location of front wall of magazine from front end of receiver.....	6
Fore and aft length of magazine clearances symmetrical about center line of gun.....	4
Weight of gun.....	94 lbs.
Weight of loaded magazine (30 rds.).....	50 do.
Weight of loaded magazine (10 rds.).....	18 do.
Recoil aft load.....	1,200 do.
Speed of gun.....	100 shots per min.
Control (remote), Bowdenite cable and casing.....	
Recoil movement of barrel and action.....	8

"From the above characteristics a brief investigation revealed the following:

"*Fixed Gun, Hawk Wing.*—The only logical installation for the Hawk would be one of these guns in the upper wing center section clearing the propeller disc.

"In order to accomplish this installation it is necessary to increase the beam spacing, add considerable reinforcements, and possibly restrict the airplane's performance due to the increase in gross weight.

The magazine for a wing gun being of 30-round capacity would extend below the wing 18" across an area of 8" which would result in a large blind space for the pilot's vision. The gun could be mounted above the panel which still gives an objectionable blind space.

The installing, loading, and general servicing of a gun of this size in an upper panel will be quite difficult and may result in damaging the panel due to the personnel's normal awkwardness.

## FIXED GUN—FALCON WING

The logical installation for the Falcon would be the same as that recommended for the Hawk except that two guns would be used.

The accomplishment would necessitate: Adding considerable reinforcement and restrict the airplanes' performance due to the increase in gross weight. It, likewise, being assumed that the .30 cal. wing guns in the lower panels would be eliminated and only the synchronized .30 cal. be retained. Unless the upper and lower wing guns are carried as alternate loads.

The magazine arrangement would result in the same objections as that described above under the Hawk due to the wing section being of the same depth.

The installing, servicing, etc., falls in the same category as the Hawk.

Mr. Driggs informed us of the omission of the provisions for ground gun adjustment stating that the gun could be mounted fixed parallel to the center line of the airplane, which means that the line of sight would be set at an angle with respect to the line of flight in order to have the lines of sight and fire converge at the desired range. This will require the pilot to yaw the ship to the right or left as the case may be. If two guns are used the sight should also be "parallel" with the guns which means that with the guns spread out as in wing installation accurate firing will be almost impossible.

## FLEXIBLE GUN

The installation of this gun for flexible use on the Falcon<sup>1</sup> results in practically the same conditions as those described in previous correspondence on 37 mm flexible guns.

In view of the above complications which must be dealt with to arrive at satisfactory installations of these guns and further since we have very limited knowledge on satisfactory installations previously made, it is recommended that from a development cost standpoint we should discourage applying this gun to our airplanes until after our own government has proven them worthwhile.

Trusting that the above information meets with your requirements and requesting that you hold this report as strictly confidential, we are

Very truly yours,

CURTIS-WRIGHT EXPORT CORPORATION.  
P. A. HEWLETT.

PAH\*B

## EXHIBIT No. 272

HOTEL COLUMBUS, Miami, Fla., March 31, 1934.

DEAR PARM: My discussion with Lieut. Commr. Hugh Sease this morning brought out that some time ago a number of United States naval aviation officers tried to interest the Bureau Ordnance in an Italian machine gun which they thought more suitable to fighters or pursuit planes. The gun is about .45 cal., weighs only 9 lbs., has a considerably reduced range from the Browning but was accurate within approx. 300 yards, the ammunition weighs considerably less than the Browning ammunitions and occupies a considerably smaller space. He thinks quite a weight saving possible by use of this gun and recommended that manufacturers investigate the gun with the view to possibly inducing the Bureau Ordnance to adopt it for fighters.

While he was talking it occurred to me that perhaps it would be good to have the dope on this gun in case we should ever wish to build a flying arsenal for export sale with say six guns forward which we could do more readily with a smaller gun.

He didn't know the name of the manufacturer but thought it the standard Italian Air Force gun for fighters. I am just passing this dope along in case you might wish to ask some European export company representative to get the lowdown or even handle it yourself by correspondence.

Best regards and please don't fill up the Buffalo plant with Colombians because I will be good and ready to see Americans when I return.

Sincerely,

(Sgd.) WILLIAM J. CROSSWELL.

EXHIBIT No. 273

FEBRUARY 25, 1932.

DR. TEHYI HSIEH,

*Chinese Trade Bureau, 75 Federal Street, Boston, Mass.*

DEAR MR. HSIEH: We have your letter of February 24th and are very pleased indeed to enclose herewith certain descriptive matter and photographs of certain of the planes which we manufacture and which we believe will be of particular interest to you for the purpose which you have in mind.

We would point out that we build planes of all types and categories but believe that the ones described in the attached data will be the most suitable for your consideration. We should be very pleased indeed to have you submit these to the Nationalist League headquarters of the U.S.A., or would be very glad to communicate directly with them if you will inform us where they may be reached.

The data which we are enclosing consists of the following: Characteristic sheet EX-C-4B and photograph of the Curtiss Hawk powered with 650 horsepower Cyclone engine. This plane is a high performance, single-seater fighter as constructed for the United States Army and Navy. We recommend this plane with the Wright Cyclone engine, because the Chinese Nationalist Government already has in operation a considerable number of these Cyclone engines and it is, therefore, desirable that any further equipment destined to China should use engines of this type in order to facilitate maintenance problems. This Hawk plane can be had with other power plants, notably the Curtiss Conqueror engine, which installation is the type which we have recently furnished the United States Army. We have just completed a contract of forty-six of these Hawks and are now delivering them to the United States Army, so that you may be sure that this Curtiss Hawk is the very last word in the single-seater pursuit plane category.

Enclosed herewith is general description of our speeding observation airplane. This description, together with the characteristics and performance of this plane, will give you a good general idea of this plane which we can offer at a most attractive price. The photograph attached shows two of these planes which we recently built up and delivered to the Government of the Republic of Panama. This plane is especially suitable for observation work and light bombardment and, I believe, should be of particular interest for shipment to China.

We are also enclosing characteristic sheet and photograph of our Keystone bomber. This plane, powered with a Cyclone engine, is used extensively by the United States Army Air Corps, and we are just completing at our factory at Bristol, Pa., a large contract of these planes for the United States Army. This plane can carry over 2,000 pounds of bombs, and is, therefore, a formidable offensive weapon.

Naturally, a plane of this size is somewhat expensive, but its cost is incomparable with the damage it can do with its heavy load of bombs.

We are also enclosing characteristic sheet EX-D- covering the Curtiss Hell-diver with 650 horsepower Cyclone engine. This is the plane which is used largely by the United States Navy and Marine Corps for observation and light bombardment. The attached 3-view drawing of this plane will give you an idea of the general appearance of this plane, which is a 2-seater with two forward firing guns usually controlled by the pilot from the front cockpit, and a flexible gun installed in the rear cockpit and operated by the observer in the rear cockpit. Bombs may be carried suspended under the lower wing.

We are also enclosing photograph and characteristic sheet covering the Curtiss Fledgling, powered with a Wright Whirlwind engine. This is the training plane which is used extensively by the United States Navy and which our Flying Service is using in large quantities in their flying schools throughout this country. We have a considerable quantity of these Fledglings now in operation at our schools, and it occurs to us that you might be interested in considering the purchase of a number of these used planes for immediate delivery at a very low price. This would be entirely suitable for the training of pilots and observers.

The four planes submitted cover the four main categories of flight training, pursuit, 2-seater observation, and fighter and the large type of bombardment. Planes in each of these categories are necessary for a full, rounded air force, but for the situation as it now exists in China we would recommend special consideration to the single-seater pursuit plane, whose chief use is defensive in

the destruction of enemy aircraft. Without planes of this type in considerable quantities no successful air operation can be conducted.

We also recommend for special consideration the Speedwing light observation plane, whose outstanding performance and high degree of maneuverability make it especially desirable for observation and bombardment missions and use against troops on the ground.

Please let us know if you desire any further information and whether or not we can get in touch directly with the Nationalist League headquarters.

We are advised by our flying-service base in East Boston that their Mr. Martin has been in touch with you, and we have asked him to talk with you to find out if you would like to arrange an appointment to see the writer and discuss in more detail the possible purchase of this military equipment.

We trust to have your early advices in connection with this matter.

Very truly yours,

CURTISS WRIGHT EXPORT CORPORATION,  
F. W. GOULDING, *Vice President.*

WFG/f.  
Encl.

EXHIBIT No. 274

MARCH 4, 1933.

#193

*Via air mail.*

Mr. E. J. FAUCETT,

*Compania de Aviacion Faucett, S.A., Apartado 1429,  
Lima, Peru.*

DEAR MR. FAUCETT: Referring to our cable of today, confirmation copy of which is enclosed.

We can arrange for a special steamer to sail from New York on or about six weeks' notice, at a cost of from \$10,000 to \$12,000 for the trip to Callaco. They require six weeks' notice in order to get additional cargo.

The 200 each 50- and 80-kilo bombs would gross about 39 tons and the steamship company would be willing to take 10 to 15 tons more bombs or other materials for the same cost of 10,000 to 12,000 dollars for the special trip.

If only the 400 bombs were shipped it would seem the c.i.f. cost would be \$25.00 to \$30.00 each, but if the quantity was increased, it would materially reduce the cost per bomb, or if other materials were shipped at the same time it would absorb some of the cost.

We will send you by next air mail complete prices, etc., on all sizes of loaded and unloaded bombs and cartridges, etc., and perhaps you could get the Peru Government to place a substantial order for such equipment to be sent on such a special sailing.

Please let us know by return air mail what the prospects are of getting early orders for bombs and ammunition, etc.

Yours very truly,

CURTISS-WRIGHT EXPORT CORPORATION,  
OWEN SHANNON.

EXHIBIT No. 275

REMINGTON ARMS COMPANY, INC.,  
*Bridgeport, Conn., January 6, 1933.*

Mr. W. D. PAWLEY,

*Curtiss-Wright Export Corporation, 27 West 57th Street,  
New York City.*

DEAR MR. PAWLEY: We confirm our conversation with you today in respect to the ideas you discussed on behalf of your company to represent us in the sale of our military rifles and ammunition to the Chinese Government.

It is understood that for the present this is only a tentative arrangement to enable you to determine the possibilities of business with the Chinese Government, and in the event progress satisfactory to you and ourselves is accomplished, we are to conclude exclusive arrangements with your company for a period of say one or two years.

While you are in China representing your company we will refer to you any inquiries we may receive for military supplies, and we understand you will consider our rifles and ammunition exclusively in any negotiations you conduct for such material.

It is understood for the present we will not be responsible for any salary to you or expenses on your part. The occasion may arise where expenses by you on our behalf would be justified, in which event you would obtain our agreement beforehand.

We agree to quote you the lowest prices we would accord anyone for Chinese military business, and these prices are to be net to us without any deduction for commission, etc. We understand it is your intention to add to these prices such profit for your company as you deem advisable.

It is understood that no orders are to be binding on us until they are accepted by us. As we explained to you the prices we intend applying to any inquiries you have will be so low as to preclude any credit risk. Consequently, the minimum terms we would require would be 50 percent cash with order and 50 percent irrevocable credit in New York payable against shipping documents.

As you are aware, Messrs. S. J. David & Co., Shanghai, operate for us in China on sporting-goods business and sales to police forces, which is not to be construed as military business. Our arrangements with S. J. David & Co. for such business are to continue uninterrupted. Undoubtedly Mr. E. A. Sykes, manager of that company, will be glad to extend you every cooperation.

Yours very truly,

REMINGTON ARMS COMPANY, INC.,  
F. J. MONAGHAN.

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EXHIBIT No. 276

AUGUST 13, 1932.

MR. OWEN A. SHANNON,

*Curtiss-Wright Export Corporation,*

*27 West 57th Street, New York, N.Y.*

MY DEAR MR. SHANNON: Confirming our understanding reached in your office, we are granting to you the exclusive representation on smoke screen and gas attachments for airplanes and on aerial bombs in the following countries:

Argentina, Chile, Colombia, Equador, Panama, and Turkey.

It is understood and agreed that all inquiries for this type of equipment will be referred to you and that you will promptly put forth every effort to promote the sale and use of this equipment in the above-named countries.

We agree to pay you a commission or discount of twenty percent (20%) from our standard list prices for these products.

It is understood and agreed that you will not, during the course of this agreement, represent or sell, directly or indirectly, any other products in competition with our products above named, either in this territory or in territories where you have nonexclusive sales rights.

This agreement shall continue for a period of one year unless canceled by either party. It may only be canceled upon ninety (90) days' notice in writing, given by one party to the other.

Very sincerely yours,

FEDERAL LABORATORIES, INC.,  
By JOHN W. YOUNG, *President.*

Accepted:

CURTISS-WRIGHT EXPORT CORPORATION.

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EXHIBIT No. 277

MARCH 9, 1932.

CURTISS-WRIGHT EXPORT CORP.,

*27 W. 57th Street, New York, N.Y.*

(Attention Mr. O. A. Shannon.)

DEAR MR. SHANNON: Replying to your letter of February 23rd relative to flame thrower, please be advised that inasmuch as we have only had one inquiry for this from Turkey, we prefer making flame throwers only on request.

We do not believe there would be a popular demand for the product sufficient to warrant our developing it and pushing it as we have our other products.

Yours very truly,

FEDERAL LABORATORIES, INC.,  
J. W. Y., *President.*

JWY:AEH

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("Exhibit No. 278" appears in text on p. 701)

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EXHIBIT No. 279

FEBRUARY 23, 1933.

MR. F. C. NICHOLS,  
*Colt's Patent Fire Arms Manufacturing Co., Hartford, Conn.*

DEAR MR. NICHOLS: Mr. Shannon has shown me your letter to him of February 20th, in connection with the China situation.

I can fully appreciate how you may be somewhat confused with respect to the arrangements which you entered into tentatively with Mr. Pawley. I am somewhat confused myself, but I do know that our interests are his interests, and when he referred to his company, he undoubtedly referred to the company which we operate and through which all of our Chinese sales are handled.

We feel it would be less confusing if this Chinese situation were handled just as we plan to handle the Turkish situation, namely, exclusive sales rights be vested in the Curtiss-Wright Corporation and we, in turn, would give the China operating company the exclusive sales right.

We feel, as you know, bearing the expense of sending out to Shanghai a Hawk plane for demonstration purposes, and for which you have kindly agreed to loan us the armament equipment so that we might also demonstrate it. This will pretty well take care of the Shanghai-Nanking district.

We have been actively, through our China representative, pushing the sale of our equipment in the Canton section, with the result that we now have, and are holding subject to the issuance of export license, an order for 10 of your guns. This would, I think convince you of the active steps we are taking to develop sales for your products in China.

You appreciate, I believe, the disadvantages of several people offering the same customer the same article. It always leads to confusion on the part of the customer, with the result that someone else usually gets the business. We hope, therefore, that you will in the future work through us exclusively in China.

By copy of this letter, I am asking Mr. Shannon to follow up the matter of D. M. Kable & Co. which he had taken up with you.

Very truly yours,

CURTISS-WRIGHT EXPORT CORPORATION,  
W. F. GOULDING, *Vice President.*

c/c Mr. Shannon.

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EXHIBIT No. 280

COLT'S PATENT FIRE ARMS MANUFACTURING CO.,  
*Hartford, Conn., Oct. 21, 1932.*

CURTISS WRIGHT EXPORT CORP.,  
27 W. 57th St., New York.  
(Att. Mr. O. A. Shannon.)

GENTLEMEN: Referring to Mr. Shannon's telephone conversation with us yesterday, and his request that we mail a price list of machine guns, machine rifles, and other equipment, as illustrated and described in catalogue of which a number were sent you a few days ago, we have no printed price lists of such material. In fact, unless we are satisfied that a government is actually in the market, we are extremely cautious about filling quotations to be used for future reference and which in turn might be brought to the observation of our competitors.

Such a policy also obviates complications which might ensue as a result of price changes, alterations, improvements, etc.



We enclose quotations now in effect which, of necessity, are subject to change without notice.

As to your offering the arms referred to, you are at liberty to negotiate in Peru and Bolivia, Turkey after Jan. 15, 1933, and regarding China and Japan. we cannot at this writing include these markets, but should anything transpire whereby our joint interests would be served through your offering quotations, if you will duly notify us in advance we will endeavor to afford you every assistance and protection possible.

On any business you might obtain from the governments named, we would allow you a confidential commission of 5%; this, of course, does not include aircraft guns to be mounted on your planes, regarding which you already enjoy a confidential arrangement.

Goods suitably packed for export f.o.b. cars, Hartford, Conn., with transportation charges allowed and prepaid to New York City.

If this does not entirely cover the information you desire, and if the proposal outlined is in any way unsatisfactory, we would be glad to hear from Mr. Shannon and the writer will go to New York for conference with him.

Very truly yours,

COLT'S PATENT FIRE ARMS MFG. CO.,  
(Signed) F. C. NICHOLS, Vice President.

#### EXHIBIT No. 281

CURTISS WRIGHT EXPORT CORPORATION.

October 27, 1932.

THE AUTOMOBILE TIRE & TRACTOR COMPANY,

*Tuzim Gardens, Istanbul, Turkey.*

(No. 12) Attention Ahmet Emin Bey.)

GENTLEMEN: Under separate cover we are mailing you two complete catalogues of Colt automatic machine guns and rifles, also two small leaflets covering Colt automatic machine rifles.

You recently wrote to the Colt Company indicating the possibility of sales in Turkey for this equipment, and we are happy to say that on and after January 15, 1933, we will be in a position to offer you exclusive sales rights for Turkey on all of the products of the Colt Company, provided that we can satisfy the Colt Company that you can obtain some business for this equipment in Turkey.

The Colt Company has passed to us copy of their letter to you under date of October 18th. The situation is that we have more or less assured the Colt Company that you can give them the best possible representation in Turkey, and, such being the case, they are willing to follow our recommendations in giving you the exclusive sales rights in Turkey.

Turkey is being released from Vickers arrangements with Colt as of January 1, 1933, so that we will be free to quote you on any inquiries for their equipment which you can develop on and after that date.

The Colt Company does not have established prices on their equipment for foreign governments, but their prices are figured on each particular inquiry, so that we are not in a position at this time to quote you prices on the equipment specified in the catalogue. You must develop a specific inquiry for a specific quantity, and when you do this we will be pleased to submit a quotation. You should, at the same time, inform us the amount of commission which should be included for yourselves.

For your general information, and to give you an approximate idea of prices, we would inform you as follows:

	Price
Standard machine gun, rifle caliber, in the neighborhood of-----	\$750.00
50-caliber field gun, in the neighborhood of-----	1,500.00
Light aircraft gun, in the neighborhood of-----	600.00
50-caliber aircraft gun, in the neighborhood of-----	1,200.00
Automatic machine rifle, in the neighborhood of-----	300.00
Automatic machine rifle, monitor type, in the neighborhood of-----	350.00

These prices are merely indications and may be higher or lower on any inquiry which you may be able to submit.

Please advise us further in connection with this machine-gun situation. If it is going to be necessary to conduct extensive and expensive demonstrations

on Turkish soil, naturally these expenses will have to be included in any quotation on the quantity of guns that may be involved.

Frankly, the Colt Company is interested in cash business only. They have an outstanding product, fairly priced, and they are not interested in business which involves long credit risks and long-drawn and expensive negotiations. We ourselves will have to bear the burden of any terms which it may be necessary to extend the Turkish Government on purchases, and all of this must be taken into consideration in the prices to be quoted. We do not, therefore, wish to make any commitment whatsoever with respect to prices except on a definite tender on which all terms and conditions are clearly specified in advance.

Very truly yours,

CURTISS-WRIGHT EXPORT CORPORATION,  
W. F. GOULDING, *Vice President.*

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EXHIBIT No. 282

(Via air mail, no. 51)

NOVEMBER 3, 1933.

Mr. C. W. WEBSTER,  
*Paris Hotel, Buenos Aires, Argentina.*

DEAR WEN: Enclosed is letter of October 29th addressed to you by Leon, copy of which he sent direct to Jack Allard.

Jack told me he had received the letter and is greatly disappointed that Leon finds it necessary to resign.

I am also enclosing copy of a letter he wrote me regarding appointing Gandara and a copy of a letter I am today writing Gandara—copy of which I sent to Leon and about which he replied in his letters enclosed.

I believe Leon is right in suggesting we close with Gandara quickly, particularly as Leon is not going back. Even if we have somebody else there like Travis, he could handle the complete planes, plane parts, and complete engines and engine parts, and would probably not have the time properly to follow up the purchases of miscellaneous materials and supplies.

If you close with Gandara, I think the first thing he should do, and at once, is to prepare a list of the materials, accessories, supplies, etc., the purchasing department will require for 1934 and send it to us for prices.

I think the best arrangement to make with Gandara would be to appoint him your exclusive agent on everything except planes and engines and plane and engine parts, also anti-aircraft equipment. Possibly you would even want to appoint them our agent on everything, the same as Souza Sampalo and Webster & Ashton. However, if you only appoint them for miscellaneous equipment, if possible, it should be arranged so that we sell to them for dollars here and they resell to the Government in whatever manner they see fit.

In one of their letters Gandara asked for prices on Pyle national lighting equipment. If you make them our agent, they must, of course, agree to make all purchases through us and cannot offer any competing equipment.

If there is a lighting project being proposed, get them to send us complete details as outlined in the enclosed questionnaire, including a drawing of the field, etc., so we can have Sperry make up recommendations and quotation.

Sperry are getting anxious about our not producing any business for them on lighting equipment and instruments, and unless we get some orders soon I am afraid they may insist on placing their representation direct with other agents.

Cable me what you do with Gandara and I can start sending them data and prices of the miscellaneous equipment.

My idea would be, if they are to purchase from us and resell to the Government, to give them prices that would net you 10 percent at least, and wherever possible, as much more as I find it will stand in comparison to prices they could get direct from manufacturers or others such as Air Associates, etc.

Find out just what they are doing on bombs and police gas equipment and, perhaps, we can chisel in on it here, as I understand the Argentine police have bought large quantities of that kind of stuff.

Incidentally, Fairchild sold direct to the Argentine Navy, through Lee Wade and Montgomery—an order for 12 camera guns for the Vought Corsairs United is now building for the Navy. This purchase I understand was made by Captain Leporace, the Argentine Naval Air Force office who has been at Hartford during the building of the Corsairs.

Leon told me to stay away from this officer—not to bother him as he would get in touch with us when he was ready. Leon says he is a good friend of his and that Leporace is a fine fellow. However, as a result of our not contacting him, Wade and Montgomery have had him in hand and I believe have sold him other equipment. I am writing Leon on this and presume he will now have us contact Leporace before he returns to the Argentine.

I have arranged with Fairchild to give us 10 percent on the 12 guns—which, would be about as much as we could get if we sold direct—after deducting commissions.

OWEN.

P.S.—When talking with Gandara be sure to mention to them that I reported I had had a number of conferences with their Mr. Campbell here.

This is a favor to Campbell, who is a fine fellow. If possible, make it appear that Campbell had considerable to do with our making any arrangement with Gandara. Let me know what you quote on parachutes so I can advise Irving and try to get them to protect your price.

OWEN.

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EXHIBIT No. 283

DECEMBER 8TH, 1933.

#344

MR. JOAQUIN SAMPER H.  
*Uruet & Samper, Apartado Postal #536, Bogota, Colombia.*

DEAR MR. SAMPER: Enclosed herewith, for your information, are copies of letters which we have addressed to the Colombian Consul in New York, one under date of December 6th quoting on materials necessary to convert the present Hawks now in Colombia to the electric starter type instead of the hand type. This is a matter we had up before and I think we advised you of it at that time, in view of the fact that it had been reported to us that in operations in Colombia, particularly with seaplanes, the pilots found it extremely difficult to start their engines when they were away from a base and a mechanic was not readily available to use the hand starter. The suggestion of the electric starter, therefore, is to relieve this difficulty and make it thoroughly practical and easy to start the plane from the cockpit, as is possible in the Falcon.

The same letter also quotes a price for the materials necessary to convert the present F-2 type Cyclones now being used in Colombia to the F-3 type, as the F-3 is a higher supercharged engine and permits higher performance at altitude. The desirability of making some conversions to this type has been discussed here with Mr. Escobar and Comdr. Strong and it is suggested that you discuss this with the authorities in Colombia and see if it is their wish to do this.

I am enclosing herewith the latest Hawk and Falcon performance data, showing how the performance varies with the different type Cyclones. You will observe that maximum performance is obtainable with the F-3 engine, but it should be borne in mind that the performance below critical altitude and in take-off will not be as good with the F-3 as with the F-2, as due to the higher supercharge of the F-3 it is not possible to give full throttle operation in take-off as in the case with the F-2.

The second letter, dated December 6th, outlines our proposal in connection with Condor bombers in quantities of three, six, nine, and twelve. These are the quantities that have been discussed here as of probable interest, and I trust you will make every effort to see that the Colombian Government purchases a good quantity of these ships.

We have, I think, written you very fully in connection with this plane before so that it is not necessary to repeat all of the details, but bear in mind that this plane represents the highest performance heavy bomber that can be purchased, and we think that this plane, both as a landplane and a seaplane, should be of inestimable value to the Colombia aviation and national defense.

I am also enclosing for your information discussion of the advantages of large twin-float seaplanes as compared with large flying boats. This discussion has been prepared by Edo Aircraft Corporation, builders of the floats, and it applies particularly to the twin float Condor installation which was made on Admiral Byrd's Condor for his South Polar expedition. In the next air mail I will send you a report of the flight tests on this particular Condor.

The prices and deliveries which we have offered in the enclosed letter on the Condor are exceptionally good, and I think the letter covers the matter fully so that without further comment you will be thoroughly familiar with

the subject and will know the best lines to follow in building up a substantial order.

I am enclosing herewith copy of letter, dated December 7th, quoting on additional quantities of Hawks and Falcons. This was at the request of Mr. Escobar, and we have been requested to submit a proposal for increased quantities. Needless to say we should like to get as substantial an order as possible, and believe that the prices which we have quoted for these additional quantities are most attractive. We have not cabled you anything in connection with this recent discussion as I understand they are to be kept most secret and confidential, and I understand that all the communications are being sent from Washington by special messenger as they do not wish to entrust any of this information by general mail or by cable. We must expect you, therefore, to use your discretion in connection with this information which we have passed along to you. At the same time we must place you in possession of the facts so that you can push matters from your end.

Yesterday I had the opportunity of meeting General Angel, Chief of Staff, who was here briefly following a trip to Europe. With him was General Cortes, who, I understand, is the ranking Colombian general stationed temporarily in the legation in Washington as military advisor. General Angel seems interested only in aviation in a general way, so that we did not discuss any of the more technical or detailed features at present involved. He was, however, very interested in antiaircraft defense, and Mr. Miranda, together with Comdr. Strong, explained the Sperry fire control and the necessity for this defense, which he readily admitted, and it is probable that following his return to Colombia he will push for several antiaircraft batteries complete with Sperry fire control to make them effective. These are, of course, expensive installations, but in my opinion there is no question but that Colombia, in the event of hostilities, should have this protection, particularly at the port of Buenaventura. We would, of course, like to see this business developed in view of our connections with the Sperry Company and look to you to further this business.

You undoubtedly know from Mr. Miranda of his connection with a project of this kind, and I understand that although the Driggs Ordnance Company is now defunct that he has some connection with another concern to cover the manufacture of the guns themselves, and that he has formed a company known as "The American Armament Corporation" to develop this business.

I have also gotten some further information in connection with the 37 mm aircraft gun about which you asked me some time ago, and while I am not as yet convinced that this is suitable for installation in aircraft at present, I am having our engineers investigate the possibility as apparently Comdr. Strong is favorably disposed to the installation of these guns in at least some of the planes, the idea being to have it on a flexible mount for the gunner's cockpit in the Falcon and also possibly in the Condors. If such an installation is feasible from an engineering point of view, it may be advisable to agree with his desires in this connection. I shall advise you further in this connection as soon as possible.

From the information which we have here, it is the desire of the Colombian Government to get some planes in the heavy bomber category, both of the petrol boat type, such as the Commodore as they previously purchased, and planes of the Condor type to be operated as landplanes and alternately as seaplanes.

In addition to the Condor, they have proposed for the Bellanca Cyclone-powered air bus converted to Bomber. This plane is, of course, a single engine plane and, for this reason alone, not comparable with the Condor, which can maintain flight on one engine alone if the other engine is disabled. However, the Bellanca, while its performance is also inferior to the Condor, has certain features in its favor. It is a smaller plane than the Condor, having a wing span of 65 feet, length 42 ft. 7 in. and over-all height of 19 ft. As a seaplane with a crew of fourteen, giving a useful load of 5,287 lbs., it would have a gross weight of 11,087 lbs. Disposing of 200 gallons of gasoline, which would give it a range of approximately 700 miles, it is claimed to have the ability to carry 2,720 lbs. of bombs and, with the F-3 Cyclone, to have a top speed of 149 m.p.h. at 6,000 ft. and cruising speed of 130 m.p.h. With the fuel capacity increased to 300 gallons, giving a range of approximately 1,000 miles, based on the above load-carrying ability, it could carry in addition approximately 2,100 lbs. of bombs.

The Condor, with 540 gallons of fuel and bomb loading of over 2,000 lbs., roughly the same as the Bellanca, has a range of 1,000 miles. To all intents and purposes, therefore, with the 2,000 bomb loading, the Bellanca and the Condor would have the same range. But the Condor has a higher performance both for maximum and cruising speeds, and in addition the added safety factor of two engines and its ability to maintain flight with either engine.

We are having new performance data drawn up for the Condor using the controllable-pitch propellers which will materially improve the performances which have been sent to you. These are not as yet completed but they indicate a top speed at 7,000 ft. well in excess of 170 m.p.h. and cruising speed of about 150 m.p.h., and ceiling about 23,000 ft. as compared to the ceiling for the Bellanca of 16,000 ft.

The Condor is, of course, larger than the Bellanca, having a wing span of 82 ft., length over-all of 48 ft. 7 in. I doubt very much whether the fact that the Bellanca is smaller is of any material importance, as undoubtedly as seaplanes they would be operated off of fairly wide rivers, and as landplanes they would be operated off regular airdromes, and the wing spin would be of no moment whatever in taking off from an airdrome as a landplane.

The higher performance of the Condor is of material importance in its favor. On the other hand, being a larger plane with two engines, it is undoubtedly more costly than the Bellanca. I am having prepared an exact comparison of the Bellanca with the Condor, which Mr. Escobar has requested, and when this is finished I will send it to you.

I think that the foregoing, together with the enclosures, and the additional performance data which we will send you shortly, will give you all of the information on the present negotiations and will permit you to materially assist the rapid closing of this business from your end.

I have been informed here by the consul that Captain Uribe is no longer minister of war and that he has been replaced by Dr. Alfonso Araujo, formerly minister of public works who will also be temporarily in charge of public works. I further understand that Dr. Araujo is very favorably disposed towards American products. I trust that your connections with Dr. Araujo are as close as they were with the former minister of war.

Yours very truly,

CURTISS-WRIGHT EXPORT CORPORATION,  
(Signed) W. F. GOULDING, Vice President.

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EXHIBIT No. 284

[Copy]

FILE COPY OF TELEGRAPHIC MESSAGE

To: Pawley Aviexplor, Shanghai, China.  
From: Aeroexco, New York.

MAY 2, 1933.

TRANSLATION OF CODED CABLE

Refer to your telegram of 2nd inst. We agree to special commission making minimum net Intercontinent Aviation, Inc., \$21,793 if order is placed promptly: production situation excellent. Substitution one Browning machine gun .50 cal., aircraft, net cost to us is \$575 additional. New company has been formed, Sperry Corporation, T. A. Morgan, president; John Sanderson, vice president; which holds Sperry Gyroscope Company, Ford Instrument Company, Intercontinent Aviation, Inc., Curtiss-Wright Corporation shares formerly owned by North American Aviation. General Motors Corporation now controls North American Aviation without the above-mentioned companies. T. B. Doe in North American Aviation. In view of the foregoing and present unsettled status of Intercontinent Aviation we are unable to conclude agency agreement with you at present, therefore think it advisable for you to continue as at present. Best wishes.

T. A. MORGAN.

## EXHIBIT No. 285

INTERCONTINENT AVIATION, INC.,  
MILTON HOUSE,  
SHANGHAI, July 25, 1933.

Mr. Wm. F. GOULDING,  
*Curtiss-Wright Export Corporation, New York City.*

DEAR BILL: No doubt you have seen the several letters I have written to Owen Shannon and I have intended writing you for a long time, but owing to the fact that directly before I left New York I had a long talk with Owen I consequently picked on him as my correspondent.

I am certainly glad to hear of the large amount of business you are getting in South America and, incidentally, you aren't doing so badly over here.

I wrote a long letter to Jack Allard directly after I heard of the contemplated move to appoint Andersen Meyer your agent over here. I don't doubt but what you know the contents of this letter by now and I certainly hope it had some weight in preventing this move provided it has not already gone through. It is very difficult to explain all the reasons for my thinking that you would be much better off under the present arrangement than with a large company as agents. Any explanation that one makes in reference to things like that in China sound perfectly assinine at home, but I don't doubt that you can see the fallacy of having a large organization as a representative here, due to the fact that they are not able to wield their sympathies in quite as adroit a manner as a small organization. With constant changes of political favor this is an absolute necessity. In order to stay in the swim it is necessary to have someone continually on the ball. With a big company this would not be possible because of the lack of personal attention the job would receive. The British are an example of this. They tried the same form of representation, but immediately changed back to a small independent organization. I could go on for pages giving my reasons for thinking that a change would be disadvantageous.

I understand that Ed. Howard, the ex Aviation Trade Commissioner from here, is going to New York and no doubt you will get a good slant on this from him. I don't believe there is anyone in China with a fraction of the knowledge of aviation sales promotion that is possessed by him. All hands would do well to lend a willing ear.

I just found out yesterday that Dr. H. H. Kung, the present no. 1, was informed by the Italian air attaché that the Curtiss Hawk was an old discarded Caproni design. I understand that this perturbed Dr. Kung to quite an extent. This is an illustration of one of the various difficulties encountered by agents here. The whole thing is dirty business and intrigue.

I think it would be a good idea if you could send me a short résumé of the original design and the consequent development of the Curtiss Hawk. I will send this on to Dr. Kung; not apropos of the Italian statement but merely give it to him with the suggestion that he might be interested in the history of the development of this ship.

The Italians are demonstrating a Fiat pursuit ship in Shanghai today and I am up here as "look-see" man for the Americans. This ship is a biplane with a water-cooled engine known in James as the C. R. 30: 250 m.p.h. is claimed by the Italians for this ship, but if it will do over 200 I will eat it lock, stock, and barrel. I am hoping that we will get a chance to have a competitive demonstration between this ship and the Hawk but I don't think the Italians want to play. They are a dirty cut-throat bunch of business people and do not hesitate to knock our equipment at every possible opportunity. I am glad to say that it has not been necessary for us to resort to this practice as the statement of facts is all that is necessary in regard to the Italian equipment now on hand.

Mr. Engle of the Austin Hangar Company is now in Hangchow surveying the ground for the factory. I am certainly glad that it is going to be in the same place that I am.

You would think that Curtiss Wright should have the whole aviation situation in the palms of their hands with having sold all of these Hawks and the factory, but such is not the case. The Chinese have a little method and system about buying airplanes as they have in other respects and if they get a favorable presentation in some other country in my opinion and that of many others, they would as soon buy other equipment in spite of the fact that it

entirely desystemizes the whole air force. I won't go into a tirade on Chinese psychology but, believe me, it passes all understanding.

We are hoping that Bill Pawley will be returning shortly to get on the job, as it looks as though there is the possibility of the purchase of additional equipment of observation or attack type. I saw to it that you got this information by cable although I don't know what you have to offer in the high-speed observation line except, the A-8 attack, which I believe would create a favorable impression here.

Bayless has just returned from Canton and I have been talking with him. He told me the tragic tale of Ed Deeds who was killed recently in a Hawk. He was an eyewitness and said that Deeds was making slow passes over the field with power a la Jimmy Doolittle and the next thing anybody knew he had spun in. This was taken up by all of your competitors which resulted in some very adverse criticism of the characteristics of the Hawk. I have done everything possible to show that this is entirely unfounded and have done everything in the Hawk that I am able to do, which, although somewhat short of Doolittle's capabilities, is enough to convince almost anyone of the excellent flying characteristics of the ship.

The first five ships have arrived and I am going to start setting them up tomorrow. Bayless is coming down to give us a hand, although I might say, with becoming modesty that his services are not essential, although they will be greatly appreciated. I had my no. 1 American engine man take instructions on the engine from him. This came in very handy.

If there is any information that you think I might be able to furnish you I would be only too glad to do so and to cooperate in any way possible with you. I am on the way to the barber to have my pigtail trimmed.

Please give my best regards to all hands and remember me to Mrs. Goulding. Sincerely yours,

(Signed) JERRY CLARK.

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#### EXHIBIT No. 286

#### MR. WEBSTER'S REPORT

NEW YORK, October 19, 1933.

Mr. J. S. ALLARD: I am passing on to you the following information received from Mr. Webster, regarding the situation in Peru:

"The British have been very active and have a very clever man on the job here, who has managed to gauge certain officials in order to put across sales. They have sold six 'Fairey Gordons' with Panther engines and six 'Fairey Fox' single seaters with Rolls Kestrel engines.

"Faucett has done practically nothing on sales." (Since writing this Mr. Webster has arranged with Faucett to engage Dan Tobin on military sales and pay him a salary out of his, Faucett's commissions.)

"The Government is in the market for 12 more ships—Fairey are doing their utmost to sell the Fairey Fox, two-place, with the Rolls Kestrel engine. Their price is down to \$28,500 and they have us licked on performance at high altitudes. The British have sold them on the idea that their fighting will have to be done at high altitudes.

"The officers who put through the first 12 British planes have been sent to England to take care of inspection, etc., and all went over well heeled with 'commission' money.

"At the prices we have to get, it is impossible to handle this sort of thing—and our prices are still increasing. The prospect is not at all bright and the company will have to realize we cannot compete unless we get our prices down.

"United are also after this business.

"I have also quoted the police department here on two trainers. It is a new development that may lead to real business but is it a hell of a job trying to get our increased prices.

"They don't give a rap about the N.R.A. or the reason why the United States Government is raising costs—they're interested only in what they have to pay. The argument that the dollar has decreased in value is no good—their big job is to get exchange down here and dollars are scarce and they have to pay a premium to get them. Don't give that as an argument—it only makes everyone sore. Up in Bolivia—that is the reason they are not ordering in large quan-

titles—but in threes and fours at a time—because they cannot get sufficient exchange. There is more business to be had and very soon, in Bolivia, and that is the reason I am anxious to get up there.

"Again referring to the two Trainers, which we can probably sell to the police department here, our cost is \$5,935, which makes the Trainer almost prohibitive in price compared to other ships. They are willing to pay around \$5,000 c.i.f. Callao for a Trainer, and unless we can get somewhere around that price we will have to forget about the business.

"Please explain to Mr. Smith, Mr. Allard, and Mr. Cramer that selling flying machines down here now with our increased costs is next to impossible.

"The British are lowering prices and offering other inducements and going after this business to beat Hell. The factory will have to realize this and meet these conditions if they expect to continue in this market."

OWEN SHANNON.

OS.js

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EXHIBIT No. 287

CURTISS-WRIGHT EXPORT CORPORATION, 27 WEST 57TH STREET, NEW YORK

LIMA, PERU, October 20, 1933.

DEAR DAN: The last figures received from New York on the price of the Hawk land plane with full armament consisting of two guns and bomb rack is \$26,000 c.i.f. Callao. Selling price of the pontoons c.i.f. Callao for the Hawk is \$3,850. If we ship them to Iquitos via Para, cost will be \$200 additional, but I have no accurate information as to steamer sailings.

We can ship two Hawks within 45 days of order and two per week thereafter.

By using the new barrell carburetor on the Cyclone engine and carrying 144 gallons of gasoline, the high speed of the Hawk is 205 miles per hour at 8,000 feet altitude, 201 miles at 12,000 feet, and 195 miles at 16,000 feet. Service ceiling is 23,800 feet and absolute ceiling 25,000 feet. The cruising range at 8,000 feet is 700 miles. Play this up for a pursuit ship.

The selling price of the Condor Bomber complete with armament, flyaway factory, is \$63,500 each. We can complete the first ship at the factory in 90 days from order. You have all the characteristics and other data.

I will write you from La Paz giving prices on bombs which are quite involved. If Gilardi asks why we have not reduced the price of the Hawk, you may tell him that we have done so but that our factory costs on material, etc., have been greatly increased; therefore, instead of increasing the price of the ship to customers, we have maintained that price.

For your information we had a long talk with Romano this afternoon and looked over the contract for the six Fairey, 2-place observation jobs, which is the last contract signed. We were under the impression that they ordered single-seat pursuit planes but this is not correct. It was 6 2-place jobs. The contract price in dollars was \$33,000 each and a little more than \$7,000 per set for pontoons. This makes the entire job about \$10,000 more per unit than our Falcon. It would do no harm to mention figures to the Minister, but of course do not say where you got your information from. It sounds like highway robbery to me and someone collected at least \$100,000 on the contract as "commission."

Best of luck old top and go to it. Keep in touch with me and let's see some business.

Sincerely,

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EXHIBIT No. 288

SEPT. 17, 1932

Mr. T. MORGAN,

President Curtiss-Wright Corporation, 4 Rue Chernowiz,  
Paris.

DEAR MR. MORGAN: We feel extremely sorry that you have not extended a business trip to Europe as far as Turkey, where an increasing amount of good, sound business may be expected for Curtiss-Wright and Sperry. You are, of course, getting information on the local aspects of things here through as reliable assistants as Com. Leighton, Major Melvin Hall, and Mr. Farnsworth,



Mr. Wite, Mr. Westervelt. Still, it would have been of great use to form a first-hand opinion of the matter, as you have the final responsibility of any decision.

It is certainly true that your first actual experiences in Turkey are not encouraging. There is, to begin with, a huge amount of red tape and diffusion of authority. Secondly, there was a delay of payment in the first business transaction, which must be a discouraging experience in present times. However, as Medjit Bey, the under secretary of aviation, has explained to Mr. Farnsworth, the delay is exceptional and due to the fact that the method of use of Aviation League money could not be decided for months at the beginning of the new financial year. The new budget itself was delayed. The method finally accepted will allow a prompt handling of payments.

From such distance a delay may easily be attributed to lack of means. You may rest assured that for any financial engagement taken for aviation matters the money does not only exist theoretically in the budget but is actually deposited in cash at the bank. Statements to the contrary are only spread by competitors, who hope to scare away American competitors from the Turkish market. A clear example of this was recently delivered by Vickers Armstrong.

The latter persuaded the Colt people that it would be unsafe for them to do business in Turkey, and that themselves did not care to arrange for a Brownling demonstration in Turkey, because they did not care to solicit business there, having a great deal of money outstanding. The business mentioned in this connection was the sale of 48 machine guns, making a total of about \$25,000. Within a few weeks of this statement, Vickers Armstrong obtained, after most strenuous efforts, an order of eight supermarine seaplanes of \$800,000, to be paid half in sterling, half in Turkish pounds. This proves that Vickers-Armstrong, which has a permanent factory branch in Ankara and has an exact knowledge of local conditions, considers safe to do business for its own account, but does not hesitate to use unclean methods to deceive American competitors and keep them away from the market.

The business actually obtained by Curtiss-Wright up to the present is the following:

18 Hawks manufactured in America.....	324, 000
6 Hawks (materials and motors).....	75, 000
6 Fledglings (materials and motors).....	52, 000
Various equipment in connection with Hawks.....	22, 000
6 months' rent for two Kingbirds.....	10, 000
Spare parts for airlines.....	6, 000
Shop equipment for Kayseri.....	27, 000
	<hr/>
	516, 000

The business expected for the next months is the following:

3 300-hp. Wright motors for F 13 Junkers planes.....	12, 300
40 180-hp. Wright motors for A 20 Junkers planes.....	120, 000
3 radio sets for ground use and airplanes.....	30, 000
Spare parts for Hawks and Cyclone.....	100, 000
Spare parts for Fledglings and Whirlwind motors.....	20, 000
Spare motors.....	30, 000
Aerial photographic equipment.....	20, 000
	<hr/>
	332, 300

A further order of 24 Hawks to be built in Kayseri may be expected as soon as planes manufactured in Kayseri prove a success. The airlines will also prove to be a source of continued business.

We are afraid that the nature of the work we have to do is not fully appreciated in New York. European competitors, who consider American competition as unrightful intruding into their established sphere, are doing everything to render the task difficult. In addition to this, it needs a constant fight to sell a quality good in a market where price has been the dominating factor for the account of a manufacturer who does not see any reason to make the sacrifices in procedure and terms cheerfully accepted by European countries.

In order to be strong in this struggle we have associated to ourselves two other firms.

Now, I must write you frankly about a difficulty we are up against:

When I wrote you on July 10, 1932, about applying half of the Curtiss commissions due to us to our Sperry debt and to send us the other half, as it con-

stitutes the shares of the two firms we are associated with, I hear that you have not received our request favorably, taking it surely for a demand of another favor. From this viewpoint you are perfectly right, because you have gone to the extreme limit in helping us in the Sperry matter so that troubling you for a further request in that connection would be more than unreasonable.

Our request would appear in a different light, if it is viewed from the standpoint of business expediency on the one hand, lack of risk and trouble for Sperry on the other hand.

The two firms helping us in the Curtiss-Sperry business and spending constantly money, as we do, for it, would lose their initiative, if they don't get any commission after a certain business is settled and concluded. It is easy to realize their stand of mind, when one thinks of four years' activity and expense, spent for Curtiss business.

In spite of this situation, I could very well understand your standpoint of letting us fight out the difficulties, if the commissions expected from Curtiss just covered our Sperry debt. As a matter of fact, the commission expected from the accomplished business and from surely coming business like spare parts and motor orders would cover our debt to Sperry about three times. So the acceptance of the request about applying only 50% of the commissions becoming due to the Sperry debt would only mean a delay of a few months in the complete payment of the debt. As there is no risk and as the debt is subject to 6% interest, Sperry would not run any disadvantage of showing this facility against the great advantage which the satisfying of our partners means for both the Curtiss and the Sperry business in our territory.

Firmly hoping that you will decide to approve of the methods of procedure outlined in our letter of July 10th, of which we are enclosing a copy,

Yours very sincerely,

AHMET EMIN.

AE/EH  
Enclosure.

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EXHIBIT No. 289

FINLAND—CYCLONE—UNITED

FEBRUARY 5, 1931.

J. S. ALLARD, New York City.  
Mr. BURDETTE S. WRIGHT, Washington, D.C.

DEAR BURDIE: Thanks for yours of the 3rd with the attached copy of letter to Leighton Rogers on the subject of the cable to be sent to Osborn Watson about Cyclone tests. Also thanks for the dope about Love's reaction to whatever statements Major Hall is making. Needless to say, I do not believe Hall's statements are at all radical or unethical, as all cables and correspondence that he has had with the Finnish officials in which he had discussed 1820-E's have been based entirely upon information furnished direct from the Wright Company or from this office. Love has been made to stop his unethical tactics of running down competitive products, and I think this is just a sample of a method he is pursuing to meet real competition.

Very truly yours,

J. S. ALLARD.

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EXHIBIT No. 290

[Copy]

FILE COPY OF TELEGRAPHIC MESSAGE

To: Aeroexco.  
From: Melvin Hall, Ankara, Turkey.  
THOMAS A. MORGAN.  
(Personal.)

MARCH 30, 1932.

In spite of bitter competition contract(s) for eighteen Curtiss Hawk one-place pursuit, Cyclone engine, ready for our signature, but all (of) special fund(s) local aviation association recently made subject to Turkish Government regulations, stipulating all payments foreign purchase(s) not more than 30% before their total acceptance(s) Turkey. Stop. According to our estimate (of) pres-

ent terms will delay previously arranged payment on presentation of shipping documents Constantinople, Turkey, at a maximum of six weeks. Stop. 30% (of) payment in advance balance of payment(s) 70% in about six months after closing contract. Stop. Have tried hard to but cannot arrange (for) better terms. Stop. Under the circumstances no reason to believe are running a great risk; embassy of the same opinion. Stop. Fund(s) have been allotted in the bank covering payment but impossible to secure letter of credit negotiable instruments on account of Government regulations. Stop. Absolutely certain can complete in satisfactory manner, gold-dollars exchange, excluding all risks any fluctuation in exchange to cost not more (than) small interest charge. Stop. Turkey unquestionably has acted in good faith on our (my) behalf, are accepting according to our statement (of) (that) regarding Curtiss Hawk, one-place Cyclone engine, ignoring official information U.S. Government to the contrary, in addition to foul intrigue our competitors and especially United Aircraft & Transport, in addition to the foregoing paying higher price(s) \$3,000 per unit will not take advantage (of) attractive offer our competitors are quoting, for example pole(s) to take in full payment Turkish raw products. Stop. Believe that all future sales Turkey impossible unless accept their terms. Stop. Believe that future business, European, influenced by success failure here. Stop. After carefully considering the matter recommend that you accept. Stop. If you approve of will communicate further with detail(s) gold-dollars exchange. Stop. Awaiting your instructions.

MELVIN HALL.

MF.

cc. Messrs. Morgan, Allard, Webster, Goulding, Smith.

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EXHIBIT No. 291

[Copy from carbon copy]

From: Melvin Hall.

BUDAPEST, REC., June 3, 1930. A.A.

To: Aeroexco.

N 1 37 Budapest, 37 LCD, Aeroexco, N.Y.

Retelhive tactics following us with insidious derogatory comment obsolete equipment impossible dispose of in America. alleged financial difficulties corporation. States Army-Navy orders now hundred percent United equipment, etcetera. Report follows.

MELVIN HALL.

Washington file: "European Tour-General."

#535

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EXHIBIT No. 292

INTERCONTINENT AVIATION, INC.,  
HAMILTON HOUSE, SHANGHAI, October 16, 1933.

Mr. THOMAS MORGAN,

29 West 57th Street, New York City.

DEAR TOM: Hugh Keavney, who signed the attached memorandum, is leaving for the States on today's boat. On June 6th he received a letter from his wife containing this message. I don't know who Bill Brookes is but he is reported to be a Buffalo Curtiss factory employee. It might be very interesting to have it checked to find out just who he is and the reasons for his statements.

Keavney came to China in June for Paramount; lost his job and was left in China, supposedly stranded. He is an ex-aviator and supposed to be a very close friend of Casey Jones. I understand that Bill Goulding is acquainted with him and can probably tell you something about his past activities. The contents of this letter were immediately transmitted to Carl Nahunmacher, United's agent, who has passed it around to everyone in Shanghai interested in aircraft with the story that the man who received the letter was stopping at the Metropole Hotel and could furnish definite proof that the ships sold to the Chinese were old equipment.

I am running photographs of the China planes being constructed in the rotogravure section of next Sunday's paper with the statement that these ships were under construction during the months of June, July, and August 1933.

I do not believe that any lasting damage has been done by this rumor, but combined with the trouble we have been having and also the fact that five of

the Hawks have already cracked up at Hangchow, it certainly makes it tough for us for a while.

Things are moving along fair enough although I have nothing to report to you so far on the factory developments. The Chinese Government is still considering the contract. I hope in the near future to be able to cable you some concrete news.

With kind personal regards, I am

Sincerely yours,

(Sgd.) W. D. PAWLEY.

**EXHIBIT No. 293**

"Today Bill Brookes stopped in to see if I had heard from you; he told me the Chinese in Chinatown had a lot of cash they were going to send to China, but when the treaty with Japan was signed they got peeved and didn't send it. He also told me that the Curtiss planes Jimmy Doolittle went over there with were the same old crates they tried to sell China last year. The only difference was a coat of paint and other motors and they are another year old. If you run into them, watch out. They are supposed to be awful.

"If you can check the truthfulness of this story you might be able to get some thanks from the Government. Jimmy is thought to be studying a newer plane which resembles those in the shipment. Of course I have no way of checking this story of Bill's but I thought you ought to know anyway."

This memorandum is an excerpt from a personal letter to me from my wife dated June 6th and is the only letter that I have received regarding Curtiss aviation equipment of any kind.

(Sgd.) HUGH KEAVNEY.

**EXHIBIT No. 294**

**SITUATION SUMMARY, TURKEY SUPPLEMENTARY INTERIM REPORT PERSONALITIES, FEB. 27, 1933**

Zekai Bey, Minister of National Defense, is believed at present to be well-disposed but extremely desirous of having something concrete to show in the way of results justifying the policy of his ministry in turning to America for military aeronautical equipment and technical cooperation. He is intelligent but not entirely to be relied on. To meet his desires, which are by no means without reason, it appears most necessary to turn out the sample Fledgling at the earliest practicable moment. It should not be lost sight of that all representatives of competitive interests who may feel themselves adversely affected by the increasing collaboration of the ministry with C-W and the orders passed to C-W, band together and with their influential friends, deputies, newspaper editors, etc., and keep up a constant and heavy bombardment of the minister's position.

The Prime Minister, Ismet Pasha, is an authority with whom we come less in direct contact. Nevertheless, he is strongly favorable to the principle of cooperation with America, very keen on the development of Turkish aviation, especially interested in the proposed Turkish airline to serve as a link in the international systems, and keeps himself well-informed on the progress of matters connected with C-W cooperation. The rapid development of aircraft manufacture at Kayseri is for him, as for other Government leaders, a matter of major national importance. This fact was perhaps not fully appreciated in New York when the technical cooperation contract was signed and Fledgling bill of materials urgently called for. Ismet Pasha's whole policy favors the C-W collaboration. If results are produced he can be counted on to be far more than slightly partial in C-W favor; if not, he can become a relentless enemy.

Ferzi Pasha, chief of the general staff, is believed to be potentially friendly as long as C-W keeps its engagements with the ministry, delivers the performances guaranteed, and produces results at Kayseri. He is disinterested in politics, desiring only to develop the strongest possible defense force with the resources at his disposal. He is sufficiently air-minded to build up his air force at the expense of both the army and the navy. He has adopted certain standard terms of purchase and acceptance to meet the special circumstances in Turkey. From these terms, which European competitors have accepted,

he is unwilling to depart. He is strong, impartial, and honest. He wishes Turkish military aircraft to be not inferior to the best in standard service for various purposes in any major country, but is unwilling to experiment with prototypes. He is very keen to render his country self-sufficient in production of military aircraft as rapidly and completely as possible. For this reason he is apt to prove impatient of undue delays at Kayseri and more impressed by visible concrete results than by excuses or explanations. One of the features of the cooperation with C-W that appeals to him most is the fact that the political considerations and constant diplomatic pressure that would be involved in similar association with any major European manufacturer or group are missing. He has had unfortunate experiences with certain European contractors, notably Junkers and Gourdou, and is not likely to be tolerant of failure to produce results or to meet guarantees. On the other hand, if C-W delivers the goods, he can be counted on to be absolutely fair and not to be swerved by petty intrigues.

Abdul Halik Bey, Minister of Finance and former Minister of National Defense, is one of the most admirable characters in Turkey. Broad-minded, honest, reasonable, and far-sighted, he has succeeded under immense difficulties in producing one of the few balanced budgets in the world today. He recognizes and admits more freely than others the defects in the Turkish administrative systems and is definitely striving to overcome them. He is very friendly to C-W. Should there be a change in the cabinet involving the Ministry of National Defense, he is almost certain to be the next holder of that portfolio. A better selection for C-W interests could not be found. Saracoglu Sukru (Sarajoglou Shukri) Bey would probably replace him as Minister of Finance. Though a man less sound, less sincere, and less devoid of politics than Abdul Halik, Sukru Bey would be a favorable selection for C-W.

Col. Mecid Bey (Mejid Bey), former Under-Secretary for Aviation, is an artillery officer without profound knowledge of technical matters connected with aviation, and consequently apt to be influenced too much by the opinions of his technical aides. He is absolutely honest, sincere, hard-working, and well intentioned, if somewhat naive at times. He is particularly naive and difficult with respect to financial matters, which he doesn't in the least comprehend. He can be very stubborn on occasions though generally indecisive, has an unfortunately acute memory for all statements, promises, and assurances made him at any time, is inclined to be suspicious, tries to drive hard bargains with contractors without being a shrewd bargainer, and messes too much in detail which he doesn't clearly grasp. His personal character is above reproach. After his present tour of duty with troops he will in all probability return as Under-Secretary for Aviation. Having had much to do with the formation of the program of technical cooperation with C-W he will undoubtedly be friendly and heartily desirous of a successful outcome, though his hopes and expectations, especially involving the time element, are apt to run somewhat ahead of practicable realization. Balanced by the more practical mind of Maj. Ihsan Bey, liaison officer of the General Staff with the Under-Secretary's office and Technical Section of the Ministry, Mecid Bey can be really helpful to C-W interests. He hopes eventually to retire as Director-General of Civil Aviation. If the Ministry's latest proposal to C-W for the operation of the airline is mutually acceptable to C-W interests and the Turkish Government, there may not be any need for such an appointment.

Capt. Hamdi Bey, the only active officer in the technical section at present, is a wholly inappropriate person for such a responsible position. Ill-informed, out-of-date, stubborn, and a slave to ritual, he is nevertheless a potential friend, and especially when handled by Hilmi Bey he can be extremely useful. He has an important voice in the selection of new types of aircraft and full authority in writing up the specifications.

Lt. Col. Sefik (Shefik) Bey, is unquestionably sincerely friendly. He is one of the two most influential officers in the air force. At present commanding the regiment at Smyrna, he is somewhat removed from the C-W battle front but nonetheless is a very useful supporter in matters of policy. His visit to America and his marriage to the daughter of Fevzi Pasha constitute both very strong assets and distinct handicaps, the latter in laying him open to accusations of partiality towards C-W on account of the reception accorded him in America and possible "understandings", and of favoritism through his relations with the Chief of Staff. For these reasons he keeps in the background of C-W affairs as much as possible.

Lt. Co. Celal (Jelal) Bey, commanding the regiment at Eskisehir, is the opposite number of Sefik Bey and the other most influential officer of the air force. He and Sefik graduated from the same class and have advanced together ever since. There is a very definite though hidden rivalry between the two. Celal Bey's opposition to C-W in general is doubtless partly due to his jealousy of Sefik. Celal Bey absorbed in the course of his education in France a good deal tending to render him partial to French methods, French standards, and French equipment. He threw his influence in favor of Dewoitines against Hawks and remains consistent to his original recommendations. He is, probably without realizing it, strongly influenced by Selahettin Bey, the civilian engineer who is the most outspokenly anti-C-W man in Turkey. Celal Bey is kept well—though by no means always accurately—informed on all matters unfavorable to C-W, such as annual reports, statements showing losses, army and navy procurements not favorable to Curtiss (the recent big order for low-wing Boeing pursuits will undoubtedly be strongly featured here against the Turkish Hawk program), liquidation of the flying service, closing down of subsidiary companies for lack of orders, crashes, and failures, etc. It is believed that this information is furnished gratis by Hamilton of United through Selahettin Bey. Celal Bey stated to Hilmi Bey, and probably is thoroughly convinced, that C-W sent a mission over here comprising a pursuit plane which did not have sufficient performance to be of any interest to anyone. In a desperate attempt to produce an answer to the Boeing and to European pursuit planes, the E Cyclone-Hawk was offered but proved a failure and wasn't taken up by either the Army or Navy. In further desperation the F engine was substituted and the combination is now being tried on the dog (Turkey). Its performances were not based on fact but on the desire to exceed the Dewoitine performances. It cannot and never will meet its guarantees. Celal Bey maintains, and probably with complete sincerity, that his only thought is to struggle for the welfare of Turkish aviation, for the mobilization and operation of which he will be responsible when the day of emergency arises (maybe he will in part, but certainly not alone). When he hears such stuff as the above, allegedly from responsible sources, constantly reiterated by his closest personal friend, it is not surprising if it has some effect.

Celal Bey is further influenced against C-W, in a minor way, because his pet recommendation to move the regiment to a new field about 4 miles away and separate it from the school was not supported by Hulse, on grounds of economy. Hulse was right and was so recognized by the ministry, but it has not sweetened Celal Bey's attitude. Celal Bey is also strongly opposed to the spending of any money of the Ministry of National Defense on airlines, though not opposed to airlines in principle if supported by some other ministry's budget.

Selahettin Bey is the principal disturbing influence, though not the only one. Of pleasing personality, great conceit, and infinite audacity, he returned from a technical education in France (where he was at the bottom of his class) to build all the military aircraft for the Turkish Government. With specious arguments he convinced many people that it was foolish to go outside Turkey for aircraft when he could build in Turkey as well as C-W at a fraction the cost. His bitter opposition to everything C-W is based wholly on the fact that he recognizes in C-W the principal, if not only, obstacle to the realization of his schemes to get control of the production of military aircraft in Turkey. Without originality or real experience, his first effort was not successful, and his influence has greatly diminished except with his friend Celal Bey. He constitutes, however, a very annoying and troublesome element, and it is doubtful if anything can be done to change his character and fundamental attitude. He is not clever enough to realize that he would have had a vastly better chance to succeed in due course with his program for himself had he supported C-W whole-heartedly and received C-W's support. It is quite evident that he receives his anti-C-W information from Hamilton of United, and it was told Emel Bey a few days ago by Hamdi that Selahettin had a definite "arrangement" with United. This ties in with the statement to Gillespie by the United mechanic Butterfield that though they hadn't been able to do much for themselves in Turkey they at least had quered C-W's game here *permanently*. What the "arrangement" may be is problematical—possibly promise of a good commission on all United engines sold to Selahettin's ships—but at all events, it would appear that United are persisting with their destructive policy of endeavoring to turn C-W business in Europe, when they themselves cannot get it, to the hands of French, Poles, or, indeed, anyone else.

There are many other personalities involved in C-W affairs in Turkey, but the above-mentioned, except perhaps for Hikmet Bey at Kayseri, whom we count on to assist Coon and to put the C-W case across, are those whose influence pro or con seems most likely to affect the immediate course of events. Hikmet Bey, a young engineer educated in America, has only moderate influence as yet but is clever enough to assist us fully to build him up to take over Kayseri eventually and is undoubtedly a strong asset in his present capacity.

(Signed) MELVIN HALL.

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EXHIBIT No. 295

REPORT No. 20 CAUTLEY

JUNE 4, 1930.

Confidential.

Subject: Wright engines business in Yugoslavia.

(1) In another report I will try to give you a little Yugoslav background. Suffice to say for the moment that you positively cannot believe anything that anyone tells you in Yugoslavia, unless you have remarkable talent for detecting truth among much falsehood. In Yugoslavia speech is used to conceal one's thoughts.

(2) Drawing my own conclusions from talking with various kinds of plain, fancy, and acrobatic Yugoslav liars:

(3) There is no immediate nor easy Wright engine business in Yugoslavia. That opportunity passed long ago. I have no time to conduct a post mortem.

(4) We absolutely cannot do business in Yugoslavia without a duly accredited sales agent on the spot. Our present position, with Petrovich as our agent in the eyes of the Government, but totally unable to do any business for us, is the worst we could be in. It is an absolute stalemate. Petrovich could get us some business, I am quite sure. But Smyth will be much better. In order to make Smyth fully effective, Petrovich must be immediately and finally discredited in Yugoslavia. If he can then be of any assistance, Smyth will handle the situation on the spot and pay Petrovich whatever commission is necessary out of his own commission. For this purpose, am enclosing rough drafts of two letters, one to the American Minister and one to Yugoslav Minister of War. Rush. These letters must be signed by an officer of the company, president or vice president, and sent through just as quickly as possible. Send copies to C.W.X., Paris. Rush. When I cable you, follow them through with another pair of official letters stating that inasmuch as Mr. W. H. Smyth has been appointed representative of C.W.X. for Yugoslavia, he is the person empowered to represent Wright engines there. Rush.

(5) The immediate order for 180 Whirlwinds has evaporated into thin, hot air. Yugoslavia will insist on going through the motions, at least, of taking a manufacturing license before ordering any such quantity. This does not mean that the 180 cannot eventually be resuscitated. Conditions change, depending upon who gets the graft and how much. For example, Lorraine and Potez, Salmson and Hauriot, were first in the field here and cleaned up for a while. Now it is Gnome Rhone and Breguet sitting on top, with Renault coming up and Lorraine going down.

(6) Competition is enormously keen here considering the small volume of business (by our standards) available. For example, Gnome Rhone has practically formed a company, erected a factory, and furnish a first-class factory manager for the sake of 50 engines a year.

If we want to put up a fight for the sake of 50-60 engines a year maximum, the first thing to do is to loan the Yugoslav Government a new Whirlwind 300—a good one—to be installed in a Fizir advanced training plane and tested for 3 to 5 months. This is the only chance I can see at present to revive the interest of the army in Wright engines.

If things are still as dull at home as they were when I left, it would be wise to take a chance on this one engine. I have been told that the Yugoslav Government never fails to buy an engine thus submitted for test unless it is absolutely no good.

RANDOLPH CAUTLEY.

## EXHIBIT No. 296

CURTISS-WRIGHT EXPORT CORPORATION,  
New York City, April 6, 1934.

No. 105.

Via S.S. *Europa*.

To: MR. B. G. LEIGHTON,  
*American Embassy, Ankara, Turkey.*

DEAR BRUCE: Mr. B. C. Goss, who is president of the U.S. Ordnance Engineers, Inc., who manufacture chemical warfare munitions, has been approached by an individual in Istanbul in connection with the possible sale of chemical munitions to the Turkish Government and, more recently, with a plan which this Turk has submitted to Mr. Goss for U.S. Ordnance Engineers, Inc., to build a chemical munitions plant in Turkey.

Mr. Goss is very much interested in the proposition and, incidentally he tells me it is the only way that Turkey can have successful chemical warfare equipment—by building a factory.

Mr. Goss is planning on going to Turkey in the very near future, probably sailing within the next week or two and may, possibly, sail with me. However, in the event that we do not arrive together, I am writing him a letter of introduction to you and have suggested that he get in touch with you before he gets in touch with anyone else in Turkey, so that you can give him the benefit of your experience and advice, and see if there is any way in which Curtiss-Wright can participate on a commission basis in his projected business with Turkey. Obviously, we do not want to be involved in any financing or anything else, but merely to get a commission for the assistance which you will give him.

Sincerely yours,

J.S.A.  
B.M.N.  
Enc.

## EXHIBIT No. 297

[Copied from original]

CURTISS-WRIGHT EXPORT CORPORATION,  
27 West Fifty-seventh Street, New York, July 21, 1930.

Mr. BURDETTE S. WRIGHT,  
501 Southern Bldg., Washington, D.C.

DEAR BURDIE: Thanks for yours of the 17th regarding Mr. Gordon B. Enders and E. F. Baskey. The information is most interesting, and while I realize that the ethics of the transaction are very questionable, from all I gather most Chinese business is unethical and I still think that I would like to have had a chance at the Chinese business that Enders apparently had in his hand.

This, of course, is not official, but it is confidential between you and me. I do think that if Enders had come in here with cash to buy a lot of aviation equipment to be sent to China and the State Department gave us approval I would not care much who Enders was as long as I got the cash and the State Department approved the shipment of the aeroplanes. Under present conditions we did not get a chance to contact with him, therefore we can stick up our noses in the air and say that we prefer not to associate with men of his calibre, but the truth of the matter is, I wish we had gotten the order.

Sincerely yours,

(Sgd.) JACK.

J. S. Allard.  
BMN.  
Washington file: "China."



## EXHIBIT No. 298

LA PAZ, BOLIVIA, March 24, 1933.

Mr. C. W. WEBSTER,

*President Curtiss-Wright Export Corporation,  
27 West Fifty-seventh Street, New York.*

DEAR WEB: It is too early to report as yet on the situation of the Mollendo Hawks. I saw Lopez yesterday and gave him the ultimatum in writing and the total amount to be paid runs to a little over \$26,400.00, including insurance, etc. I am going to see Lopez again this morning and will probably get some definite information as to what they will do. The aviation officials want the Hawks as soon as possible, and there will be a hell of a fight if the Government wants to cancel them. They can get the money if they really need it, but the attitude here, as you know, is to let things run as long as possible without paying.

Cueto is in Arica and has been there since before I left for Lima the last time. I have received a couple of very childish, threatening letters from him, and he will get my answer in Arica this morning. I am informed from reliable sources that Cueto went to Arica for his health, and the chances are that he will not be back, although I invited him up here to talk things over. I have made a few investigations but will have to see several people yet to get a fair picture of the situation. It is quite likely that he will try to sue, and he also threatens that he will put the matter before the various governments that we have been doing business with. I got a look at some documents yesterday that bear authority, and although they were confidential I took some notes. Cueto files the following information regarding himself and his business:

Importer of manufactured articles.

Exporter of national articles.

Agent of foreign manufacturers.

Languages: English, Spanish, French.

Countries: Europe, United States, Chile.

Business done on own account on commission basis.

Organization: Private.

Home office: La Paz.

Branch office: Arica (to be established).

Traveling salesmen employed, several.

Commercial references: Bell & Howell, Chicago; Curtiss-Wright Export; Mack Motor Truck Corporation, New York; Laboratories Francia Stgo, Chile, and Bellanca Aircraft, New Castle, Del.

Agents for—same as above.

Bank reference—any bank.

There was no reference from any of the commercial firms mentioned, but the two banks here were requested to send in their recommendations and we find the following:

Banco Central, Feb. 25th, 1933: "Mr. Cueto Pozo has an agency to act occasionally for Curtiss Airplanes on a commission basis. At the time of taking this agency Mr. Cueto Pozo was in the Ministry of Foreign Affairs. In order to safeguard Government money he was discharged from the position in the Ministry of Foreign Affairs. As a private person he does not own any real estate, nor does he have money. At present there is a commission appointed by the Government to investigate concerning the sales of airplanes and trucks to the Government and establish whether Mr. Cueto Pozo and others have been unduly zealous in their private dealings with the Government."

Banco Mercantil, February 23rd, 1933: "Mr. Cueto Pozo is not a merchant. He has been deprived of the position he held in the Ministry of Foreign Affairs on account of being involved in the sale of airplanes to the Government. He does not have capital and does not meet his obligations."

This may not be worth anything to you, but I am passing it on for your information and to give you an idea of the standing of Cueto in La Paz.

The tail wheels and high skid for the Ospreys arrived O.K., but I will not have the opportunity of trying them out, as there are no planes left here in La Paz. Of the twelve Ospreys, they have six left. One Hawk is in the Chaco and seems to be all in one piece as yet, but the second Hawk has never left La Paz. Seems that they have no pilot available that they are willing to trust with the machine. Our dear friend, Major Vargas Guzman, has been transferred to Infantry and is due to leave for the Chaco soon. Col. Jordan is Jefe of the works and he is the one man that should have had the job since the beginning.

Nothing more at present. Cannot give any more dope on the business here, as the mail goes out 10:00 this morning and I have an appointment with Lopez at that hour. More on next mail.

Best wishes and regards. Web.

Sincerely,

CLIFF.

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EXHIBIT No. 299

FEBRUARY 9, 1933.

Mr. F. ECHENIQUE,

P.O. box 3098, Los Cerrillos,

Santiago, Chile.

DEAR PANCHO: Since my return I have been doing considerable traveling and have spent very little time in the office.

I regret that I have not been able to write you fully regarding the Bolivian situation. I explained to Jerry one day on the telephone the difficulties we have had with the Bolivian business and asked him to give you the information.

The Bolivian Government business has been handled and controlled entirely by Mr. Lopez, comptroller general, and when I was in La Paz, he was very much upset and concerned because of the fact that we had been dealing through an agent and paying a commission on the business. He insisted that all business be handled directly between the Government and ourselves, and that no commissions would be permitted by the Government. He took immediate steps to discharge from Government service Mr. Cueto Pozo, and deducted from our bills the commissions which were supposed to have been paid. We have been unable to collect this extra amount and probably never will. He threatened to discontinue all business relations with us unless we agreed to this policy, and for that reason it is naturally impossible for me to make any arrangement with you at the present time for commissions.

I told you when I was in Santiago that I would do the best I could for you but that it was impossible for me to name a definite amount, and this arrangement will have to stand until we have concluded our business dealings with the Government. I am, naturally, very sorry that I can do nothing for you at this time, but you must appreciate the situation and permit it to continue until I am able to smooth matters over.

In some way the Bolivian Government, through its intelligence service, learned of our dealings and prices with other countries and what commissions are normally allowed. Mr. Decker, the Bolivian consul in New York, has been very friendly towards us, and I am having luncheon with him today.

I realize that everyone, ourselves and yourself included, are going through rather tough periods now, but there is nothing that I can do at the present time to help the situation. I probably will be starting for South America again within the next five or eight weeks, and possibly at that time I can more fully explain the situation and possibly do something for you. You must also realize, Pancho, that we went to considerable expense in paying your expenses from La Paz to New York and return to Chile, all of which, naturally, is charged against you on our books, and I can only repeat that you must rely upon our personal friendship to adjust this situation in some way as soon as possible.

I am looking forward to seeing you again in the near future, and, in the meantime, my sincere good wishes to you and Mrs. Echenique, and the best of good luck.

Cordially yours,

C. W. WEBSTER.

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EXHIBIT No. 300

CURTISS-WRIGHT EXPORT CORPORATION,  
La Paz, Bolivia, March 29, 1933.

Mr. C. W. WEBSTER,

President, Curtiss-Wright Export Corporation.

27 West 57th Street, New York.

DEAR WEB: I had an interview with Lopez this morning with respect to Cueto and Pancho Echenique. Lopez says that the Government has never given Cueto a letter to the effect that they did not refuse to pay him a commission. Lopez is giving me a statement to that effect, and I hope to get it in time to

enclose in this letter. As regards Pancho, Lopez doesn't even know him, and assures me that Pancho never did a bit of business here and had nothing whatever to do with any purchases made by Bolivia from us. He is also giving me a letter to that effect.

Received a cable yesterday asking what price Rogers quoted on parachutes. He quoted our price of \$335 and turned in an order for 18 chutes, 12 of which were a part of the order I secured some time ago. They sure sent the money in a rush for the additional chutes. It might be interesting to know the reason. A short time before the order went through one of the pilots in the Chaco was shot down with an Osprey, and the observer, uninjured, jumped from the falling plane with the intention of landing in the Paraguay River. He hit the river all right, but as he jumped from 1,000 feet with no chute it was just too bad. So after a concrete example of what I have been telling them all along, they quickly decided that they urgently needed enough chutes to equip all the pilots. The 12 chutes shipped on the *Barbara* will arrive this week, maybe today. That shipment was sent to Arica and had to be reshipped to Mollendo, hence the delay.

At the present time there are only 5 of the 12 Ospreys in commission. Of the seven wrecked, five can be repaired when the spares arrive. One was a complete washout when the pilot landed on orders in a stump-infested field, and one was shot down by ground fire and burned on the crash.

Col. Santalla is up from the Chaco and is plumb goofy over our planes. When the first Ospreys arrived in La Paz he was all against us and was very skeptical of our equipment. At that time he had little to do with things and he didn't worry me much. Now he has about 15 hours flying over the front and can't say enough in our favor.

Am busy trying to push an order for more planes, and with Santalla, Jordan, and Ernst all on my side. I may get something done.

There is a firm here in La Paz, Webster & Ashton, formerly Webster & Finnegan, Casilla 144, that is a local business outfit with a branch in Oruro. They have the agency for International Harvester Export and have done considerable business with the Bolivian Government in trucks. They carry on national business as well. They want the agency for us in Bolivia and I have thoroughly looked up the standing of the firm, found it O.K., have talked with the American Minister, Feely, and have known both Webster and Ashton personally since my first arrival here. Lopez called me in to talk it over and informed me that the Government was willing to do business with an accredited firm, but not with an individual, and that they were willing to pay a reasonable commission on business with us for the convenience of having someone here at all times. Lopez suggested our placing an agency here for the convenience of the Government inasmuch as I will not be here permanently, and recommended Webster & Ashton. (I don't know what the hell is the matter with me; I haven't had a drink all day and yet my fingers get all tangled up on this darned machine.) I am enclosing a letter from them. I don't know what effect the placing of an agency here would have on the claims of Cueto, but Lopez is all for it. There is one thing that comes to my attention with regard to this although I believe everything is aboveboard and on the level. Lopez is in with Webster & Ashton on a hat factory and a retail clothing and furniture business here and it is extremely difficult, in view of the control board, to get dollars for the necessary imports for their business. Having an agency for American goods would enable them to carry their commissions in dollars in New York. There may be some kind of a combination between the parties, but the thing as put up to me sounds O.K. and on the level. Feely thinks it is square. Anyway, think it over and drop me a line, and it might be well to write to Webster & Ashton and see what you can find out. It is true that after I leave here it will be difficult for the Government to do quick business with us in spares, etc., with no representative here and no one to take care of their complaints or what not. Lopez also informs me that they intend to establish a credit with an agent, if appointed, so that things can be shipped immediately without sending drafts through the bank for every amount as needed. I pointed out that he could just as well establish credit with us in New York, but he prefers to do it his way.

I ran a test on the Hawk here yesterday on take-off distance and with full load got into the air in 800 feet on a wet field. The best take-off on dry field is 490 feet. It is considered nothing short of a miracle up here.

More next week, Web; best of luck and good wishes.

Sincerely,

(Sgd.) CLIFF.

## EXHIBIT No. 301

LA PAZ, BOLIVIA, Sept. 21, 1933.

CWW #36

Mr. C. W. WEBSTER,

*Curtiss-Wright Export Corporation,  
27 West 57th Street, New York.*

DEAR WEB: I am proceeding on to Lima today and will mail this letter in Arica on my way through. There is absolutely nothing more that I can do here at the present time, and I may be able to be of some help in Lima. The supreme decree for three more Ospreys was signed yesterday, but it will be weeks before a regular contract is made out. That is customary here. Activos are arranging for payments, and that should go through in a week or ten days, although they are trying to get the 25% through immediately and then go ahead with the balance as soon after as possible. Irrevocable credit will be arranged as before. As I told you in my cable of the 19th, the order for three Ospreys will be followed by an order later on for six more Ospreys and three Hawks. The Banco Central has already been notified that that amount of money will have to be planned on in the budget. In the meantime the Trainer deal is shelved. They are thinking, just thinking, of contracting several foreign pilots instead of wasting time training more of their own. They will undoubtedly be German pilots—due to Kundt. Webster & Ashton are sure live wires and we certainly made no mistake when we took them on. I had a chat with Minister Feely yesterday and his opinion is that taking them on was the best business that we have done yet.

Regarding the commission to be paid Activos, I cabled that my recommendation was 5% of the total amount of the last order. That would be 5% of \$97,180.00, or nearly \$5,000.00. As you know, that order was put through by me some time ago but Activos were darned helpful on the final details of the deal and were entirely responsible for getting the money in cash; something that no one else without their contracts and influence could have done so easily, if at all. For your own information, Lopez is, and has been for some time, a silent partner of Activos and is interested to quite an extent in the agency and their textile and hat factories. That is not common knowledge, but it makes it necessary to play ball with the tall friend, as he is the deciding factor in all purchases—more so than the President himself. Do not mistake me, Lopez is one of the few honest men in this country and although he has a personal interest in the sale of Curtiss planes and equipment he would not let the order go through unless the stuff was entirely satisfactory. Let me give you some extremely confidential dope that I picked up, no matter where, but it was in writing:

1. Jorge Zalles, Vice Pres. of Grace & Co., used the Cueto affair as a lever to try to influence Lopez through the New York Consul to eliminate Curtiss and take up United Aircraft through Grace. They told Lopez that they could supply Hawks at \$23,000 and Ospreys at \$17,000.

2. When the last three planes (that have just been delivered) were on order the purchase was nearly cancelled because of interference of the Kundt-Bilbao combination—through Minister of War Hertzog—to the President. Except for Lopez and the pilots (as well as my visit here at the time to straighten out the complaints) the order would have been cancelled and the business given to United Aircraft and Fokker.

3. Due to Lopez and Activos we were able to arrange full payment on the last order through irrevocable credit. The President's instructions were to make payment in the same form as before—35% only after planes were tested and delivered.

4. Lopez has been offered 10% on planes and 20% on spares if he will help swing the business to Fokker. Vickers made him the same offer. (I have told Activos that we cannot pay more than a flat 5% on all Curtiss business at the present quotations.)

5. Lopez and Activos have practically assured our future by combatting the competition, although they could have cleaned up by putting in United or Vickers.

6. Colonel Williams, American fiscal agent for Bolivia, has told the Government that United is much bigger than Curtiss. (I can't quite see where that comes in nor where it fits into the picture.)

So in view of the strong combination working in our behalf, I think we should allow the 5% on the last order in order to keep the machinery well oiled. Our prices can stand it, although our selling costs have been rather high. Spare parts selling at list should make a fair margin for us, and I understand that the Osprey carries a fair margin at \$18,000 with 10% allowed for commission. (I should know more about the internal workings of that side of the game if I am to be of maximum value to the company.) We have never had a chance to get together for a good old instructive critique in the year that I have been with the company, and I am looking forward with much enthusiasm to our meeting in Lima next month. Naturally, I want to put out everything I've got for you, and there are a few dark corners—dark as far as I am concerned—that I would like to get an inside glimpse of.

I don't know whether I have mentioned it before, but be very careful what dope you put out to Decker. Contact Activos before quoting any prices to anyone and get together with them. They are on the up and up, but I know the situation here well enough to tell you to do this. There is a hell of a lot of intrigue down here, and an unwise word to Decker might start a lot of unpleasantness for us. You know the game, so you understand the situation.

After the war, when the Government can spare a few mechanics, they may want to send three or four to the States to glean some information and training at our factory. Think this over and see if we can fix something up for the boys.

Tell Damon that the new tailskid on the Osprey is all right and that we can cut it to any height without any trouble. In spite of the kick that he put up about it when I first asked him to change it, it decreases the take-off run up here by a good lot and the landing speed, if increased at all, is so little increased as to be unnoticable. The actual take-off at La Paz was 6 seconds less than previously with the low skid. It will also keep the fuselage off the ground in Vilamontes and Munoz, where the sand is so deep. Also pass the word along to the Buffalo factory that the gun synchronizers on the last Hawks were in working order and saved us a hell of a lot of trouble. Things like that mean a lot to the field men and are appreciated.

Shorty is going to the Chaco next Friday to look things over and give some much-needed instructions to the mechanics. This was requested by the pilots and I left it up to Shorty as to whether he would go or not. He can be of great help there for a couple of weeks both to us and to the pilots and mechanics. He will return here in time to proceed directly to Buenos Aires by train before our arrival there.

The invoice for the materials that were shipped up from Santiago several months ago was presented for payment and the amount passed. The check should be ready in a few days and will be sent directly to New York. The amount (of which I was never informed one way or the other) was \$210.00 and Activos are adding ten percent for their trouble. In the future on a deal like that please instruct the office to let me have at least a copy of the invoice. I had no dope from them at all except to collect for the stuff. I got the inventory prices from Jerry after having received no instructions from the office in New York regarding prices, and added 10%, sent the list to Ashton for collection, and found out that he had already been sent an invoice. Needless to say, my prices did not agree with the others but on the same mail Ashton received the New York invoice and everybody was happy. Donnelly is leaving today for Santiago to pick up what materials he needs up here and will send me a list, or have Jerry send it, of all the stuff he gets. That will reach me in Lima by air mail and I will send it on to New York immediately. They will fix the prices and mail the bill to Webster & Ashton direct with a copy to me. The invoice should include *10% commission but should not be noted as such* on the invoice. The amount will be collected and sent to New York (or given to me to apply on expenses as previously) according to when it is collected. The ten percent will be retained by our agents.

Nothing more at present. Best of luck and a pleasant trip south.

Sincerely,

(Sgd.) CLIFF.

## EXHIBIT No. 302

[Copy]

#108.

Via air mail.

MAY 23, 1933.

Captain C. K. TRAVIS,  
c/o American Consulate, La Paz, Bolivia.

DEAR CLIFF: Did you receive the catalogues of the Fairchild Camera Gun and my letter of March 4th quoting prices, etc., on this equipment?

Fairchild has given us temporary exclusive representation on this equipment in Bolivia and will only grant us exclusive sales rights if we develop some sales on it. They are now after us for a report on the prospect of some sales there and we hope they are good, as we are convinced this gun and films will prove a good seller and particularly because of the repeat orders we will get on the films.

We have already sold thirty of these in China, eight in Columbia, four in Brazil, and expect orders shortly for two or three from both Salvador and Venezuela.

I don't know whether Web told you already, but during the past two weeks we closed orders for nine Trainers, six Hawks, and six Falcons for Colombia, and another eighteen Hawks for China.

It looks as if Salvador will buy three Ospreys and Venezuela three Ospreys or Falcons. It is too bad we are not getting anything from Peru except spare parts orders. I also ~~hope~~ Bolivia will come through soon for some more Hawks or Ospreys.

Woody showed me the photos you sent him. Talking about beer—up to now it has not been so good here—no kick, does not average as much as 3%. However, the New York State Commission has just ruled that the bottles must show the minimum percentage in the future and those breweries that do not put in the full 3.2 won't have any demand for their stuff—so it should be better soon. Web and I have a date with Bob Barr to go down to the S.S. *Albert Ballin* tomorrow night for some imported beer—we'll have one to your very good health.

Web is still on the wagon—won't even take beer except on special occasions and then only a glass or two—but apparently it agrees with him as he has taken on quite a bit of weight.

The consul general here—a good old scout named Decker—keeps on asking us what they are doing with the Hawks and Ospreys—we keep telling him we don't know, as you never discuss their activities in your letters, which is just as well because I am sure anything we told him would be cabled down to La Paz promptly. He seems to have a mania for saving the Government money and passing everything he hears on to them.

Regards.

Sincerely,

(Signed) OWEN SHANNON.

OS:D

## EXHIBIT No. 303

[Copy]

LA PAZ, BOLIVIA, May 30, 1933.

DEAR WEB: Received your personal letter of the 11th yesterday along with the other letters and photographs of the new Falcon. Sure is some job and the performance is indeed surprising.

The situation here seems unchanged as regards ports of entry to Bolivia. Chile declares one day that they will respect the port treaty with Bolivia and the next day decide to close shop. Shipments, however, are still coming through Arica. Nothing has been published regarding the Peruvian attitude but it seems as though Mollendo will be kept open and at the disposal of Bolivia. I will notify you immediately of any action taken by the respective Governments to close the ports to munitions. The embargo situation in the States seems to be getting serious according to the reports received by the press here. I am trying to get the Bolivian Government to sign up for all

future needs before any action is taken in the States but it is a slow and difficult job. Definite decision has been made to order planes and spares to the amount of 2,000,000 bolivianos but the bank is having difficulty in getting the local currency transferred to dollars. They have enough now to order a couple of Hawks and 4 Ospreys and corresponding spares. That order should go through soon and I am trying at the same time to get the contract for the balance to be ordered as soon as money is available. Of course the big argument in favor of that is the embargo situation as you have pointed out.

Regarding the annex to your personal letter, I will try to give you a clear picture of the situation as regards the agency and quotations of equipment submitted to the Government so that you will be able to figure the thing out. Sure was white of you to bring up that suggestion to help me out and that is one of the many reasons why you will never have to worry about me letting you down.

I have already informed Ashton, that, in view of the fact that the present pending order was negotiated by myself and that no commission was included in the quotations, he will not be entitled to much, if anything, on the deal. Naturally he will have to be given something, as well as a couple of others, for what he has done in helping the deal along and for his connections which will enable us to get our money when due. He is absolutely in accord with that program and will be satisfied with enough to settle some certain obligations which I could explain personally. He will be perfectly satisfied with 2 percent or less.

The prices I quoted to the Government are in accordance with all previous prices with the 5-percent commission deducted. Ospreys at \$18,000 and Hawks at \$25,000, spares at list price as quoted in October less 5 percent, and Hawk spares at list price as quoted to me after the purchase of the Hawks. I am enclosing a copy of the list as submitted to the Government. You will notice that I quoted Ospreys with additional, or extra large gas tanks, at \$500 extra. There is plenty of room to enlarge the main tank and although it may be necessary to install a gas pump or wobble pump, it could easily be done. I found it necessary to do this to beat down competition. They will probably order the standard Osprey anyway but the moral effect of knowing that the cruising range can be increased helps a lot. Thus the mind works. All in all, there should be plenty of margin on these prices, especially the Hawks and Hawk spares, to take care of the unusual selling expense. I will cable you at your private address in advance of notifying the office of the signing of the contracts.

I am keeping in close contact with my inside connections and if it becomes necessary to arrange to get things through I will get busy and keep you fully informed by cable and letter. By the way, I have no code book and would appreciate your sending one down to me. Better mail it to Lima, as I expect to get out of here in 10 days of less.

I have already started talking Falcon, but the price will probably not appeal to them, inasmuch as they are very satisfied with the Osprey and can get just as much out of them for \$10,000 less than the Falcon. Naturally, the Falcon will perform much better at this altitude than the Osprey, but the plans of the general staff call for establishing a base for the Ospreys at Villamontes (sea level) after the war, and keeping the Hawks at La Paz. However, there may be a chance to place some Falcons up here.

The acetylene gas finally arrived from Santiago, so Donnelly will be through with his work here in time to leave on next Thursday's train for Arica. It may be possible that they will want him to come up here again in a month or so to fix up some other wrecks. They are tickled to death with his welding—something they thought impossible outside a factory. His coming up here has helped us a lot and has put the Hawks and Ospreys more in favor than ever.

Best of luck, Web, and hope to see you soon where we can get those lobsters and that draught beer you mentioned.

Sincerely,

(Signed) CLIFF.

P.S. Just got notice from the President through Lopez that the Bolivian consul in N.Y. cabled that Hawks and Ospreys could be secured for 23,000 and 17,000, respectively. I cabled the office today about it. Sure threw a wrench in the machinery and raised hell in general. May spoil our business, but will do all I can to save the situation and our prices. Sure am enjoying life up here—not a dull moment. Saludos.

C.

## EXHIBIT No. 304

CURTISS-WRIGHT EXPORT CORPORATION.

*New York City, November 6, 1933.*

To: Mr. J. A. B. Smith, Mr. J. S. Allard.

(Mr. Webster.)

The following is quoted from a letter received from Mr. Webster today:

"*Peru.*—My last conversation with the inspector general and the Minister of Marine, just before I left, was very promising, and they are considering about 10 Falcons and 5 Hawks but are not interested in Ospreys. They are also considering from one to three Condors with wheels and floats. They are also interested in camera guns and parachutes. The opinion exists that trouble will be renewed with Colombia.

"*Bolivia.*—Here the situation is also very interesting. I have had one long joint session with the Minister of Finance, Lopez, the Minister of War, and the Minister of Transportation, and another one is scheduled for 6 o'clock tonight. My one great job is to sell from three to 10 Condors. The matter has been talked over with the President, and it looks very favorable. The Minister of War and the Chief of Staff is leaving tomorrow for the Chaco to be gone a week or two, and they are taking down all the specifications, photographs, and drawings to discuss with General Kundt. The one big problem will be the financing, and we are to go into that this evening. The order may be split up to satisfy Gen. Kundt and the Lloyd Boliviano Company and possibly three out of the 10 ships may have to go to Junkers, although our performance, etc., is better.

"Any price I quote will include 5% for Ashton & Webster, and in this connection we will allow them the 5% on past sales. It seems highly advisable as Lopez, who is the President's right arm, is a silent partner of the company. His attitude now is entirely different than it was a year ago, and he is sure pushing our stuff.

"In connection with the possible sale of a large contract, involving around a million dollars, the Government wishes to know if we can grant terms, providing the Banco Central guarantees payment. I have not yet seriously discussed this idea, but possibly I will get more accurate information tonight. I told them that we naturally would do everything we could, but the matter would have to be discussed in New York. Such a contract would naturally require a number of weeks to work out, and by that time I will probably be back in New York, where I can do more good than here. Ashton & Webster are certainly live ones and very much on the ground and on the inside, and we could not possibly have done better in signing up with them. The other business of more Ospreys and Hawks will come along as a matter of course. They are absolutely sold on them from the President down to every pilot, and they told me they would naturally continue to use them. Orders will be placed just as fast as they can get exchange.

"There have been persistent rumors of peace down here, but now they are generally and officially denied."

(Sgd.) O. S.

OWEN SHANNON.

OS.js

## EXHIBIT No. 305

CURTISS-WRIGHT EXPORT CORP.

*New York, January 4, 1932.*

## SWISS AIR PRICES

MR. J. S. ALLARD

The price at which we sold three spare Cyclones to Swissair last January was an arbitrary figure not based on any particular discount from list, but fixed so as to fall in line with prices quoted to Fokker about the same time.

Swissair paid for their standard R 1820 E Cyclones with radio shielding and less two magnetos \$6,170 f.a.s. New York. On this basis their price for an E Cyclone with standard equipment only would have been \$6,159.50 f.o.b. Paterson. On our present schedule of discounts (i.e. with a 25% spread between list and low net) this would amount to slightly more than list less 15%. In other words, it falls substantially in line with our present engine discount (15%) to major airline operators.



On accessories purchased with the three E Cyclones we allowed Swissair 15% discount with the exception of one small item on which, for some unknown reason, they were allowed only 5%. Here again their 15% discount agrees with our present schedule on accessories to major airlines.

On spare parts we have allowed Swissair 20% discount. Our present schedule allows a 15% discount to major airlines but this has been increased in some instances (namely KLM 40% and Scadta 20%) where no agent has been involved.

I understand verbally from Mr. Goulding that from now on we are to reserve a 5% commission for Mr. Zimmermann on all purchases by Swissair both for their own use as well as for resale. I am not sure, however, how Mr. Zimmermann wants this handled—whether confidentially or otherwise. When you find this out in your conversation with him, please let me know.

PHILIP SHEPLEY,

PS/jc

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EXHIBIT No. 306

CURTISS-WRIGHT EXPORT CORPORATION,  
January 26, 1933.

SWITZERLAND—COMMISSIONS

Mr. P. WOODLING: A special, confidential arrangement has been made with Mr. B. Zimmerman to pay him a commission of five percent (5%) of the list price on all Curtiss-Wright engines or spare parts sold in Switzerland. This commission is to be five percent (5%) on the list price on such sales.

While I am paying Mr. Zimmerman, in cash, commission to which he is entitled on sales order no. 1902, invoice #2946, namely, \$76.99, because he happens to be in this country at the present time, the regular procedure which I have arranged with him is to send bankers drafts drawn to the order of B. Zimmerman, and addressed to him at his home address as follows:

Mr. B. Zimmerman, 93 Breitenstein Str., Zurich 6, Switzerland.

WFG/t

W. F. GOULDING.

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("Exhibit No. 307" appears in text on p. 735)

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EXHIBIT No. 308

[Copy]

DADA-DADA & Co.

San Salvador, El Salvador, C.A., May 6th, 1933.

CURTISS-WRIGHT EXPORT CORP.,  
27 West 57th Street, New York City.

GENTLEMEN: In answer to your cablegram of May 3rd, we have cabled you on May 4th, as follows: "Quote Nineteen Thousand f.o.b. factory—full payment New York. Writing."

Our letter of April 26th was very clear: by same we asked you to please quote the Government \$19,000—for your 420 h.p. Osprey—price f.o.b. factory—payment cash in New York before shipment.

Herewith we confirm our terms; please give to our Government the quotation of \$19,000—for the 420 h.p. Osprey. Insist upon cash payment in full in New York before shipment.

From our side, as the Government wants term payment, we shall arrange with a local bank to effect payment to you cash, as soon as the business is concluded. The bank will then collect from the Government on term basis. We are already working on this subject and hope to be able to conclude the business very soon.

Due to so many offers from other manufacturers, we are working hard, and we offered commission to different intermediaries in this business. This is why we asked you to quote the price given above, as more than 70% of our own commission and discount will be distributed to intermediaries.

As soon as the business is concluded, we shall immediately arrange to have a local bank pay you cash in New York before than shipment is effected.

In the meantime, we remain

Yours truly

DADA-DADA & Co.  
(Signed) GEO. M. DADA,  
General Manager.

EXHIBIT No. 309

[Copy]

DADA-DADA & Co.,  
San Salvador, El Salvador C.A., May 13, 1933.

CURTIS-WRIGHT EXPORT CORPORATION,

27 West 57th Street, New York City.

(Kind attention of Mr. Owen Shannon.)

DEAR FRIENDS: Thank you for your kind letter of May 6th enclosing copy of letter remitted by you to Captain Juan Ramon Munes of the Salvadorean aviation. We have taken due note of everything and since some weeks we are putting forth all our efforts to get the order for the three military Ospreys for our Government.

Our Government received many offers from different sources and some of these offers on a very satisfactory basis and easy terms of payments. However, we never get discouraged and we worked harder and harder, as we know that this first order will mean repeat orders for the near future not only for the Government of El Salvador but also for the other Central American Governments.

For your guidance, we enclose copy of a pro-forma contract made between the Government and the Bristol Aeroplane Company of England. You will note that they offer three years for payment. However through our influence and good friendship, as well as good relations with the Government officials, we are about to get the order and it is probable that in a few days we close the deal entirely.

*Confidential.*—To get such order, we had to use many intermediaries and friends to whom we are to pay a commission; consequently about 75% of our commission will be paid out to intermediaries; but we do not care for that if we get the order. We know that this first order will bring us many more orders in the near future.

*Payment.*—Following the conditions made to the Government by the Bristol Aeroplane Co., we have also extended to our Government two years for the payment. However, you have nothing to worry about these terms, as we will pay you full cash for the three airplanes; our local bank will take care of the business.

*Price.*—We had to quote our Government a price of \$18,975—for each complete Osprey, c.i.f. La Libertad port (El Salvador). As you see, we have to pay all charges for freight, insurance, et cetera; the commission left will not even cover our efforts, as we have to pay so much for intermediaries. Anyhow if the Government requests again your quotation, please confirm our price of \$18,975, but specify that this is f.o.b. or f.o. factory price, even if we quoted c.i.f. Just quote the same price but f.o. factory and specify that this is cash but that your representatives Dada-Dada & Co. will arrange for term payment. Thanks you.

In the meantime, we shall cable you the results.

Yours truly

DADA-DADA & Co.

EXHIBIT No. 310

[Copy]

LA PAZ, September 26, 1933.

AEROEXCO,

New York:

Please deposit Anglo South American Trust Company order of Luis Yver Vergara four thousand five hundred dollars without mentioning our name. Confirm,

Activos.

## EXHIBIT No. 311

[Copy]

SEPT. 27, 1933.

(Accounts.)

MESSRS. CURTISS-WRIGHT EXPORT CORPORATION,

27 West 57th St., New York.

DEAR SIRS: We confirm our cable of yesterday reading as follows:

Please deposit Anglo South American Trust Company, four thousand five hundred dollars, order of Luis Yver Vergara, without mentioning our name. Confirm. Activos.

We hope to hear tomorrow morning that the deposit has been made and at the same time we also asked Captain Travis to confirm this to you direct also.

This sum of \$4,500, U.S.C., will go against our commission of 5% on the 2 Hawks and 1 Osprey, plus \$31,180.04 worth of spares, as per arrangement with Captain Travis.

You will no doubt have noted that we do not wish to appear and it would also be a good thing if you do not appear either.

Thanking you for your usual kind attention to this matter,

Yours very truly,

(Signed) W. & A.

## EXHIBIT No. 312

[Copy]

SEPTEMBER 29, 1933.

ACTIVOS.

La Paz, Bolivia.

Depositing four thousand five hundred tomorrow morning Stop Deposit Ospreys not received.

AEROEXCO.

## EXHIBIT No. 313

NEW YORK, October 27, 1933.

MR. J. S. ALLARD,

Peru.

Web writes as follows:

"Have finally come to a definite understanding with Faucett regarding Government sales in Peru. For a time it looked as though it would be impossible and I finally told Faucett that we would have to make other connections. He was of the opinion that Travis was working on a commission (so he said) and was butting into his territory and going over his head. His arguments were quite childish and Tobin was ready to quit and take on our job if I couldn't get together with Slim. I finally cabled you that I had broken off negotiations and the next day Faucett calmed down and agreed to turn Tobin loose on the job and let him handle all Government business. He will remain with Faucett and the latter will split his commissions with Tobin. The percentage of profit for Faucett will be determined on each sale. Faucett told me that he had deliberately stopped the machinery order until he found out just what Travis' status was.

"I have seen the Minister of Marine several times. He is in command of all aviation. Was told that more equipment was required, but Faucett did not know about it. Have quoted on 12 Falcons with floats separately. Have given them a price of \$26,400 without armament, f.o.b. New York, for the standard landplane, \$28,500 each for the same ship with armament c.i.f. Callao, for the Falcon attack without armament, \$26,900 f.o.b. New York, and \$30,000 with armament c.i.f. Callao. These prices include 5 percent for Faucett and Tobin. I deliberately increased the price of pontoons to \$4,900 per set f.o.b. New York and \$5,400 c.i.f. Callao, as they will require them and it will provide funds to pay additional "commissions" which will undoubtedly be necessary. This is the way the Fairey Company handled their last business. They held the complete ship down in price and raised the price of floats, it is not so noticeable.

"I have another appointment this afternoon with the Minister of Marine and with the Inspector General and Chief of the Matériel Division. It will be necessary to leave here early Sunday morning for Bolivia and let Tobin follow the business through. Out at the army field they had 80 students and only three instruction machines so I will also quote on the trainers. Cabled you today for price and I believe that factory can reduce the figures which Carrington gave me. It seems so ridiculous to send out figures and then instruct us to cable if lower prices are necessary. Will also quote on Ospreys but I have no costs on separate floats. It is very probable that the present Inspector General of Aviation will be replaced within ten days or two weeks and in that case we will have a much better opportunity of doing some business. The present man is a weak sister.

"There are all kinds of underground rumors around here about trouble starting again to the north but, of course, there is nothing official. Bolivia plans to make one big push as soon as they can in an effort to stop their own trouble and for that reason will probably buy considerably more equipment.

OWEN SHANNON.

OS.js

#### EXHIBIT No. 314

CC sent  $\frac{1}{2}$  American Legation,  
Bogota, Colombia, S.A.

APRIL 16th, 1934 (DICTATED APRIL 13th).

Mr. WM. J. CROSSWELL  
*Hotel del Prado,*  
*Barranquilla, Colombia, S.A.*

DEAR BILL: The last I heard from you was from Miami in a letter dated March 31st and I do hope this letter will find you in excellent health and really enjoying your trip to Colombia this time.

Personally, I have been on the sick list for the past two weeks with grippe and bronchitis and, therefore, would have been unable to take care of the mail, had any been received from you.

I was very pleased to note that you had such an interesting discussion with Olano at Pensacola and that he was so friendly to you, as I feel that Olano will at a later date be a real asset to us in securing business from the Colombian Government.

As to the factory situation, we are all of the opinion that we should "lay hands off" at the present time, as so far every one of our foreign factories have been nothing but a headache and we do not feel that we ought to propose such procedure as most of the foreign countries are more interested than it appears, in that sort of business, than they are in actually purchasing aircraft and you know we have a big factory in Buffalo which we must keep busy.

I have discussed the Venezuela situation with Mr. Webster, as this is part of his official territory, and he states that he has a very good representative in that country but that he has never been able to do anything, due to the fact that they are not primarily interested at the present time in aircraft and do not have the money that Comm. Seese appears to think they have. Webster thought it would be foolish for you to spend the time and money to visit Venezuela, stating he intends to be in South America shortly himself and make the trip through all the countries and that he no doubt would hit Venezuela along with other open territory.

As to the A-12 airplane, we have suggested, through the consul here, the purchase of this type and as they are primarily interested in an airplane on floats at the present time and this airplane does not have the performance even of the Falcon under these conditions, we are rather at a loss in connection with pushing such a deal, particularly when the costs of such a ship are comparatively excessive.

Buffalo factory is certainly having its fun these days, as they have a strike on their hands which has now reached the proportions of daily riots and will, without doubt, retard delivery of the second lot of Hawks and Falcons going to Colombia. It is hoped now that this strike may be settled today and the men placed back on the job but as things stand at the present, we have about 100 men working in the factory and you know what that means insofar as production is concerned.

Outside of the above, there is no great amount of excitement, but I hope you are finding plenty to do in the southland and will keep me advised as to—at least your good actions.

Sincerely yours,

PAH  
B

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EXHIBIT No. 315

[Copy]

.EXPORT

PATERSON, N.J., May 29, 1934.

Mr. William A. Reeks.  
CC: Mr. Hewlett.  
Mr. Chapline.  
Mr. Gall.

Lt. RODRIGUEZ,  
Colombia.

Referring to your letter of May 23rd, introducing young Lt. Rodriguez \* \* \* I had quite a long talk with him last Friday, in the course of which he told me that he had been up here about six months and had been through the Curtiss Flying School course at Valley Stream, and was looking forward now to learning about engines at your service school. His uncle at present holds an important position on the Colombian air force staff, and is a close friend of the man who is slated to the next President of Colombia. If things work out as expected, his uncle will be the next Minister of War, and young Rodriguez as a result of his instruction and knowledge of aviation secured during his present visit should hold a fairly important position. I don't know, naturally, how true this all is, but I pass it on to you for what it is worth and suggest that it would be worth while to show this fellow some special consideration while he is at the Wright factory. I gave him a complete set of our literature on airplanes and motors, and he seemed well pleased with his visit to this office.

PHILIP SHEPLEY.

PS P

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EXHIBIT No. 316

[Copy]

JULY 25, 1933.

Captain C. K. TRAVIS,  
Casilla 1429, Lima, Peru.

DEAR CLIFF: This is in reply to your no. 26 of July 16th. I am sending this to Lima with a copy to La Paz, as I am not sure of your time schedule.

Apparently some of my letters to you have also gone astray as I previously explained that it was impossible for me to start south at this particular time, but will probably leave about the first of October.

Regarding Donnelly's salary and expenses on the Bolivian trip, I would personally like to see him realize some kind of a bonus for the trip but our company accounting department, as you know, is somewhat hard boiled along these lines so credit the full amount of \$541.70 as paid to you by the Government to the company, but retain this amount and include it in your expense account.

Another item which has not been settled to my knowledge, is the cost of the spare parts shipped down on that same job. Take this up with Webster and Ashton and see what you can do about collecting it.

Regarding the Wooten Falton—my idea is to sell the entire outfit to the Peruvian Government, including the spares, which consist of an engine, landing gear complete, propeller, tail surfaces, and, I believe, a set of ailerons, which Peru undoubtedly can use. The chance of closing such a deal would be much better with the ship in Peru—that is, Lima. They have already attempted to buy the landing gear, but we turned them down, and then they came direct to

us for a price on a landing gear from Lima by cable. You will have to use your own judgment in getting the plane up there, and I assume that you will pick it up in Santiago, fly it to La Paz and when you finish there, proceed on to Lima. Jerry can handle the shipping of the spares by steamer to Callao. I have previously written to you about the details on this particular transaction. This letter was sent to Lima.

We cabled you the other day regarding Tony Fokker's cabled request for prices on twelve cyclones F-3 engines for six pursuit and six observation planes, which he is attempting to sell the Bolivian Government. It was necessary for us to quote Tony and now it is up to you to see that we get the entire business, including the planes. He attempted to do this same stunt with us in Argentina, but we managed to beat him to it. The situation was important enough to ask you to get back to La Paz as quickly as possible and look into this matter.

I believe as you do that we can sell Falcons to Bolivia and it seems advisable that we demonstrate one there as quickly as possible. After you arrive in Buenos Aires, feel out Colonel Zuloaga on the idea of getting permission to demonstrate this job in La Paz. Bear in mind that Argentina is closely lined up with Paraguay and, naturally, is a little unfriendly towards Bolivia. Do nothing whatsoever to alter our good relations with the Argentine Government and bear in mind that we wish to sell this ship to Argentina along with a contract for the purchase of the manufacturing rights.

We also wish to demonstrate this ship in Brazil, but Brazilian and Argentine relations have never been any too friendly and we may encounter obstacles. Do not press the matter with Zuloaga if he shows any antagonism to the idea. Argentina is our biggest customer and we must place them first of all.

We have worked as rapidly as possible in getting you the list of prices on the machine ship equipment for Peru. There really was a great amount of work attached to this project and Andy Carrington has done his best. I hope that your interrupted negotiations will not interfere with getting this business.

I realize that Slim Faucett has not been of great help but bear in mind that we must retain Slim's personal and intimate friendship and keep him in good humor. Slim's pet baby is the air line and I know he devotes all of his time to it. Do what you can to keep him satisfied.

I had a letter from him yesterday in which he mentioned that Jack Jennings was ready to solo, but due to insurance regulations it would be necessary for Jack to quit his job—and that he could not solo while he was employed by Faucett. This seems rather ridiculous to me and, naturally, I want to see Jack keep his job. So, when you get to Lima, look over the situation; talk with Faucett and write me frankly regarding it.

I am sorry that Melgar did not take over the job of Inspector general of aviation of Peru, but, possibly, as military attaché in Chile he can still be of considerable service. If the government intends to put in a foreigner, and possibly, an American, in charge of aviation, who do they have in mind? I certainly hope that Grove does not go back in Peru. Why not apply for the job yourself and see if we cannot work out a situation whereby we could all profit by it. On second thought, however, perhaps this would not be such a good idea, but think it over and let me have your suggestions. The ideal situation, of course, would be to start and steer such a selection in the right direction and, with your connections and friendships in Peru, you might suggest one or two men when you return there.

The list of equipment now owned by the Government is certainly an interesting one and looks and sounds more like a museum than an air service.

We thought we had Jack Hodgson lined up for the Salvador job but we have word today from Washington that the Government refused to release him. We are now trying to find someone else, but I cannot think of anyone at the present time. If young Don Kessler was not permanently hooked up with the Peruvian Air Service we might be able to use him as I presume, by this time, his Spanish is fairly good.

There is no other information I can think of at this time.

Good wishes and the best of luck.

Sincerely,

(Signed) C. W. WEBSTER.

CWW:js.

## EXHIBIT No. 317

19TH JANUARY, 1934.

Mr. C. M. WEBSTER,  
New York.

DEAR WEB: Complying with your wishes to keep you in touch with things at this end, I thought much could be gained from Marcial Arredondo, so invited him and his wife (nee Matilda, Merino's old secretary) out to the place for dinner last evening. We had a long talk over everything in general, and especially on the possibility and probability of the Government purchasing new equipment. Marcial confirmed Alessandri's public statement that the Government intends raising funds in the near future for this object, but stated he could not tell when this would be. Marcial told me quite frankly that Aracena has his eyes set first of all on training planes, and he has it in his head to buy Avros, as it is claimed the new type Avro trainer is equipped for primary as well as advanced training, including gunnery and photographic work. In other words, all classes of training combined in one light plane.

With regard to the purchase of other equipment, Marcial said he will do everything in his power to see we are taken into consideration. Marcial has a very big say in the matter so long as he is sitting next to the President, and is the right-hand man of Aracena. He promised to let us know in plenty of time, or side-track the prospective purchase of other planes, if possible, and if necessary suggest an open competition such as in 1929 before placing any orders. I personally think we can compete with anything England or France have ever built. I therefore suggest you look up and see just what the U.S. Army is using for training purposes and send us the latest dope on all trainers, so that I can pass on any important information to Marcial and Aracena. We have here, of course, catalogues of the latest Curtiss-Wright trainer, but it seems that the Air Corps wants something more of a ship than this.

With Marcial watching out for us on the inside, I think it best not to rush Aracena too much, as Marcial claims he is the go-between for Aracena and the President and he has to be consulted first, so will be able to talk with Aracena about our equipment and lead him right.

Perhaps when the time comes for buying you will have to make some arrangement to have a Hawk and Falcon or other types shipped down for demonstration, and my idea would be to let Marcial do the flying with, say, Cliff standing by in case of need.

The foregoing is just my idea of things, and maybe my suggestion is a little advanced at the present time, but then one never knows how the cat might jump. Please let me have your ideas or any other recommendations you may have to make.

Trusting you are keeping well and with kindest regards to Mrs. Webster,  
Very truly yours,

JERRY.

## EXHIBIT No. 318

[Copied from original]

## CURTISS-WRIGHT CORPORATION

#11

## INTEROFFICE MEMORANDUM

From: Mr. C. W. Webster.  
To: Mr. B. S. Wright.  
Subject: Argentina.

Date: March 21, 1932.  
Place: New York.  
Place: Washington.

## EXPORT DIVISION.

Your memorandum and copy of letter from Fowler Barker regarding the Argentine naval mission coming to the United States were very interesting. Our Mr. Leon sailed from Buenos Aires for New York on Saturday, but intends to spend four or five days in Rio, and is due to arrive in New York about April 11th.

I still feel that Zar will not recommend that a mission be sent to the States, although it is advisable to watch this possibility very closely. Zar is a very intimate friend of ours, and wishes to purchase only Curtiss-Wright equipment,

and is placing his cards accordingly. He feels that if he sends a mission to the States possibly complications might develop through the recommendations of any officers he sends, and his desire is to control things himself as much as possible.

The Argentine naval budget was recently cut 400,000 pesos, which makes it impossible to purchase complete airplanes as he originally intended. He believes he will have sufficient funds to purchase 16 Cyclones to install in 8 Super Marine Southampton flying boats, to replace 16 Lorraine-Dietrich engines, and, if necessary, he told us he would defray the expenses of one of our own engineers to B.A. to supervise the installation of these power plants. Leon is bringing with him complete blueprints of these boats for our engineering department in Buffalo to figure the cost of new engine mounts.

Captain Zar and Commander Jordan, United States naval attaché in B.A., are very good friends, but nevertheless, Zar does not wish to hand out any more information than is necessary, and is making a determined effort to keep away from a situation which might call for competitive bids from other American manufacturers. While it is true that a number of Argentine naval officers lean toward British equipment, Zar has always advocated American equipment wherever possible. His early training was secured in the United States Navy at Pensacola, and he married a Pensacola girl, so that he is pro-American all the way through.

I'll appreciate any more information you are able to obtain through the Aeronautics Trade Division. Our man Leon is purposely refraining from becoming intimate with the Naval Air attaché or any of the American diplomatic staff in B.A., as we have the Argentine situation pretty well in hand, and we have found from past experience that the American diplomatic staff expects us to keep them advised as to all projects on which we are working; and when we have done this in the past it has invariably been quickly relayed to Washington, and eventually finds its way into the hands of our competitors.

Since selling the Argentine Government our license agreement on engines we have received every contract that has been placed for aircraft material. The only outside equipment purchased were the Moth training planes, and this project has gone so far that it was impossible to stop it, and besides we had no competing machines to offer. Our prospects for securing all business from the Argentine Government in the future are bright, and we have every reason to believe that in June, when the necessary funds are available, we will be able to close our airplane license agreement along the same lines as the engine license agreement. As soon as this is consummated we will have both the engine and airplane business in the Argentine more or less tied up for the next ten years.

C. W. WEBSTER.

Washington file: "Argentine."

#### EXHIBIT No. 319

[Copied from original]

#### CURTISS-WRIGHT CORPORATION

#9

#### INTEROFFICE MEMORANDUM

From: Mr. C. W. WEBSTER.  
To: Mr. B. S. WRIGHT.  
Subject: "Argentina".

EXPORT DIVISION.  
Date: Feb. 23, 1932.  
Place: New York.  
Place: Washington.

In connection with your memorandum of Feb. 20th, I now have a more complete and accurate picture of the proposed Argentine naval mission and I am inclined to believe that the entire agitation was started by Commander Jordan, U.S. naval attaché in Buenos Aires, in misinterpreting a conversation with Captain Zar, Chief of Argentine Naval Aviation.

It seems that some time ago Captain Zar and Commander Jordan met and Zar mentioned that his budget for 1932 would permit him to buy a certain number of new ships and that they would be of U.S. make. Jordan asked which make and, as Captain Zar didn't wish to tell him he was negotiating directly with us and on the other hand didn't care to say he didn't know what he wanted, he told Jordan he planned to ask the U.S. Navy to give



him advice when the proper time came. It seems Commander Jordan immediately communicated with the U.S. Navy in Washington informing them that the Argentine Navy would send some of its men to the U.S. to solicit the advice of the U.S. Navy in the matter of purchases. Captain Zar, in discussing the situation with us, claims that he now realizes he made a mistake in mentioning the matter to Jordan, because if Washington gives the matter any publicity our British competitors will possibly get busy and make it a little harder for us on account of their lower prices. Captain Zar is one of our most intimate friends and when the time comes to purchase equipment he will buy from Curtiss-Wright insofar as he is able to do so. His budget this year allows him only about \$250,000 for new equipment, which he figures is about enough for eight Helldivers or similar ships but the cash will not be available for four or five months.

We will receive an order for two engines and spares and possibly three sets of smoke screen apparatus but the complete airplanes will not be ordered for some little time.

I am giving you this picture of the situation for your confidential information and I believe we should let the matter drop insofar as Washington is concerned. Our contacts with Zar are of such an intimate nature that we have nothing to fear from other competitors, unless something very radical happens.

It was Zar's intention to keep the entire matter quiet and get his purchase through for us before any other manufacturer heard of it, but unfortunately he made a chance remark to Jordan which opened up the entire subject.

jc C. W. WEBSTER.

Washington file: "Argentine."

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EXHIBIT No. 320

[Copy]

JULY 18, 1933.

CAPTAIN C. K. TRAVIS,  
% Webster & Ashton,  
Casilla 144, La Paz, Bolivia.

DEAR CLIFF: I am addressing this letter to La Paz, hoping it will catch you there before you finish your present job and return to Lima.

We received a cable this morning from Webster & Ashton advising us that a letter of credit for \$98,500 had been established in the Chemical Bank here to cover the amount of the spares and the three planes on the last order. We have not yet checked with the bank to determine exactly the conditions of the credit, but we assume they are satisfactory.

According to Webster & Ashton's recent letters and cables, it appears that considerable more business is possible in the very near future. We certainly can use it.

The two Hawks and one Osprey on the last order are going through the factory as per schedule and we anticipate no delay.

The other day, Mr. Decker, the New York consul general of Bolivia, came into the office with a cable from the Government instructing him to arrange for someone to inspect a number of tri-motor Fokkers and a large number of spare engines offered for sale by the American Airways in Chicago.

I believe we convinced Mr. Decker that this would be a bad deal as the ships were built in 1929 and had had a hell of a lot of service. From the tone of his conversation I believe he will recommend to the Government that they give up the idea of buying second-hand equipment. Use your own diplomatic persuasive powers to talk them out of the idea if you can. I believe they offered three ships and a large number of engines for \$30,000, but this is only the beginning of the expense. The ships would have to be completely overhauled, crated, and delivered to Bolivia, and before they got through it would cost them at least \$75,000—instead of \$30,000.

The Argentine Falcon is due to leave the factory today and should be shipped from New York on next Saturday, July 22nd, arriving in Buenos Aires about the ninth or tenth of August. I am hoping that conditions in Bolivia and Peru will adjust themselves satisfactorily and in time for you to be in B. A. when the Falcon gets there. We will order Shorty to proceed from Santiago to meet you there.

Immediately upon your arrival you should contact Colonel Zuloaga and Captain Zar. Colonel Zuloaga is director general of aer-nautics and chief of the Army air corps and Captain Zar is chief of naval aviation. Arrange if possible to dispatch the ship to El Palamar, the Army air station. Work through Zuloaga and Zar and follow their suggestions. In a recent letter from Zar, he suggested that we first get the plane to Palamar and possibly later transferring over to Puerto Indio, the naval land station. As in the case of the United States Army and Navy, there is a certain amount of friendly rivalry between the Argentine Army and Navy services, so, watch your step and proceed cautiously and diplomatically in handling your negotiations.

Our object, naturally, is to sell the Falcon to the Argentine Government and, in due course, arrange a contract for them to purchase the manufacturing rights to construct this plane for the Government at Cordoba. All of these arrangements will be handled by Leon when he arrives there, probably around the fifteenth of September. His relations with Zuloaga and Zar are very intimate, so do not attempt to sell but merely handle the plane for the time being and put on your show and the necessary demonstration. When Leon arrives he will probably take you into his confidence and give you a line on our set-up, so do nothing that will interfere with the negotiations which Leon and myself have already started.

You will find that the International Petroleum Company has eighteen or twenty drums of 85 octane gasoline on hand for our use. You will draw this gasoline as you need it. I would suggest that the demonstration work be done with 87 octane fuel—but the engine is such that 80-octane fuel can be used later if necessary. This fuel can be purchased any time from the International Petroleum Company.

If any questions are asked regarding the price of the Falcon, cable us and merely state that you will have to obtain the figures from the New York office.

I have already written you regarding Captain Wooden's D-12 Falcon in Santiago. We have purchased this from the Government and my intention is to have you pick it up in Santiago as soon as convenient and fly it to Lima. I believe that Jerry has already arranged this permission with the Chile Government and you may have to also obtain permission from the Peruvian Government to have it entered duty free. Follow this line with the statement that we wish to demonstrate it in Peru. There is a quantity of spares to go with it and which Jerry can ship by steamer to Callao. The Government has already requested Jerry to sell them the landing gear and other spares, but I have instructed him to hold them, as I would prefer to sell the entire outfit at a stipulated price. I gave you this information in a previous letter.

In selling this Falcon to Peru, please handle this, if possible, in the same manner as the other Falcon and Hawk we sold. Payment to be made to me personally and not to the company, as I have certain commissions that will have to be paid.

All of these contacts, which you are working now—Peru, Bolivia, Argentine, Chile—will, naturally, keep you pretty busy, and do not feel that I have forgotten my South American geography in asking you to cover this territory single-handed. However, there is work to be done, and I know you are capable of handling it.

Owing to the serious illness of Leon's only boy, who is now in California with him, it will not be possible for him to reach Buenos Aires much before the middle of September, but he feels that if you can handle the demonstration during the previous month, he can arrive, say, about the middle of September, and pick up in plenty of time the necessary selling negotiations.

In asking you to lay off all sales negotiations, please do not feel that we do not believe you capable of handling them, but Leon has spent so much time in Argentina and knows his contacts so well and intimately, that I believe we should not upset them in any way. I know that you will appreciate this situation.

We have three Ospreys to deliver to San Salvador, which you and Shorty will not be able to handle, as they will be going there about the same time as the Bolivian ships and the Argentine demonstrator. I am attempting to get Jack Hodgson, who spent four years at the head of the Army Air Corps mission in Cuba, but I believe, unfortunately, that Jack has been transferred to a re-forestation camp in Massachusetts for six months. He has applied for a two and a half months leave of absence and I will probably know definitely tomorrow if he can make the grade. If we cannot get him it will be necessary

to find someone else who speaks Spanish and is capable of handling the job. However, do not worry about this—we will take care of it.

It was unfortunate that you had to leave Peru when you did, but the Bolivian job seemed very important and you may have time to finish that and get back to Peru before it is necessary to go on to Buenos Aires.

I had planned to meet you somewhere on the West Coast about the middle of this month, and also be with you in Buenos Aires, but certain other matters are coming to a head here in connection with our mutual friend, Mr. Jones, which I believe are important enough to keep me here for the time being. Perhaps around the first of October I will be able to leave and pick you up somewhere along the line.

Please give my kindest regards to any of my friends that you may meet, and with the best of wishes and all good luck, I am,

Sincerely yours,

(Sgd.) C. W. WEBSTER.

CWW:js

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EXHIBIT No. 321

CURTIS WRIGHT EXPORT CORPORATION,  
New York, January 19, 1934.

Mr. C. W. WEBSTER,  
c/o Webster & Ashton,  
Casilla 144 La Paz, Bolivia.

DEAR WEB: I thought I had better send you the enclosed copy of letter from Lawrence as there may be something in it that you should have. It will certainly be very unfortunate if we do not get the order for the thirty engines within the next thirty days—I finally succeeded in getting Guy Vaughan to agree to extend the old price for 30 days and I doubt very much if we can get any further extension after that. Also, the longer the order is held up, the more likelihood there is of it not coming through at all.

"Ta" in the letter means our friend who was at Paterson.

I do not think we will be able to get Mason as Mike Gordon tells me they have been swamped and they cannot possibly spare him. Mike is taking the matter up with several others in the Wright Company and they may have a recommendation to make in the near future.

I will, of course, constantly advise you on this as I am fearful that unless we get somebody down there very soon all the good work Lawrence has done there during the past will have been offset and if we lose out there it will be just too bad.

OWEN SHANNON.

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EXHIBIT No. 322

[Copy]

JANUARY 17, 1934.

Your letter came a couple of hours after our telephone conversation. By all means do your best to get Mason to go down at once. Hewlett may be a better man but if this boy is a salesman and is loyal, his knowledge of Spanish will take him farther. He will not have much to do for a few months but that will give him a chance to get acquainted, and Zu is happier when somebody from the office is near at hand. Somebody has to be there to be on the inside of things or the business goes elsewhere. Those fellows detest writing me, with good reasons, and are getting tired of being told that I'll soon be back, with the result that I am gradually getting out of touch with the real situation. Men in the various departments are changed periodically and new friends must be constantly made. I feel pretty bad about all this, but as explained in another letter I cannot leave the family in the shape it is, and to go for a few weeks now and come back would be just a waste of money.

Trouble from W was to be expected. He is paying L's expenses and L does all he can for him. L has done a lot for Za on one occasion and Za arranged this spree for L and is giving him free hand. Very likely this man will be in Za's place three or four years from now when both are due for promotion.

He and his brother owe me a few favors of more than ten years' standing and I am in position to make any arrangements with him to counteract W's influence, once we are all together. Just now he is not answering my letters which, I suspect, fell in W's hands.

With your letter also came the one I was expecting from Ta. I had asked him to write the real reason for changing their minds about the Falcon and Hawk license. He says that while Travis' demonstration was pretty good it was not good enough to convince everybody. That is one reason. The others are curtailment of appropriations and the necessity of the engineering staff to get busy and do something of their own or explain what they were doing in Europe when they were sent there to study for five years. He says that neither my presence nor Web's can for the moment rush orders, and that the only thing which could overcome all these obstacles at once would be for the jingos advocating preparedness to get the upper hand or for me to resort to the "old maneuver." He means the trick we turned in 1931 when we sold the engine license. Unfortunately, this is not possible with the present set-up in the War Department, the key man being one of the very few not amenable to anything of that kind. But he is due for retirement this year. At the time Ta wrote they were about to decide about the order for twenty engines but he doubts if it can be placed before three or four months.

Web already knows who the men are and should be the only one to handle commissions when the time comes. Mason, if he goes down there, should not be entrusted with anything of this kind until he has been there six months at least and have proven that he can handle the business. It would be a mighty good idea if you went through the files and took out all letters mentioning names and commissions.

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EXHIBIT No. 323

CURTISS WRIGHT EXPORT CORPORATION,  
New York, September 25, 1933.

MR. J. S. ALLARD,  
Brazil Mission.

You will be interested in the following quotation from a letter received from our Brazil agents today:

"We are pleased to say that we have had occasion to talk at length with Major Oliveira and Captain Mello since their return from the United States, and that they are highly gratified with all they saw and very much appreciated all the courtesies lavished upon them by your company.

"We may confidentially advise you that the reports which have been submitted by the mission to the Minister of War, are highly satisfactory to your organization and likely therefore to yield good results."

OWEN SHANNON.

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EXHIBIT No. 324

NEW YORK, May 10, 1934.

MR. E. S. CRAMER.  
(Copy to Mr. J. Sanderson.)

Mr. Pawley stated in a recent letter, or cable, that he had a fund of about \$2,000.00 to take care of the entertainment of General Wong and his party from Canton. During their visit to this country they were entertained by the following: Mr. Buchanan in San Francisco; Mr. Moseley in Los Angeles; Ralph Damon in St. Louis; Buffalo, Paterson, and the New York office group, mainly Mr. Dooley.

I wish you would get together the expense accounts from these various organizations and submit them to Mr. Sanderson of Intercontinent so that we can be reimbursed for these expenses.

JSA  
BMN

## EXHIBIT No. 325

[Copy]

URUETA & SAMPER,  
Bogota, Colombia, S.A., April 21, 1934.

No. 47/507.

Mr. W. F. GOULDING,

Vice President, Curtiss-Wright Export Corp.,

30 Rockefeller Plaza, New York, N.Y.

DEAR MR. GOULDING: I am in receipt, today, of your letter No. 375 of the 16th instant, together with enclosures, for all of which I am very thankful.

Both the situations of the Condor deliveries, and the machine guns from Colt, I hope will not bear at all on the Government to molest you on that account. They have been duly informed by me that there have been a series of strikes in all airplane factories in the States. They know too that the Consolidated plant was also under the same circumstances, so they will have to recognize "force-majeure" as affecting the schedule of deliveries in the January 31, contract. Should the consul make trouble for you please let me know to see if I can render my services with that aim.

Mr. Love's visit to this city was of so little importance, that I overlooked the matter completely, and even forgot to inform you of his endeavors. All he accomplished was to create trouble for Dr. Triana, by presenting him with a Boeing model for his desk. They discussed an order for six Corsairs, but it was considered advisable to have only the Falcon and make the equipment uniform, then add a series of other types. I met Mr. Love and was very friendly with me. The agency they gave to Manuel Toro, and both he and Love asked me to cooperate with them, offering reciprocity should I need their help. I sincerely thank them both. While here, Love was after the Cuban pilots who have absolutely no bearing on the Government. As you may know by this time, they were all taken out of prison to come to Colombia, and have had no flying at all for the best part of eight months now. They will have to be trained here. One of them met death, as I told you in my last letter.

Through my good friendship with Comm. Strong, I will be able to meet not only Mr. Trunk, but most of the important men that may have come with him. I have enjoyed the confidence and friendship of Comm. Strong, practically since his arrival, and in spite of his complete and unbreakable reserve as far as military matters are concerned, I have been able to ascertain that he is not in the least antagonistic to your products. He is really an excellent man. To my understanding he will be placed by the Ministry as actual head of the aviation activities in this country; I am confident that once he knows all about the German competition and antagonism to all foreign influence other than theirs, he will take measures to stop their career.

With reference to the order for the spare parts and the electric starters, I can inform you that the ministry wired the consulate over \$37,000 for the initial payment on these two orders. You will please keep me informed, in order to see that all is done properly and quickly.

I have just received from Irvin some scarfs to distribute among the pilots here. I am afraid that the propaganda was sent too late, because I was informed definitely that the Government had ordered the consul to place orders with our competitors (Switlik), for the parachutes they are in need of. Since I had to pay something like 20 pesos duties on these scarfs, I will ask you to request from Irvin to deposit in my account, as usual, the corresponding sum in dollars. I am sending them the corresponding vouchers.

With reference to the pilots and mechanics, I have received a letter from Dr. Triana in which he informs me that the Jan. 31, 1934, contract covering these points was duly sanctioned by the executive on the 13th of this month and he requests me to ask you to immediately investigate the possibility of sending the mechanic down without delay. You will please inform what you do in the matter.

Next mail I will forward you a complete list of the equipment the Government has, and has ordered, which list you will keep for your private and strictly confidential files.

With best wishes I remain,

Yours very truly,

J. SAMPER

## EXHIBIT No. 326

[Copied from original]

## CURTISS-WRIGHT CORPORATION, INTEROFFICE MEMORANDUM

From: J. S. Allard.  
 To: Mr. Burdette S. Wright.  
 Subject: Mexico.

Export division.  
 Date: December 5, 1930.  
 Place: New York City.  
 Place: Washington, D.C.

With reference to yours of December 2d on the above subject, first let me tell you that Mr. Titus is not going back to Mexico in our employ, as results he has obtained so far have not justified the expense of keeping a steady representative down there. I do not believe that it is any discredit to Titus but merely is a condition existing in Mexico at this time.

With reference to Colonel Aguilar's statement to Mr. Farnsworth that Azcarate has some rather sizeable orders from South America, according to Titus this is not quite true because Azcarate is planning now on building three small training planes in his own factory, and flying them down through Central America in an endeavor to drum up some business for them. Further, according to Titus, Azcarate's plane is just another plane and unless they are frightfully cheap, he probably won't have much luck selling them.

I realize fully that Colonel Aguilar is not doing all his sales promotion work for us as a kindly gesture and I would welcome the opportunity of talking with him, inasmuch as we have no representative in Mexico, on the subject of his suggesting some representative through whom he could get his compensation for the work he is doing for us. We really have quite a problem in Mexico both on sales and service. There are quite a few Wright motors in service in Mexico that require servicing, and, frankly, I would welcome some real suggestions from Colonel Aguilar as to who would make the best sales and service representatives for Curtiss-Wright in his native country. And, incidentally, if he does suggest somebody, I would not hesitate in telling him to plan on getting his compensation through that party rather than direct from us, as I do not think it is a good ball for us to show the payment of any commission on any sales to anyone other than our authorized distributors.

Please ask Bob Farnsworth to let me know as far in advance as possible when he and Colonel Aguilar will be here and I will plan to give them both some time.

(sgd.) J. S. ALLARD.

Washington file: Mexico.

## EXHIBIT No. 327

[Copy]

WASHINGTON OFFICE,  
 New York City, November 29, 1933

(Mexico: Report of recent contacts—prospects for business with Mexican Government.)

Mr. J. S. ALLARD: This report is intended to outline briefly contacts made during my recent visit in Mexico City, present my impression of the effectiveness of our representation there, and to give an estimate of possibilities for the sale of Curtiss-Wright equipment to the Government of Mexico.

On October 19, 1933, I visited the offices of Watson, Phillips and Co. at Av. Uruguay 103, Mexico D.F., where I met its president, Mr. Chas. E. Phillips, Mr. Eric Huebner, and others. The firm, which is a trading company of British origin, has been in Mexico a little more than 100 years, seems well established and reputable, and represents a great variety of manufacturers and other companies, including a British shipyard, an artificial silk manufacturer, two American insurance companies—including Marsh & McLennan—and two American aircraft firms, i.e., Curtiss-Wright and Stinson. Mr. Huebner, who is of Austrian birth and English citizenship, has been in Mexico eleven years, speaks Spanish fluently, and seems very energetic, handles the aircraft and Speery Gyroscope contacts with the government. With him I visited and talked with several officials, who received us very well.

During the six days in Mexico City I had occasion to meet and talk with the following:

General J. Azcarrate, at that time chief of the presidential staff and now military attaché in Washington.

General Rodriguez Familiar, now chief of the presidential staff, whose appointment was announced while I was there, to become effective November 1st.

General Salvador S. Sanchez, subsecretary of the presidential staff.

General Francisco J. Aguilar, until recently military attaché in Washington, and now in the Intendencia in the war department.

General A. Ruiz, chief of aviation.

Colonel A. Lezama, subchief of aviation.

Colonel Gustavo G. Leon, commanding officer of the Second Aviation Regiment.

Captain G. Villasana, director of shops.

Lieut. R. Lezama, brother of Col. Lezama and an aviator, on duty in the Aviation Department.

Mr. Ponce de Leon, the leading design engineer for surface ships in the Navy Department.

The situation now is approximately as follows. With the transfer of *General Azcarrate* to Washington, his influence over purchases by the Government is apparently at an end, and one of the most serious obstacles to Curtiss-Wright progress removed. It will be remembered that he has an interest in the factory that built Vought Corsairs under license, and since has done a great deal to push the purchase of Boeing fighters. After he was forced to change his attitude in favor of Curtiss Hawks recently, he tried to give the impression that he was out of patience with Boeing for having unexpectedly increased their prices, but he can hardly be counted on as a loyal Curtiss-Wright supporter.

With *General Rodriguez Familiar* as the new chief of the presidential staff, it appears that we may expect to receive very favorable consideration. During a very satisfactory conference with him, he expressed admiration of our equipment and agreed entirely with my statement to the effect that the Mexican Government could not afford fighters having performance inferior to the Hawk when so many governments have already adopted it as standard equipment. From all indications Watson, Phillips have arrived at a satisfactory understanding with him regarding methods of handling the financial phases of the contracts, although he, of course, has nothing to do with the actual drawing up of same. He is a relative of President Rodriguez, to whom Watson, Phillips have access through a firm of lawyers.

*General Ruiz*, who is the chief of aviation, leaves matters of technical recommendation and conferences with representatives of manufacturers almost entirely up to Col. Lezama, his subchief. In leaving us to Col. Lezama, he said that he would back up whatever plan of action we arrived at.

*Colonel Lezama*, who was trained at Brooks and Kelly Fields, is very favorable toward us. He said that with General Azcarrate now out of the way, the course ahead would be comparatively clear, and that he would do all he could to push the purchase of Curtiss-Wright equipment. He has direct access to General Rodriguez, and it was he, in fact, who arranged for the conference which Mr. Huebner and I had with the general. Lezama and Rodriguez F. appear to be in accord and in close touch with each other concerning all negotiations for aircraft.

*Colonel Gustavo Leon*, who has been designated to make a nonstop flight from Mexico City to Buenos Aires, has apparently full latitude in choosing the airplane in which to make the flight, such purchase to be paid for, of course, by the Government. He was at first interested in the Lockheed, but Watson, Phillips have swung him over to a preference for the Northrop, on the assumption that we would be able to arrange for handling this type for the Northrop Company. Leon seems so disposed to take the recommendation of Watson, Phillips concerning type of ship (probably due considerably to certain financial arrangements), that I seriously doubt if the builder of a suitable type airplane will be able to sell it there unless the deal is handled through this firm.

*General Aguilar* claims that he is to be the next chief of aviation, but since he has made this claim during the four years that I have known him, it is difficult to put a great deal of stock in his assertions. Add to this the fact that he is now being punished by assignment to a relatively unimportant post for the publishing of a pamphlet in Washington casting discredit on the Mexican Minister of Finance, for which act he was recalled, and his story

seems even less plausible. He insists that the transfer of General Azcarratte to Washington does not mean that any of his influence is lost, but I see no reason to believe this. I purposely avoided calling on Aguilar until the last day, as I wished to make it only a courtesy call. Watson, Phillips may find it necessary to play along with him to a limited extent for the reason that through his presence in the intendencia, which is the contracting division of the War Department, even though his post is not of importance, he might be able to seriously delay the signing of contracts, were he so disposed.

Mr. Ponce de Leon, an engineer in the Navy Department, has the task of working up the design of gear necessary for the carrying and handling of a seaplane on the deck of one of six vessels being constructed for the Mexican Navy, by a shipyard in Spain. One or two seaplanes will be purchased for these experiments, and the selection of type will be up to him to a considerable extent, as its use will depend on the ability of space and gear on the vessel to handle it. He and others in the Navy Department have pretty much crystallized their thoughts on an airplane of not more than 250 h.p. I recommended the Fledgling if they must stay in such a low-horsepower class, but do not see any particular advantage to this, if a plane more compact and not appreciably heavier can be offered. They were considering the use of a catapult, only to enable a plane to be launched when the water is too rough for take-off from the surface. I recommended against trying to design a catapult, for much experimentation is necessary before a satisfactory one can be developed, and it is not possible to obtain design information from the U.S. Navy as this is confidential information. I pointed out that a sea too rough for taking off would be dangerous to land in anyway, and recommended that they confine themselves to hoisting a seaplane over the side for water take-offs. I believe this idea will be followed, and I have agreed to obtain information concerning necessary clearances between wings and the ships' hull, and length of hoists to allow for rolls. I hope that we can avoid having to design export ships for catapulting for the time being at least. Our Osprey as a seaplane should be a suitable plane if the catapulting idea is abandoned.

#### POSSIBLE BUSINESS

1. There are immediate plans for the development of a *pursuit* squadron, starting with six airplanes. The money that was set aside for this purpose several months ago was used for other purposes, to meet an emergency of some sort in a different branch of the army. They are now endeavoring to dig up enough for a 25% deposit on six Hawks, with the idea of providing the remainder from appropriations for the first half of 1934, which money when and if appropriated would become available after January 1st of 1934. They seem convinced that the Hawk is the ship they want and since proponents of Boeings seem to be out of the way, it appears quite certain that ours is first choice.

One thing which helped interest in the Hawk was the word given by Lawrence Leon to the effect that we would give them a license to manufacture Hawks without any charge for same. There are some who do not believe that they can keep abreast of developments if they manufacture themselves, because of the time required to get new planes into production as the types advance. Since the total number they would build would be comparatively small, this view seems reasonable. With General Azcarratte gone there will probably be less pushing for manufacturing rights. I recommended that they consider only completely manufactured planes for this year, all to be built in Buffalo, and that a license, if desired, could be discussed after delivery of these.

Since returning to this country I have heard that President Rodriguez was financially interested in the factory venture which General Azcarratte promoted, in which the Corsairs were built, and that through it he lost quite a bit of money. If this is true, he might favor a proposition for further manufacturing in that factory, if it held promise of helping him get back some of his losses. If the idea of manufacturing in Mexico were to be entertained, it would of course be necessary for us to send someone to Mexico City to discuss it and work out contractual arrangements.

2. The Aviation Department plans to ask Congress for money for eleven *modern observation airplanes* for next year. If such money comes through, our agents will make a drive to sell the Falcon. If the present apparent good feeling toward Curtiss-Wright continues, we should have at least as good a chance as anyone else, and probably better.



3. There is talk of a *troop transport* for 25 or 30 people, but two transports carrying 15 soldiers each would serve their purposes as well, and the idea seemed acceptable to the few that I talked with about it. I don't believe there would be much difficulty in selling them on the greater flexibility in the use of two 15-passenger transports and the fact that if one should be involved in an accident, half of their investment would still be intact. They hope to get money for troop transport purchases out of next year's appropriations.

4. The new program also includes two *ambulance planes*. These, if purchased, would be comparatively small, single-engined cabin planes. Perhaps we could offer a couple of E.A.T.'s Kingbirds at prices too attractive to turn down. The Travel Air Six should be a desirable type also.

5. There is some discussion of a plane for *coastal survey and photographic work*. Whether this can be a land plane or whether it will have to be an amphibian will depend upon the major jobs selected for it. We will probably hear further from our agents on this.

6. The Navy Department is interested in a *seaplane* for carrying on ship-board, as described previously. I think we should push the Osprey with floats. If a plane of this type is used, they will have to abandon the idea of a catapult, as it would be even more difficult to develop a catapult with a car suitable for launching a twin-float seaplane than for a single-float type.

7. Definite plans are being made for a *nonstop flight* to Buenos Aires by Col. Leon, as described previously. If we succeed in making arrangements with Douglas to sell a Northrop, there seems to be little doubt about making this sale.

Since returning to Washington, I have discussed this with John Rogers of the Douglas Company, at which time I told him that the only chance to sell this plane is through our agents in Mexico City, and explained the reasons. He said he would pass it on to his company at once, and believed that it might change their attitude. He said that some time ago Douglas was dealing through an agent there, and President Rodriguez had asked that it be discontinued and that all future dealings be directly through him, and that this is undoubtedly the reason that Douglas refused to allow us to offer the Northrop. He thinks that with President Rodriguez now being satisfied to deal through an agent, especially with a new chief of presidential staff who is closer to him, that Douglas might permit us to go ahead.

8. There is another independent *nonstop-flight* venture being fostered. This, I understand, will have to be financed mostly by funds outside of the Government itself. A young American engineer who calls himself Dr. Walther, and who is now in the employ of the Government, is working on the design of a ship for this flight. The ship would be designed and built right there, and the flight would be from Yucatan to Spain. General Azcarrate apparently has something to do with pushing the construction of this plane, but officers in the Aviation Department don't favor the idea. Walther plans on the use of a Wasp engine, but I talked Cyclone to him and he asked for installation drawings and performance information. The whole idea seems so poorly founded and lacking for general sympathy that I think it will die of its own weight, and with Azcarrate out of the country now, it has even less to support it. It hardly seems worth while for us to bother about. Walther was at one time employed by Curtiss and when I met him two or three years ago in Washington, he was with Vought.

#### ENGINES

The sale of engines will, for the most part, be contingent upon sale of airplanes, except that in all cases we will undoubtedly be able to sell spare engines along with the airplanes.

The above summarizes my viewpoint of our possibilities in Mexico at the present time. It has been influenced considerably, of course, by the viewpoint of our agents there, and while I believe it to be accurate, there might be other forces at work, or attitudes existing in the minds of persons up to and including the President, which would make it desirable for us to use other more direct forms of contact. However, I think that for the time being we should continue to allow our agents to handle the situation, and see what they can produce. Appropriations there are, as in many countries now, uncertain; and until the money is actually set aside, it is impossible to obtain contracts.

It might be desirable for an executive of the Export Company to make one or two trips to Mexico City during the next six to eight months, at which time

it might be well to try to talk with the President himself, to be sure that he is in sympathy with us and is satisfied with the way our affairs there are being handled. He seems to be involved in all aircraft purchases. In the meantime I may see a bit more of General Azcarratte in Washington just for the purpose of picking up additional slants which might help us to visualize the situation, although I do not feel that we can accept his viewpoint as an accurate estimate in itself.

Very truly yours,

(Signed) ROBERT L. EARLE

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EXHIBIT No. 328

[Copy]

DEPARTMENT OF COMMERCE,  
BUREAU OF FOREIGN AND DOMESTIC COMMERCE.

*Apartado 2097, Mexico, D.F., June 13, 1933.*

Office of the Commercial Attaché,  
Mexico City, Mexico

(Confidential)

CURTISS-WRIGHT EXPORT CORP.,  
27 West 57th St., New York, N.Y.

GENTLEMEN: For some time we have been in touch with Watson, Phillips & Co. Avenida Uruguay 103, Mexico City, with respect to their representing you in the possible sale of military airplanes to the Mexican Government. As a matter of fact, we contributed considerably towards interesting them in your planes as their representative has come repeatedly to our office and talked over with us the possible American representations available and for the purposes now under consideration we strongly urged the possibilities of your Hawk type of machines.

We are now confidentially advised that the Mexican Government, Military Department, is contemplating the purchase of anywhere from three to 10 planes of the pursuit type, the requirements of which might be satisfactorily met by the Hawk pursuit type.

The Watson, Phillips representative called on us this morning and showed your letter of June 9th. This firm feels that for the business that they have in mind, your letter is not sufficiently clear on the matter of protecting them in case they make a sale for you. You are undoubtedly aware of the manner in which purchases of aeronautic equipment are some times made by foreign Governments, and it is a reasonable desire on their part to be protected in full in the matter of commission to themselves sufficiently large to enable them to meet all requirements.

Watson, Phillips have already urged strongly your planes with the authorities here and it would be indeed unfortunate if after their preliminary work some other person with pretensions to influence in those circles which determine purchases reap the fruits of their efforts.

Very truly yours,

(Signed) CHAS. H. CUNNINGHAM,  
*Commercial Attaché.*

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EXHIBIT No. 329

[Copy]

WATSON, PHILLIPS & CIA. SUCS., S. EN C.,  
Avenida Uruguay No. 103, Apartado Postal 67,  
MEXICO, D.F., 29th June, 1933.

MESSRS. CURTISS-WRIGHT CORPORATION,  
29 West 57th St., New York.

DEAR SIR: We have to acknowledge receipt of your favor of the 21st inst. from which we note that as you have been in direct correspondence with the aviation officials of the Mexican Government during the past several months regarding their military airplane requirements and have supplied them direct

with complete data together with prices, you do not feel inclined to enter into negotiations for representation in this country.

Naturally if you wish to work this matter directly we can only wish you every success, but we venture to say that unless you have a representative here familiar with the politics of the matter and with influential connections your chances of obtaining orders are very slender, more especially as the Boeing is being pushed very hard and in all probability will now obtain the order as their is no other hard opposition. We may say also that a representative of the Lockheed is now in this city from their factory in Burbank, Calif., but even he will not get far unless he connects with someone who can put him in touch with the right parties.

We regret your decision in this matter, more especially as we had already taken up this matter in the highest quarters, but naturally you cannot expect us to continue our labours unless we can be sure of some protection and also be in a position to quote. We are therefore considering this matter as closed as far as your firm is concerned.

Thanking you also for your quotation for the used plane, which has not been accepted by our client, we remain,

Yours very truly,

CHEP/p

(Signed) WATSON, PHILLIPS & Co.

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("Exhibit No. 330" appears in text on p. 758)

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("Exhibit No. 331" appears in text on p. 758)

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EXHIBIT No. 332

JULY 24, 1933.

[VIA AIR MAIL, #254.]

MR. LAWRENCE LEON,  
634 Lowell Avenue, Palo Alto, California.

DEAR LAWRENCE: Supplementing my other letter of today regarding Mexico, Mexico ordered seven or eight fleet trainers and one of their officers has been at the Consolidated watching their construction.

This officer told Hewlett that the order was secured for Consolidated by a Mr. D. Morgan Hackman, Pasco 156, Mexico City, and that he was in good position to get business from the Government.

He also told Hewlett that Boeing had made a net bid direct to the Government which had not been accepted.

Also enclosed is copy of a letter from Watson, Phillips & Cia, which is self explanatory. We have not replied to them further.

We understand from another source here that Azcarate always wants to be taken care of but is very careful about it and works through some third party. Up to now we have not been able to find out who this party is.

We have not appointed any agents for military sales in Mexico so we could be free to deal with whomever we found was Azcarates' man.

The prices we quoted could provide for a commission of 5% to Azcarate or an agent.

However, before doing anything definite on this you had best check with us. Regards.

Sincerely,

OWEN SHANNON.

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EXHIBIT No. 333

CURTISS-WRIGHT EXPORT CORPORATION,  
27 WEST 57TH STREET, NEW YORK,  
Mexico D.F., August 5, 1933.

DEAR WEB: Here is the situation: First of all I found at Palacio Nacional that a request was forwarded a month or so ago to Washington, thru the Mexican Embassy for permission to send six flying officers to one of our pursuit

fields to receive some training in the event that Boeing or Curtis ships were purchased (this is how General Aguilar in Washington heard that his government was about to buy pursuit equipment and made advances to Bob Earl and probably also to United). It seems that our government turned down the request and this people feel very peeved about it, knowing that many foreign officers have been trained at U.S. Army fields.<sup>1</sup> Azcarate spoke very frankly to me stating that a contract with Boeing, which was all ready for signatures, was canceled by order of the President and it has been decided that this equipment shall be purchased anywhere but in the States. He also said that inquiries have been already dispatched to England and Italy for sending the men there as well as purchasing the ships there.

I, naturally, told Azcarate that if he had spoken to us about it we would have solved the problem by either getting the necessary permission from our War Department or by having the six men brushed up on fast ships at some of our own fields but he insists that the men must go to a military school. Azcarate is out for Boeing and he only inquired about our prices in order to show that they are higher than Boeing quotations. He told me the higher performance is not necessary as Mexico is not going to fight the United States. He is not interested in the Osprey and wants to standardize on P. & W. engines because they already have sixty of them on hand.

These difficulties can be surmounted. My problem was to contact and interest another man with as much influence and this I did thru Watson, Phillips & Co. Our man in the Presidencia now is Col. Rodriguez Familiar, a very close friend of the President and his protegee. There will be a lot of squabbling but I believe the colonel will have his way in a few weeks time. I have never seen any country where graft is so freely taken for granted.

Watson, Phillips & Co. is the oldest British firm in Mexico, having been in business over a hundred years. They are very active and the financial rating is high. I looked up two other firms but was not as favorably impressed. We need not fear their being partial toward British products, they have been too long in this country and will favor whoever gives them a better deal. They have some American employees, use only American cars and only recently could have sold a British plane to the British Chargee d'Affairs but preferred to sell him an American ship instead.

Before seeing these people I inquired about them from different sources, including Mr. Glover, the commercial attaché who recommends them, the National City Bank, and the officers at the Army aviation field and shops. They represent, among many others, John Thornycroft, Ltd. (ships and marine engines), Merryweather & Sons, etc. They are, naturally, interested in having an agency contract, but I told them that we would prefer to try them on this deal first and see how things come out. It's mainly on account of their connection at the national palace that I wrote them the letter, copy of which is enclosed. It's an agreement that can easily be terminated by simply writing them another letter, if we want to do so at any time.

Pass the above information to Sperry who, as you know, cabled me to make inquiries as to who would make a suitable agent for their products. Watson, Phillips signed up the Mexican Government for a lot of equipment to go on the boats which are being built in Spain and inquired about Sperry instruments, but could not get anywhere with Schmidt who represents Sperry here. They are very anxious to get the Sperry agency.

Besides the six Hawks, sixteen engines are needed, and the technical staff at the shops are working on a report showing all the reasons why a change from P. & W. to Wright should be made. I promised a Dodge sedan to the chief engineer in charge of the shops if he is successful in switching this initial orders to us.

I gave Watson, Phillips the revised engine price list, dated April of this year, from which I cut off agents' discounts and Curtiss-Wright Export costs, leaving only list prices, and told them that we would give them ten percent discount up to ten engines and 15% on orders for more than ten engines. They are to advise us if they find it necessary to increase the prices. Naturally, all expenses connected with sales must be borne by them, except this particular gift to the factory engineer, if the deal goes thru, on account of the fact that Watson, Phillips would not make any money on the six Hawks, as 5% is barely enough to pay all rake-offs and the price cannot be increased, we having

<sup>1</sup> The Am. Embassy knows nothing of this request.

quoted \$24,000 to Azcarate. There is a chance that Azcarate will be kicked out soon, though, in which case things will change quite a bit.

This country has been neglected and I wish I could remain here a few months. They are going to buy a lot of stuff in the future, no doubt about it, but I must get out of here, am pretty sick, don't know if it is the altitude or what. Besides I must go and get my family ready to return to B. A.

I knew there would be more grief about the smoke screen equipments sold in the Argentine. The Navy had to junk theirs, and I expect a lot of kicks and trouble when I get back. I suggest you write Zuloaga and tell him that we raised hell with Federal and made them refund three hundred dollars which Zuloaga may deduct from the balance he owes us on this order (1,332 dollars). Very likely not even this will satisfy Zuloaga because by this time they probably found out, as the Navy did, that this equipment is absolutely useless. I collected \$1,332, or half of the total, but had to pay \$400 commissions. As I already told Owen, I had my doubts about our being able to collect the balance, after seeing the Navy's experience with the things, therefore I told the boys that if we could not collect the remaining \$1,332 we would have to deduct the \$400 I gave them from the commissions due on the tool contract. Accordingly, when you send me the balance of commissions, keep \$400 and I will advise the parties in B. A. that they will get these \$400 if and when we receive the balance due on the apparatus. In this way we will not lose any money.

Our friend wrote me that he needs money to pay for a few things, including a new car, before he goes back home next month, and asks me to send his share as soon as possible. Hope you told him I would write him as soon as I get back home as per my cable of today. The contract must have been liquidated by this time but I suppose it will take a few days before you get the last payment.

According to my cable, this letter should be air-mailed from here but I have changed my mind, too dangerous not only on account of its contents but also because in order to avoid a lot of red tape and a deposit of \$250 at point of entry, I came as a tourist instead of as a business man. If I were caught it would be an expensive affair, so I thought a couple of days delay are preferable to taking the risk. Will air-mail from San Antonio.

So long and best regards to all.

Yours sincerely,

(Signed) LAWRENCE.

#### EXHIBIT No. 334

[Copy]

WATSON, PHILLIPS & CIA. SUCS., S. EN C.

IMPORTADORES Y EXPORTADORES

AVENIDA URUGUAY NO. 103

APARTADO POSTAL 67

MEXICO, D.F., 23d August 1933.

[Confidential]

Messrs. CURTISS-WRIGHT EXPORT CORP.,

27 West 57th Street,

New York, U.S.A.

DEAR SIR: Further to our letters of the 9th and 16th inst., we wish to give you the following further information with regard to the state of affairs in the various Government departments connected with the purchase of the six pursuit planes.

We are glad to say that, as far as we can be sure, everything is progressing very satisfactorily in your interests. The Aviation Department has made an official report to the Presidencia on the various planes offered for the purpose, Boeing, Bristol, and Curtiss. This report has been seen by our representative and is distinctly favourable to your machines. We are also pleased to say that matters have been satisfactorily arranged in other quarters and we believe that we can count upon support in the necessary quarters when this

question comes up for decision, which should be within the next ten days, if all goes well.

We expect to be requested to submit our official quotation in the near future, and for your guidance we wish to state that this will be \$26,000 U.S. cy per plane, if six are ordered. Should you by any chance receive any further direct communications in regard to prices we earnestly request you state that you have been obliged to revise your original quotation, either on account of rise in price of material or due to our intervention as agents, and support this figure. This has been done for reasons which you will doubtless appreciate, and we can assure you that same will in no way prejudice your chances of obtaining the order, on the contrary.

We also have to inform you that Colonel Lezama, Assistant Chief of the Air Department expects to be in Tulsa, Okla., within approximately one week to receive the Fleet planes recently purchased by the flying school. This would be a good opportunity for you to interview this gentleman and submit any additional information which you may deem advisable, but we would impress upon you that this should be done in a discreet manner, and without any advertising, as Mr. Lezama does not wish it to appear that he is favoring any particular make of plane.

We have been in touch with the Presidente del Comité pro Vuelo, Mexico-Buenos Aires, Colonel Gustavo, G. Leon, with a view to impressing upon him the benefits of using either a Curtiss-Condor or a Northrop model for this flight. The authorities are still desirous of building a plane here for this purpose, but all those in a position to know are convinced that this will be entirely impracticable, and that the plane will have to be bought, if the flight is ever made.

We do not believe that the funds available for this purpose will suffice for a Condor model, and we would therefore be glad if you would submit an estimate for a Northrop Sky Chief with all details and prices. We would also be obliged if you would furnish us with detailed specifications and prices of your Wright Cyclone 700 h.p. as also your 14-cylinder Whirlwind model. Any information which you can submit in this regard will be of great assistance to us.

We await with interest your reply to our various letters, and can assure you that we are dealing with this whole subject with all energy.

Yours very truly,

(Signed) WATSON, PHILLIPS & CIA.

CHEP/p

P.S.—We wish to state that we have been able to convince the Air Department that Wasp motors should not be furnished with your planes, and they are in agreement that should you receive the order Wright engines will be supplied, and will in all probability be standard for all planes here in the future.

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EXHIBIT No. 335

[Copy]

H. O. CLAYWELL,  
MEXICO, D.F., September 23, 1933.

New address, % American Club.

CURTIS-WRIGHT EXPORT CORPORATION,  
29 West 57th Street, New York.  
Attention Mr. Owen Shannon.

DEAR MR. SHANNON: Thanks for your favor Sept. 12th. I regret misunderstanding. However, this would not have happened had I not received the military catalogs.

I congratulate you upon your representative who actually is not a commercial one at present but one of the very highest Government authorities and a very expert one—a splendid gentleman and an excellent friend of mine.

Regarding representatives as mentioned in the third paragraph of your letter Aug. 8th wherein you stated that you have decided not to designate anyone as our representative or deal through any agent on the sale of military or commercial planes and engines to the Government of Mexico, this is what confused me when you wired later 8/14 you were already represented here, etc.

Will you please quote me air mail on your model A16C. Sport Biplane complete with cowlings and motor mount, including everything less engine but with metal prop and also with wood prop with engine installed.

Me to furnish engines Comet 7-cyl. 165-hp. model 7 E.A.T.C. #47 radial total weight dry 400#.

For a quantity of five to be taken individually over a period of six months. Awaiting your early favors.

Very truly yours,

H. O. CLAYWELL.

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EXHIBIT NO. 336.

[Copy]

OCTOBER 28, 1933.

Mr. ROBERT L. EARLE,  
*Curtiss-Wright Export Corp.,  
29 West 57th Street, New York City.*

[Confidential]

DEAR Mr. EARLE: The order for six Hawks may be obtained sooner than we expected. Since you left Mexico City very important conferences have taken place between ourselves and several parties of whose names you are aware. We are not able to give you all inside information, but please have full confidence in our actions in the near future, and would add that prompt action is absolutely necessary in this case.

The most important point at this moment is the "financial" end. According to your company's letter of Sept. 7th the price of \$24,000.00 still stands good and for important deals in the future with the same department, and other reasons, please ask your director to kindly cable us confirming that you maintain above-mentioned price for this deal. For various reasons we have to ask you if you could increase our commission on the above amount from 5 to 10%, because in this case we could perhaps obtain the sales contract immediately. If possible our sales price to the Government of \$26,000.00 should be maintained as this is of utmost importance. Delivery should be as soon as possible and the money for this deal is already set aside.

Please take great care that no news about this proposition should reach Mr. Azcarrate. If he should inquire about certain moves in Mexico, please keep him in suspense as this matter must be kept secret until everything has been definitely decided.

When cabling, please refer to the price only, and do not mention anything which refers to the aviation department.

Please send some forms of Curtiss-Wright contracts such as usually used in such cases. May we sign contract for your account and delivery.

Yours very truly,

(S/d) WATSON PHILLIPS.

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EXHIBIT No. 337

WATSON, PHILLIPS & CIA SUCS., S. EN C.  
AVENIDA URUGUAY No. 103, APARTADO POSTAL 67,  
*Mexico, D.F., March 2nd, 1934.*

MESSRS. CURTISS-WRIGHT EXPORT CORP.,  
*30 Rockefeller Plaza,  
New York City, U.S.A.*

[Strictly confidential]

MILITARY AVIATION DEPARTMENT.

DEAR SIRS: We have not reported for some time on this matter, but today we are in a position to let you have news of importance. We shall give you all details as far as we can by letter but many other details will have to be kept pending till the matter is ready for final discussion, and when we shall have an opportunity of talking to one of the officers of your company.

Sr. Lezama just arrived from a four-weeks trip with the son of Mr. Calles, to whom he gave instructions in flying. Mr. Calles jun. is going to purchase a plane in the near future for his private use.

A special commission which was very busy at the aviation department for the last few weeks in making a close study of conditions and movements during 1933, just finished their study and a new program together with new ideas about this Dept. are under consideration.

We were informed confidentially of the exact position in this matter, and also were asked confidentially to make out a certain report, which will be modified after we have given same in, according to the conditions and possibilities of the department. An entirely new arrangement and system will be established. The Talleres del Departamento de Aviacion will be taken over by a new management and transformed into a factory, similar to the one which Gral. Azcarrate once had in Mexico. The civil, as well as military aviation construction program, will be taken into consideration, but the military aviation depart. will furnish only the funds necessary for construction, repairs, upkeep of planes for this department. We can tell you that Mr. Calles jun. himself is active in this work already and that his father might be the main stockholder and perhaps director of the new company.

Mr. Calles already received all the information we could give him, after which we were asked for further data which we mention below.

They requested us to write to you asking you if you could furnish us with a rough sketch and outline of a plant for assembling and also for manufacturing for the most essential parts. They would like to make an arrangement with you whereby you help them to establish the plant and to break them in, in connection with manufacturing and assembling Curtiss-Wright motors, planes, etc. We know that you cannot possibly give them details for such a plant without knowing the exact plan of their work and their resources, but perhaps you can let us have some idea of what you would propose to be a suitable plant for Mexico, giving them a rough idea about the cost of such a plant approximately.

We now have to give them only an idea of the prices for the following models of planes, and under which condition you would let them manufacture same here. Also how many of each type they had to buy in order to give them the licence and facilities of manufacturing same in the new plant.

1. Trainer, Osprey, Falcon, Hawks.
2. Price each (ordinary sales price).
3. Quantity of planes to be purchased in order to obtain licenses.
4. Material and motors to be purchased only through you for your planes.
5. In what way would you help them to start assembling and manufacturing your planes in Mexico.
6. Other conditions to be put forward in regard to this matter.

Prices: at factory. Including 10 percent commission, but do not mention the amount of commission in future letters.

For each of your models we have sufficient data and catalogues, but we must make a short description for each model in our next proposal, and therefore ask you to state this in your letter, too, as maybe some changes have taken place in the meantime, and we want to have the exact description of these models at present.

In the meantime we are busy keeping in touch with all the responsible parties and we do our very best in pushing the matter wherever we can. We shall advise you at once of any news in the matter. We expect to see your Mr. Webster in Mexico in the very near future on his return trip to New York.

Yours very truly,

WATSON, PHILLIPS & CIA.

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EXHIBIT No. 338

[Copy]

FRANK SHERIDAN JONAS,  
277 Broadway, New York, December 27, 1933.

Mr. OWEN SHANNON,  
C/o Curtiss-Wright Aviation Corp.,  
New York City.

MY DEAR OWEN: Thanks very much for your most amusing Christmas card, which gave me a laugh, and Lord knows we need one these days.



The Paraguay and Bolivia fracas appears to be coming to a termination, so business from that end is probably finished. We certainly are in one hell of a business, where a fellow has to wish for trouble so as to make a living, the only consolation being, however, that if we don't get the business someone else will. It would be a terrible state of affairs if my conscience started to bother me now.

I am sorry I missed Webster when he went thru'. I was in Sao Paulo the same day as he, but I only learned of this after he had left. Candara tells me that he is returning shortly, so I hope I will see him when he does.

How does it feel to be able to get legally drunk? It will probably lose all its zest and interest, and we all will be on the wagon. The heat is simply terrific here, which upsets my stomach, so perforce I have been walking the straight and narrow. You probably shivered all day Christmas, while I very nearly had a sunstroke playing golf.

Owing to the Government in Argentine taking off the lid on exchange, it has raised hell here with imports, as the peso fluctuating to such an extent, that nobody can calculate what the landed cost of goods will be upon arrival. Every day some new ruling goes into effect, and we are all up in the air.

From all indications, unless I receive orders to the contrary, I should be home about the first week in March, and I am looking forward to seeing you all. Wishing you a Happy & Prosperous New Year, I am

Sincerely,

(Signed) FRANK.

FSJ:RJ.

# EXHIBIT No. 339

[Copy]

Urueta & Samper H. (Sucesores) Joaquin Samper H.,  
NEGOCIOS V. REPRESENTACIONES.  
Bogota, Colombia, S.A., December 12, 1933.

No. 476

Mr. W. F. GOULDING,

Vice President, Curtiss-Wright Export Corporation,  
30 Rockefeller Plaza, New York, N.Y.

DEAR MR. GOULDING: Thank you indeed for the information contained in your letter no. 345 of the 5th inst., and for the enclosures received therewith. These we have read with extreme interest and pleasure for it is evident that efforts to convince the Government of the need and advisability of making immediate additions to our air force have been effective. The likelihood of failure of the Rio Conference has aided us considerably in this endeavor.

As a matter of fact, we have been constantly discussing with the Seccion de Avlacion the advantages to be obtained in making new purchases now, emphasizing to them the fact that in addition to obtaining more satisfactory deliveries they would make a considerable saving over the prices they would have to pay if they waited until the emergency occurred and then had to rush the manufacturer, which would cause higher manufacturing costs, due to the necessity of employing overtime. For a long time they held the idea that it was to their advantage to hold off buying as long as possible in order to obtain the very latest innovations when they did purchase. We were finally able to convince them of the fact that basic changes in design were very improbable and that the minor improvements in detail could be easily incorporated in models already in their possession.

With reference to the Condors we have been concentrating on these and hope to obtain results. At the present time there seems to be more interest in advanced trainers, particularly at the school at Cali, and we are keeping after them quite closely.

With reference to the contemplated order for the Hawks and Falcons, we sent you last night our telegram, copy enclosed, which reads:

"Please make immediately courtesy call in my name Pradilla, Hotel Pennsylvania. Explanation Air Mail tomorrow."

From very reliable sources we obtained the information, confirmed yesterday, that Mr. A. M. Pradilla, business man, partner of the firm G. Pradilla & Co. of this city, who was going to the States on business, has been appointed by the Government, by means of a confidential decree duly signed by the President, head of the armament commission which will operate both in the

States and in Europe. Though Mr. Pradilla has no knowledge whatsoever of armaments, etc., he will act as a business man in order to negotiate with the different manufacturers once the equipment has been picked out by the commission.

The Government is putting the finishing touches to a contract to be entered into with the local banks here for the loan of \$10,000,000 for national defense, of which, immediately they are obtained, \$5,000,000 will be drawn for the use in mentioned purchases by the consulate in New York. The other \$5,000,000 will be sent to Europe, to our consulate in London.

Funds, hence, will be made immediately available and all purchases will be paid by the consulate against shipping documents as it has been the custom.

Going back to Mr. Pradilla, he is a personal friend of mine and has been for many years. His personal reputation is good, though it has been said that his firm has used methods not quite in accord with a proper moral ethic. You will find him rather pompous, but really he's O.K. As a merchant he is clever and knows how to use the "chisel", generally obtaining advantages in as far as prices are concerned.

In requesting you to make a personal call in my name, I have sought two objects: One, to put you in contact, personal contact, with this gentleman, so that if and when the case arrives, you will be known to him and be in a better position to negotiate; second, that, he being a personal friend of mine, he will appreciate the call, without suspicion that there is a purpose behind it. As I informed you, his mission is not known, since his appointment has been kept strictly under cover. I will sincerely appreciate any information which you may be able to give me as to the activities of Mr. Pradilla, as well as to the outcome of your call and further contacts you will have with him.

Before he left, he informed me that he would be located at the Hotel Pennsylvania; however, you may also locate him through the Central Hanover Bank.

Any additional information which you may be able to give me with reference to the order for Hawks, Falcons, and Condors will be sincerely appreciated. In turn, we will keep you duly posted as to developments at this end. Of course we will push the orders as much as we can, both with Minister Araujo (with whom I enjoy very good friendship) and with the aviation section.

With sincere good wishes and best personal regards, I remain,

Yours very truly,

(Sgd.) J. SAMPER

P.S. As you know, all planes purchased by the Government are set up and test flown by the Scadta, who charges a high percentage for their services, amounting sometimes to over 20 percent of the value of each box received. I have been discussing with the Government the advisability of having you quote the prices on airplanes on the basis of delivery in Colombia after each ship has been test flown here by yourselves. For this service you would be entitled to a higher price, of course, and both the Government and yourselves would have the advantage that each unit would be delivered by the factory, so, to say, doing away with the services of Scadta, which have not been as satisfactory as it may seem. Will you kindly give your ideas on this point, to further discuss the matter with the Government? An early reply would be sincerely appreciated.

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EXHIBIT No. 340

[Copy]

MAY 20, 1934.

DEAR PARM: The rather colorful and buoyant days of the Minister of War are finished and I am now back to the normal procedure of testing airplanes again. Trunk, commander of the American outfit at Cartagena flew the Minister back to Barranquilla on Tuesday with a 3-Hawk escort and I tagged along in another Falcon with the Minister's aid. I told you that the Minister is sold on Falcon transportation, and sure enough I received a request thru the Minister's Aid to fly him to Palanquero, Thursday, on his way to Bogota. I was not overly anxious for this trip because there are many miles of tough jungle between Barranquilla and Palanquero and the War Minister is quite a responsibility on such a jump, however, I took him and everything turned out fine. He had a smooth, comfortable ride which is something the Scadta pilots never seem to care to give their passengers, so I am convinced that he will use a Falcon at every opportunity from now on.

During my contacts with the Minister he seemed to think that he should have the 37 mm. gun installed on the Falcons and Condors probably as a result of the urging of Comm. Strong and Miranda (American Armament Co.) but I think I effectively discouraged the installation, principally by giving him the experience of the U.S. Army with the big guns.

The Minister had to rush back to Bogota because of the progress made at the Peace Conference. Last night's Bogota paper stated that an agreement had actually been signed and, as nearly as I can gather from other sources and the report is authentic. It therefore looks as tho there is no call for the purchase of more airplanes at this time. My general impression is that we don't have to do any more boosting of our products, that every one takes for granted that their equipment is the best which can possibly be bought. However, their maintenance organizations are terrible and, no matter how good the airplanes, they won't take care of themselves. I therefore intend to do some urging in the direction of good maintenance before leaving. I have done quite a bit of talking about the value of the demonstrations over Barranquilla and Cartagena from the viewpoints of satisfying the people as to where their taxes have gone. I have also tried to paint a picture to the Minister's aid of the value of such a demonstration over Bogota. If these people can become air-minded enough they will be willing to appropriate enough money to take care of their air force which will of course work out ultimately to the mutual benefit of Curtiss and Colombia.

With regard to my departure, I could stay here indefinitely and still find things to do, however, after the setup of the present order of planes is completed I believe I will have finished what I came for and then I have had just about enough. The 3rd Falcon has been flown, the 4th will be ready Monday or Tuesday, the 5th is about 30% along and will probably be ready sometime this week. They will start on the 6th this week and it should be ready the middle or latter part of next week. I should therefore be thru in Barranquilla in less than 2 weeks. As I have previously written I want to spend a short time in Cartagena before leaving the country which I will do after all planes are assembled here and then I think I can leave. Anything I might stay for beyond that would be in the nature of conducting a grammar school for Colombians which is a hopeless and endless task.

Regarding Moloy's departure, I brought him back from Palanquero the other day and took him over to Cartagena where I want him to spend a week or so with the Americans. They like him very much at Palanquero and hated to let him go but he was spending his time on old equipment and at this time I think the new equipment is much more important. He can go back to Palanquero later for a while, say for 2 weeks, and by the end of that time I hope they will have assigned a few Americans there. At this time I believe that a service man should be here for the setup of the coming order of planes. I have made several requests for some of the American mechanics to be stationed here during the current setup but because of general chaotic conditions none have been assigned. Trunk has agreed to send one over Monday and I have offered to even help out with his expenses for a few days, if necessary, because I believe it will be a good investment to have one or two of those fellows familiar with these planes. Whether Moloy has to stay for the coming setup or not, the more knowledge of these planes that we can distribute, the better they will be taken care of. I am going over to Cartagena Monday to get set on the possibility of setting up the new planes there and I will make full report for the next mail. I will have to reserve final recommendation on Moloy's return until later on after I have worked with these Americans. I will appreciate advice from you as to when we may expect delivery of the new order.

I do believe that we should as diplomatically as possible get the setup of the coming order out of Scadta's hands. I have no complaints other than negligence but they simply don't take the interest that Americans would take, nor do they have the knowledge of this type of construction that Americans would have. For instance we have had several cases of ribs being broken by men walking on the wings. I found one airplane (the 3rd Falcon) where the hinge pins for the rear beams of both lower panels had been too short (Buffalo's fault), had gone ahead and left the hinge pin in unsafeties. In Moloy's absence I do all the inspecting and fortunately caught it before flight but occurrences of this nature are frequent and lead me to believe that whereas it is very convenient to have full use of the Scadta plant here (machine shop, welding apparatus, etc.), with careful inspection on the part of Buffalo we will be better off in if the work is done elsewhere.

Guess I have about run down for this time. I am still looking forward to hearing from you in connection with the gas tank troubles, what you want me to do about the trainer, and various items mentioned above. I am enclosing some Barranquilla newspaper clippings in connection with the Minister's visit which you will undoubtedly find interesting. Let me know what you think of the various discussions above and anything you might want me to do before showing off.

With best regards to you, and I will write again for Thursday mail.

Sincerely yours,

WILLIAM J. CROSSWELL.

[Copy.]

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EXHIBIT No. 341

[Copy]

JULY 28, 1933.

Via air mail—#126.

Captain C. K. TRAVIS,  
*Casilla 1429, Lima, Peru.*

DEAR CLIFF: Your letters nos. 29 and 30 of the 19th and 20th came in just as Web was leaving on a trip that will take him out of town for the next week or so.

We noted that there are good prospects of another order for six to nine planes and sure hope that this comes through soon. As a matter of fact, I was talking with the consul general, Decker, today and he is firmly convinced that the scrap down there will be over within the next month, and in that event we doubt very much if they will purchase any more of the Hawks or Ospreys.

Another point to keep constantly in mind is that all factory costs here are increasing rapidly since our Government started on its inflation program and unless the orders for the new ships come in within the next few weeks we will have to increase our prices considerably. In this connection, will you please let us know by return air mail what your ideas are as to the amount of commission we should pay to Ashton & Webster on the present order and on future orders, bearing in mind that our costs are increasing continuously and at the present prices there is very little margin of profit for anyone.

I am passing on to the factory your suggestions on the Osprey and will let you know by next air mail what they suggest can be done.

We will arrange to have fifteen or twenty cartons of Chesterfields packed in one of the plane or spare cases and will let you know later the case in which they are placed so that "Shorty" can be on the lookout for them and you can hand them out to the pilots there. Neither Web or I remember receiving a letter from you before on this subject.

I cabled you to let Donnelly make his own arrangements with the Bolivian Government for his salary, traveling expenses, etc.

We cabled Ashton & Webster that we would ship all of the plane and engine spares with the three ships, excepting the propellers, but now we find that the Buffalo factory will be unable to ship the Hawk spares out until about the first week in September. We are doing everything possible to better this delivery but at present it looks as though Buffalo would not be able to improve it much, if any. The engine spares will go out with the plane.

The principal reason for the delay in getting out these Hawk spares is that we did not receive the payment for them until a few days ago and at the same time Buffalo received another order for ten Hawks for China, which in addition to the twenty-six Hawks and thirty-some-odd A-S attack jobs they are building for the United States Government has pretty well swamped the factory at this time.

Regards,

Sincerely,

OWEN SHANNON.

OS: D  
CC: Lt Paz

## EXHIBIT No. 342

CURTISS-WRIGHT EXPORT CORPORATION,  
New York City, August 14, 1933.

Via air mail  
No. #137

Capt. C. K. TRAVIS,  
% American Commercial Attaché,  
Buenos Aires, Argentina.

DEAR CLIFF: Your letters of July 19th and 20th arrived while I was away from the office. I believe Owen Shannon has answered them fully, and I can only add that I hope the job in Buenos Aires progresses satisfactorily and that you will be able to get back to La Paz in time to take care of the arrival of the last three ships.

If Webster & Ashton are able to work fast enough they may be able to get the additional nine or sixteen planes closed before the war ends. The consul general in New York seems to feel quite certain that the mess will be cleaned up within a month. I certainly hope we will be able to get some more business before this happens.

With reference to the suggested changes for the Osprey by Jordan, these suggestions arrived here too late to be incorporated in the last machines ordered for Bolivia, but on any future orders I believe they should be taken care of. It means an additional cost of about \$250, but possibly this can be absorbed.

The cost of raw materials have increased considerably, and it may be necessary to raise our price of \$18,000, especially if we intend to pay Webster & Ashton the five percent commission that they are asking for. Incidentally, please write us or cable us as soon as you receive this letter, giving us your suggestions as to the commissions that Webster & Ashton are entitled to.

Sincerely,

C. W. WEBSTER.

CWW:js

## EXHIBIT No. 343

CWW #35

LA PAZ, BOLIVIA, Sept. 13, 1933.

Mr. C. W. WEBSTER,  
Curtiss-Wright Export Corporation,  
27 West 57th Street, New York.

DEAR WEB: The 2 Hawks and the 1 Osprey will be ready to test early next week and can be delivered immediately with the exception of one of the Hawks. We cannot deliver that until I receive the propeller hub nut that I cabled for. There was a slip-up somewhere on that and one of the Hawk propellers came down with a nut for the other type of crankshaft, the one that has the threads all the way out to the end of the shaft. Consequently the nut is too short and cannot be used. I will send it back as soon as the other one arrives.

There was some damage done to the crates in shipment and we found one Hawk stabilizer badly smashed up. The second rib from the inside was completely crushed and the rear spar was twisted and kinked. The fabric was also badly torn. The wing crate for the Osprey was evidently dropped somewhere along the line and all the leading edges of the wings were dented at the support point of the crate. That was fixed up without any difficulty, as we were able to smooth out the dents without going into the wing. As I advised you by cable, Lloyds agent here has adjusted the matter of the stabilizer and it will be replaced by a new one without any effort to repair it, inasmuch as it belongs on a new plane. We will repair the damaged one here as well as we can and use it for a spare. The certificate on the adjustment should go out on this air mail or the next, direct from Lloyds.

An effort should be made in the New York office to get the shipping documents down here without so much delay. In the case of the last shipment of spares the documents were mailed by steamer mail and got here 3 weeks after the spares had arrived in La Paz. In the meantime the spares couldn't

be dispatched and there was hell to pay. It was just yesterday that the documents arrived and they were able to unload the cases. In the past there have been several cases where the documents were late in arriving and held up the detail. Sometimes it has been due to having sent the letters by ordinary mail which only arrives here every 2 weeks, and sometimes due to misaddressing the letters. There was one case where a package was sent to "the Chilean Consul, Arica, Bolivia."

The model of the Hawk caused quite an impression here and of course everyone wanted one. We are going to have some more made here at the field. The original will be presented to the aviation school which is perhaps the only way to dispose of it without causing any hard feelings. It will be kept in the Casino.

The kicks that Colonel Bilbao turned in to the General Staff on Curtiss planes and engines seems to have been squashed very definitely and effectively. There was quite a fuss about it if you will remember a few weeks ago. It was our staunch friends here among the pilots that turned the trick. They who have been flying our equipment went to the Contralor and General Staff on their own initiative and made written statements regarding the planes. These statements were by no means vague and every one boosted our stock. As far as I have been able to find out, there was not a complaint made by anyone but Bilbao. Colonel Jordon took the matter up directly with Bilbao and General Kundt and vociferated as follows, "I have had nearly 500 hours in Hawks and more than 250 hours in Ospreys and they are absolutely satisfactory in every respect. When you birds begin to know something about flying, you will see why the Curtiss planes are the best that we have ever had."

When I left Buenos Aires I bought 3 pairs of Meyerwitz goggles with triplex lenses to present to 3 of our best supporters here. I have arranged so that it can be done without any hard feelings to the others. I felt that some appreciation should be shown some of the pilots such as Jordan, so I went ahead and bought the goggles. I had mentioned the matter several times to New York in past months and suggested that they send down a few pairs of goggles but had no reply of any kind. I am putting the charges on my expense account and consider it money well spent. Lopez told me in a confidential and friendly chat yesterday that if it hadn't been for Jordan and two or three others that he named, that the last order for planes would have been canceled and that our competitors would have been given a chance. Lopez also told me that Kundt recommended the purchase of 3 more Ospreys and 3 Trainers on the strength of pilots' reports. The order has been approved but there will be the usual delay in getting the money.

In connections with new planes, please let me know as soon as possible if we will have to quote higher prices. I received some information to that effect some time ago but nothing definite. It was simply stated that in view of the inflation and consequent increase in cost of labor and material that it might have to be necessary to raise our prices and not to quote until advised.

There is an order pending at present for plane and engine spares amounting to about \$66,000. The order has been approved and the money appropriated but they are planning to convert most of that amount into planes in addition to the six that they are about to order. That is right up our alley as spares will have to follow sometime.

The war will probably last for months yet according to the looks of things. It will all depend upon how long Paraguay can keep going. At any rate, the government is financing the war for another 6 months and making provisions for a year. They have made arrangements for a loan of B\$30,000,000 which they will receive in a very few days, and arrangements for an additional loan of B\$25,000,000 if needed. Just how much of that will be converted into foreign currency, I have not been able to find out, but I presume that the greater part will go to war materials and planes. They can and will use their credit for internal purchases and army pay roll.

I cabled today for quotations on bombs and to find out if we can sell direct from Federal Laboratories or if Grace & Co. here have an exclusive agency. They sold the last order of bombs and are after this order. We must beat them to it if humanly possible. The order calls for 500 fifty-pound fragmentation, 300 one-hundred-pound, 500 one-hundred-ten-pound, and 200 two-hundred-twenty-pound demolition bombs. Those seem like odd sizes but we ought to be able to furnish them with bombs of approximately those weights.

There is going to be some business in ground machine guns, but I understand that there is an exclusive agency here for Colt and they are already quoting on the deal. They have a lot of Vickers guns in the Army here and it was planned to keep them standard but it seems that Vickers can't deliver under seven months from order and that Colt can deliver 50 guns in five weeks and at forty percent under Vickers prices.

Three Junker bombers have recently been purchased, but we had no chance at that business, inasmuch as Lloyd Aereo Boliviano is in the deal and have agreed to take the planes for their line after the war. They are convertible jobs and Junkers is standard equipment on the Lloyd Aereo line.

I am making up some lists of machinery and other things that we may be able to sell in a few months. There is no chance now to get the stuff across, as they consider anything except actual fighting equipment as an unnecessary luxury. Camera guns, lighting equipment, Sperry horizons, radio, etc., come under that head in their eyes also.

In connection with the Trainers, will it be possible to mount a larger engine for use in La Paz? I doubt very much if the standard 165 would get off the ground up here with a student. I wish you would take that up with the factory and see if they can put out a job with a super-up seven-cylinder job. The R-540 I think it is. It is possible that the training school will be established at Villamontes after the war (that is where it is now) and La Paz will be the base for fighters. But whether the school will be at sea-level Villamontes or 14,000 foot La Paz, it would be necessary to have a trainer that could operate from both places.

It is certainly too bad that Leon is unable to proceed to Buenos Aires soon. Of course I don't know a thing about the business arrangements there, but it looks like my work there was wasted, at least partly, in not having a follow-up immediately after the demonstration. I hope that the delay will not have any detrimental effect on business there. As you know, I was unable to do much without knowing what it was all about, but we will hope for a better schedule next time. We cannot neglect Bolivia; they are our best customers at the present time. A small country but they have come across with nearly half a million dollars in the past year and are good for quite a bit more if the war lasts.

Donnelly is still here and seems to have a job for several weeks or months more. They have made him a captain at his request and has been a couple of weeks in the Chaco on welding. He is due to arrive here tomorrow to fix up another wreck that happened last week. One poor devil had terrible luck. He made three successive flights here with an Osprey and had a minor crackup on each one. On the fourth flight he unwisely let the ship swerve on him on the take-off and he just about had flying speed when he connected with a large rock pile at the edge of the field. Sheared his landing-gear clean off and rolled him end over end three times but didn't hurt him a darned bit. Don gets \$75 per week plus living expenses, but he will earn it when he repairs that wreck.

They have two old Fokker D-7's here that have been lying in the hangar for seven years come December mas o menos and they are going to have Don weld them up and get them on the job again. I have tried to talk them out of it on the grounds that the tubing is bound to be rusty and eaten inside and that they will turn out to be coffins for someone, but they have just received new wings and engines for them. That was some of Vargas Guzmans' doings las year before they got wise to him and kicked him out of the service.

Can think of nothing more except the mater of commission for Webster & Ashton and am not finished with that yet.

I am going to Lima as soon as I can leave things here and will meet you there on the 11th of October as per your plans. This is a hell of a place and the customary cold in the head is again upon me and I've cried a quart of tears while writing this letter. I've had summer, winter, autumn, and fall; cold weather, hot weather, and indifferent weather during the past six weeks and forgot to bring my red flannels up here.

Best of luck, Web, and I'm sure looking forward to seeing you soon.

Sincerely,

(Sgd.) CLIFF.

## EXHIBIT No. 344

CURTISS-WRIGHT EXPORT CORPORATION,  
*Casilla 3098, Los Cerrillos, Santiago, Chile, 2/15/33.*

Mr. C. W. WEBSTER,  
*Curtiss-Wright Export Corporation,  
 29 West 57th Street, New York City.*

DEAR WEB: I was pleased to receive last Saturday your letter #70 of 30th January.

Regarding the idea put forward by Comandante Aracena for the building of 12 Falcons for Ecuador, we have not heard any further news on this subject. All the data we gave the comandante has been forwarded to the Ecuadorian Government and that is where the matter stands at the moment. Perhaps you could find out from your representative in Quito, Senor Flores Gueera, something definite on this question, but suggest, of course, you do so in a casual way, so that it will not interfere with any plans the government may have in view.

With regard to the Falcon and Hawk, I confirm cables exchanged in this connection. Since cabling you this morning, Pancho phoned to tell me that he had been promised permission to fly the planes out tomorrow, and if this be the case I will cable you immediately we know that authorization has been given by the Chilean authorities.

Senor M. Cruchaga, the Foreign Minister—and who, at the same time, has been Acting Minister of National Defense—presided recently at an antiwar meeting held in Mendoza with the Argentine authorities, the object being to try and induce Bolivia and Paraguay to cease hostilities and go to arbitration. It was also agreed that neither Chile or the Argentine would lend any assistance to either country with arms or munitions. So, in a nutshell, we can see why it has been so difficult to dispose of the Falcon and Hawk to Bolivia or Paraguay.

The newly appointed Minister of National Defense, Senor Emilio Bello Codecido, arrives from the States by the *Santa Clara* today. By the same steamer is arriving Senor Zalles, the Bolivian Minister in Santiago last year, who, you will recall, came to see us in the factory in July and wanted to buy Falcons for his Government, but nothing matured. Senor Zalles probably has instructions about the purchase of the Falcon and Hawk, and we must wait a day to see what transpires.

I do not know from whom Pancho obtained permission, as only yesterday we received notice, passed down from the Foreign Minister, that on no account must the Falcon and Hawk leave the factory. The only way to get these ships out is for an agreement to be made between the Bolivian and Chilean Ministers, and I am anxious to know what news Pancho will give us tomorrow.

At the same time Jim Spencer is still working on selling the machines to Paraguay, but apparently he is meeting with more difficulties than Pancho.

We cannot do any more than we have already done to dispose of the Falcon and Hawk, and you must not lose sight of the fact that Chile represents herself as a peace-making nation and has promised not to provide or assist in providing war material to any of the belligerent S. American countries.

Since writing your letter under reply you will have received mine in reference to the Rambler and now await your instructions.

As matters now stand it would seem very difficult for us to get an offer for the European Hawk. There is no hope whatever of the Chilean Government acquiring this machine, and the only way I think you could dispose of it would be your dealing direct with other countries at S. America at present engaged in warfare. Jim Spencer has been trying to get an offer from the other side, but nothing has come of it.

I note what you write about Jim Spencer and quite appreciate your attitude before dealing direct with him. In conversation the other day, he told me he had received your letters, so I did not make any comment on what you wrote me.

The whole trouble in trying to make deals of this nature is that there is excessive graft to contend with. The Bolivian and Paraguayan Ministers know of our offer and yet they prefer dealing through agents. They both know our figure and the agent's figure, so you can imagine who has to take a share between sale and purchase prices. Jim has been working the deal for Bolivia and Paraguay through the Argentine. His figures are the same as Pancho's and he knows perfectly well that his commission is included in anything he



can get over \$15,000. If he could make \$1,000 on each plane for himself, I think he would be lucky. The other \$2,000 would be paid to the other intermediaries.

Have not seen Salvador for at least a month. He must still have the hump.

We have just received a letter from the Air Corps stating that in view of the high quotation for the Sikorsky spares, they have decided not to place the order and will effect the repair with what element they have in the Maestranza in El Bosque.

The dope and other material arrived here yesterday, all O.K. The Santa Barbara shipment is the only one still pending and we expect the decree will be signed this week.

Work on repairs is proceeding steadily; except to complete the 3rd ship (Hawk #7) by week-end. Falcons Nos. 2 and 29 have now been officially handed over to the Air Corps. Total costs on these two machines will be advised New York by next mail, so that you may deduct same from the Air Corps funds in your possession.

Thanks for your kind wishes. Kesler is still hanging around waiting for a chance to fly away the Hawk and Falcon.

Best regards,

Sincerely,

J. V. VAN WAGNER.

EXHIBIT No. 346

[Copy]

Air Mail #93

MAY 15, 1933.

Mr. V. J. VAN WAGNER,

*Casilla 3098, Santiago, Chile.*

DEAR JERRY: With reference to your several private cables and also your letter of May 6th, regarding Aracena and Bofil. It seems to me that if the Peruvian Government is anxious to acquire equipment we should be able to work out some sort of deal with them. I cabled you this morning, as per confirmation attached, in an effort to find out who Bofil is. Is he a direct representative of the Peruvian Government and, if so, what delivery must they have and how much are they prepared to pay?

It seems strange to me that you have not been able to sell them the Wooten "Falcon." There is a ship for immediate delivery along with a quantity of necessary spares. My only object in flying the ship out of Chile into Peru is to make it available for sale to the Peruvian Government and to circumvent any possible sudden decision on the part of Chile to prevent the delivery of munitions to Peru. I have given you full instructions on the Wooten Falcon, so please stick to them in making a deal.

It seems to me that Aracena's requirement of receiving the price of new Falcons and Hawks for his obsolete and worn present equipment is absolutely unreasonable. In my opinion, it would be a very satisfactory deal for Aracena to trade, if necessary, 2 used Falcons or 2 used Hawks for one new Cyclone-Falcon or Hawk. It would naturally cut down the number of planes in service but would give them modern equipment. He evidently is still remembering the deal of last summer and fall, which was more or less of an accident but, at the same time, we were delivering new and unused equipment, although we admit that it was under-powered and more or less obsolete—nevertheless, it was new and had not been flown over many years as in the case of the present Hawks and Falcons.

If Bofil, in representing Peru, is anxious to buy equipment and, as you expressed it, "urgently", I wish you had cabled us when you first met him and given us the opportunity of shooting at the proposition in some form. You mentioned that you had told Bofil that you could not deal with him. Never make this blunt statement to any prospective customer but always string along with them leaving the door open for some kind of negotiation. We might have been in a position at the Buffalo factory whereby a production order was coming through for another customer on which we were ahead of schedule and that some of these planes could have been diverted to another customer in an emergency. Such would have been the case several weeks ago when we were delivering Cyclone "Hawks" to China. Unfortunately all of these Hawks have just been delivered. Bear this in mind and in the future always keep us fully informed.

Air mail me immediately all the information you can secure regarding the possible action on the part of the Chilean Government in connection with the proposed closing of Chilean ports to Bolivia. I hardly believe that this drastic step will be taken but, nevertheless, the newspapers here are predicting it. Follow all these political events as closely as you can and keep us supplied with information.

If there is a possible chance of making a deal between Boffl, Aracena, and ourselves, I think I would make a quick trip down the West Coast to sit in on it but I naturally do not wish to leave at this particular time unless it is absolutely necessary.

Your letter of May 6th states that President Alessandri and the Minister of National Defense and Aracena are very anxious to keep the factory operating and commence on new production. How in the world does anyone in Chile expect to do this unless they find some dollars? My letter of May 4th, instructing you to close the factory tight unless Aracena and the Government finds some business for us still stands. The Government cannot possibly expect us to keep operating for the benefit of the Chilean Government and at our expense.

I also cabled you this morning asking if Wooten had turned over his Falcon. I have been urging the Air Corps in Washington to cable him instructions and they have agreed to do so. Please follow this up and keep me advised. Regardless of whether you sell the Wooten Falcon in Santiago, please get it started for Arica as soon as you can and notify us by cable when you expect it to be there so that we can arrange with Faucett to have one of his pilots pick it up. In connection with this ship, do not rely upon or request Pan American Grace to supply the ship with gas and oil. You will have to make an arrangement with Chilean National Airways for fuel.

In shipping your spares to Peru, do so in the most efficient way without using the Grace Line, consigning the shipment to Faucett and immediately notifying him by cable and also cable us. In other words, move this equipment into Peru as rapidly as possible.

Also keep me advised as to what action you take in delivering the "Rambler."

During this period of political unrest all over South America, circulate as much as you can among officers and people in an effort to obtain information pertinent to our business situation which may effect sales and shipments in all of the South American countries.

Also please bear in mind that the deal for Wooten's Falcon is absolutely confidential. Do not permit stories to be circulated around Santiago about our purchasing the ship, to whom we are trying to sell it, and the price we get for it.

Sincere good wishes,

C. W. WEBSTER.

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EXHIBIT No. 346

ANKARA, April 7th, 1934.

(Personal & Confidential)

Mr. T. A. MORGAN

*Curtiss-Wright Export Corporation,*

*R.C.A. Building, 30 Rockefeller Plaza, New York.*

DEAR TOM: I'm writing this to you direct, as I assume Jack will be on his way out here before this letter arrives in New York.

Here are some important factors which must be kept in mind, as of great possible influence on affairs out here. A few days ago Mussolini made a speech in Italy in which he talked very frankly about his views regarding Italy's future lying in Asia and Africa. It probably didn't create any stir at home—you may not even have noticed it. But you can believe that it has caused a great stir out here. The Turkish ambassador has called on el Duce to ask him "what do you mean, Asia etc." El Duce, of course, replied that he didn't mean Turkey. And on the surface all is quiet. But if you know anything at all of the background of Italy's aspirations in Turkey—tangible evidence of which lies always at Turkey's front door in the form of the Italian mandated islands—you can well believe that these last utterances of el Duce's have made a most profound impression, which mere diplomatic assurances will not dispel.

And under the surface there is every evidence of a determination to see that no stone is left unturned to see that Turkey's defenses are in shape. And

aviation defenses are receiving the most serious attention of the big shots in the government.

The machine gun episode for Hawks is just one indication. When I cabled you the other day that we have been asked to consider this one as a national emergency, I can assure you that I wasn't kidding. They're in deadly earnest about this.

There is every evidence that the long delay in the Kayseri project has now received the renewed attention of the Prime Minister and Chief of Staff, and I should not be the least bit surprised to see a break come almost any day. When I was in Zejai's office today, I walked the Prime Minister in person—all unannounced, a most unusual procedure. I don't know what was the purpose of the visit, because I, naturally, withdrew at once. But several indications are that the Kayseri affair was very much in the foreground.

There is every reason why they should press this matter to conclusion, and I'm rather expecting that Ismet Pasha will take it in hand to see that it is concluded, and that very shortly.

Pretty well-confirmed reports are that a tentative decision has been reached also to start active and energetic efforts at once to augment their air program greatly. There is talk of an immediate budget for 170 planes to be purchased this summer. Also rumors of a separate aviation department.

All this may be just idle talk, but I am strongly of the opinion that it is really firmly founded. If it is—and if (as appears to be the case) the Prime Minister and the Gazi are really taking it upon themselves to push this matter—we may look for some real action at any time.

Greece has much the same underlying attitude toward Italy that Turkey has. The Duce's speech took place since I left Greece, so I have no way of knowing what is the reaction there, but knowing the general political background, I would expect the Greek reaction to be similar to that in Turkey, and I should not be surprised to hear that Greece's indecision on aircraft matters has been converted into a definite program.

It's too early yet to say exactly what will happen. I feel quite certain that there is no likelihood of any open breaks. But I do believe that this little speech of el Duce's is going to result in a material augmentation and acceleration of Turkey's aviation program, and may have a very similar result in Greece.

Please don't forget this background. It is very important.

Yours sincerely,

(Sgd.) BRUCE G. LEIGHTON.

*An incident.*—I complained yesterday to the Minister that a number of materials for Kayseri had been delayed in the Customs House Ankara for two months. Today there was great to-do over the fact that the officer in charge of the Ankara warehouse—a major—has been ordered to ten days under arrest for dereliction of duty. I have an idea that the delays will be less long in future.

(Sgd.) B. G. L.

EXHIBIT No. 347

[Air Mail 78]

JANUARY 31, 1933.

Captain CLIFTON K. TRAVIS.

*Compania de aviacion Faucett, S.A.,*

*Apartado 1429, Lima, Peru.*

DEAR CLIF: According to your last letter, you planned on being in Lima on February 6th; therefore, I am addressing this letter to Lima.

Bill Goulding and Shannon have been exchanging cables with you regarding the payment, and I hope that you were able to straighten out this financial situation before you left La Paz. If we can in any way allocate the funds already cabled up here so as to cover the remaining portion of the Osprey and the spare parts, I believe it is the thing to do. In any event, we do not intend to release the 2 remaining Hawks that are now in New York until the contracted payments have been made. In view of present conditions in Bolivia, I believe we would be making a grave mistake to permit the Bolivian Government to get too far behind in their payments. The situation at Chaco is liable to blow up any time and if it does, the natural move for the Bolivian Govern-

ment to make, and in view of their past performance, would be to default on any payments that are due. Therefore, let's hold them to their contracted payments. If the show does not end this coming summer, they naturally will have to have additional equipment. I realize that the Government is about broke at the present time, but they generally find the funds for munitions when necessary. In the future, if you have to make additional contracts, try to get your last three payments in New York, eliminating the final payment in Arica as called for in the two previous contracts. I know this is going to be rather difficult, in view of the precedent established, but do the best you can.

I had a talk with Mr. Nichols of the Colt Co. last week and they have given their representation to a former Army officer, and according to our agreement with the Colt Co., we are entitled to commissions only on machine guns installed on airplanes or shipped with airplanes, which eliminates us from participating on contracts for gun spares unless those contracts are placed directly with us. Bear this in mind and follow this situation closely so when the Government anticipates purchasing spare gun parts or complete spare guns, see that these contracts are placed directly with you. I understand that the Colt Co. is not favorably impressed with their representative and would prefer working with us, providing it does not complicate their contract with their agent.

Sincerely hope that the Peruvian Hawks gave you no trouble.

Please give my kindest regards to Jack Jennings when you see him and also give him any and all breaks that you can. He is down at Ancon as an assistant mechanic with Jugielski in setting up the Hawks. Also give my kindest regards to Slim Faucett, Dan, Slim Carlton, and the rest of the boys.

With the best of good luck and sincere good wishes to you and Mable,

Yours sincerely,

C. W. WEBSTER.

P.S.—As soon as possible let us have the full report on the Peruvian Hawks by cable and follow it up in detail with a letter. Also, what opportunity of selling Peru a few more Hawks? Have turned over your receipt to Mr. Jones.

C. W. W.

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EXHIBIT No. 348

[Air mail #84]

FEBRUARY 8, 1933.

Capt. CLIFTON K. TRAVIS.

% *Compania de Aviacion Faucett, S.A., Apartado 1429, Lima, Peru.*

DEAR CLIFF: Your two letters of January 26th, addressed to Shannon and myself, have just arrived, also your cables regarding the delivery of the first two Hawks for Bolivia.

It was a great satisfaction to know that the Bolivian Government was entirely pleased with the performance. I agree with you entirely on the policy of nondelivery of equipment until all government accounts have been settled. Someone in our organization slipped up on the shipment of the first two Hawks in consigning this material to La Paz, and when the other two Hawks go South, they will be shipped to your order so that it will be impossible for the Government to take them out of Customs until you have personally cleared them. I realize the difficulties that you have been up against and we can only do our best.

Although you say there is an apparent scarcity of government funds, I still believe that Bolivia will be required to purchase additional aircraft equipment, and the dollars will be found somewhere when required. In my opinion, the real activity is just beginning, not only in the Chaco, but around Leticia as well. National pride and stubbornness will not permit these countries to quit until they blow up through absolute bankruptcy, and while the show is going on, it is our job as distributors of munitions to get our share. If we don't, someone else will.

I am firmly convinced through personal conversation, while in Buenos Aires, that moral and financial support is coming and will continue from Argentine on behalf of Paraguay, and Bolivia will be required to find similar support either through the Standard Oil Company, or through wealthy nationals, such

as Patino, whose business and financial interests are at stake. I am still of the opinion that before these two "comic opera wars" are finished in the north and south that practically all of South America will be involved—so watch your step and play your cards accordingly.

I am anxious to get down there again as quickly as possible, and will probably make the grade between 6 to 8 weeks at most.

We can look for considerable activity on the part of Mr. Jones and his friends sometime during their coming winter (June, July, August).

While in Peru, and as soon as convenient, give me a frank picture of the Peruvian situation, and do what you can to assist Faucett in closing additional business there. For your confidential information, their friends to the extreme north are still purchasing heavily. You might use this in your official conversations but in a very careful and diplomatic manner.

I have just heard that they intend to assemble the Hawks at Las Palmas instead of Ancon, which indicates that they intend to take them through to the Marañon River on wheels and shift to pontoons to reach the Amazon.

In connection with the Cueto situation, he has written us that the Government has officially advised him that they did not request us to withhold his commission. Will you kindly mention this to Lopez and, if possible, have Lopez write you or us a letter stating that the Government will not sanction payments of commissions to any agent and insist upon direct dealings with the Curtiss Company.

Jerry Van Wagner has informed me that efforts are being made to dispose of the Hawk and the Falcon now in our factory, and with which you are familiar, to Bolivia for a certain price. Do what you can to promote the sale of these two ships, as such sale will have a direct bearing on my future dealing with "Jones." I would like to unload them as quickly as possible so that I can begin other negotiations for the near future.

Shall be very glad, indeed, to purchase for Melgar the equipment which you itemized, and will immediately take the matter up with the Consul General in New York. I would like to make Melgar a present of this equipment but it is impossible to do so, but we will give him the advantage of our best prices. We can also take care of the flight instruction of Melgar's son at the Valley Stream field, and will secure the dope on costs as quickly as possible, and take this up with the Consul General.

The office sent to you on December 7th the photographs and specifications you mention. These were sent to you, care of Lopez. If you were unable to pick them up, let us know. We are also sending you immediately a supply of stationery, air-mail envelopes, etc., in care of Faucett in Peru. These will go forward in possibly several packages in order to get by the Customs.

By the way, for our records, is the parachute which you are using the one with my name stencilled on the harness?

I think of nothing more at this time.

The best of good luck and good wishes to you and Mable and the youngster.

Sincerely yours,

C. W. WEBSTER.

#### EXHIBIT No. 349

CURTISS-WRIGHT EXPORT CORPORATION,  
*La Paz, Bolivia, October 26, 1933.*

DEAR OWEN: Am writing this letter at midnight—just returned from dinner after a late session with Lopez and the Minister of War. Our plans have somewhat changed. Cliff, instead of going along with us tomorrow, is leaving for the Chaco on Saturday with the Minister of War and the chief of staff for a conference with Gen. Kundt and aviation officials at the front. The Government wishes to acquire 10 large bombing planes and it is a choice between Junkers and ourselves. Lopez and the Minister suggested that Cliff fly down there with them and the job is so important that we decided that if necessary we will have to delay the Argentine business. I'll go along to Santiago and across to B.A. and he will join me there just as soon as he can make it. He may be a week late but we'll have to make the best of it.

The financial end of the job is naturally all important. Lopez wishes to make a deal with us for the bombers and probably other material which will run to possibly between \$800,000 and \$1,000,000. His suggestion is that

they make an advance payment of 25% with a possible contract and the balance in monthly payments over a period of 18 months with the Banco Central of Bolivia guarantee back of the contract. The only thing I could tell him was that I'd take it up with the New York office. Personally, I am sure that such a contract is as good as gold, but, of course, JAB and the others will have to be satisfied. The Banco Central is naturally the Government bank and receives all the Government's income. The income from tin alone is about \$200,000 a month. This letter will reach you about the time I arrive in Buenos Aires and if JAB and the others think it is important enough they can phone me at the Plaza Hotel in B.A. It is my opinion that no definite decision will be reached until I have returned to New York but, on the other hand, they may rush their program. It is my intention as I told you in my other letter to return here the latter part of January. If we cannot accept the Government's proposition the business will probably go to Junkers or United or the British who seem to be inclined to accept similar terms. Please take this proposition up with JAB and in fact let them read this letter and then give me their reaction by cable in B.A.

Hope we can come to some kind of agreement as there is plenty of business here. Lopez told me tonight frankly and confidentially that Bolivia had no intention of making peace until they got what they were after and, if necessary, the entire Patino company could back their stand. Will be waiting for JAB's opinion.

Sincerely,

Web.

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EXHIBIT No. 350

[Copy]

APRIL 20, 1933.

DEAR LEON: Thanks for your cable. Sorry things turned out as they did, but possibly I can be of use to you even though I'm not on the pay roll. The thing I'm most interested in now is the matter of representation. Your cable gives me the impression that you are not interested in improving the quality and efficiency of your representation here. If that is the case, I'm afraid you are making a great mistake, for there is a fine order in the air and I should like to see you get it—and if I were with you I'd hope to share to a small degree in the profit.

I refer to an order for 16 Loenings. The Government is, for some reason that I have not figured out, in a great hurry to acquire that number of amphibians and I know that they are giving preference to Loening. They are also thinking of Douglas. That latter company has a representative here who is about as effective as yours. I am definitely informed that Loenings are wanted and in all probability you will be hearing of this through Castro Lopes, though so far as I know he had not even gotten wise to the business yet. The clique that makes the purchases does not feel that it can do itself justice by dealing with them.

I have written to Web today, and am writing you to give you the picture as it looks to me. The Cia Provendas is a fine outfit for this type of business. I have given Web an idea of the firm and of its good connections. The firm of Souza Sampacio & Cia, Ltda. Rua General Camara 73, which used to live exclusively on government business and which like Mayrink Veiga has staged a comeback, is an excellent house. This outfit I believe to be as good as Provendas, and I doubt that there is little to choose between these two and Mayrink Veiga. So for the love of Mike, get some action up there in the matter of an agent. Almost every day I have the question put to me by army, navy, or business people as to why Curtiss does not make an effort or show some interest in this market.

I realize that Web is not losing sight of the financial end of things. To my mind, that is one of the most important, and I can say that I feel certain that if exchange is given to anyone in Brazil it will be given to suppliers of the Government, and of all classes of suppliers, those handling war materials come first in the present set up. If dollar credits are not available in advance, then sufficient milreis to enable you to buy your exchange in the bootleg market will be given. That's where it would be well for you or some other representative to be on the job.

Let me hear from you as how things are going, and when you will be coming through here.

Sincere regards,

PIERROT.

Hope you can plan to stay over here a few days, it will pay you. I'm sure. But arrange to have your present connection canceled before you get here to facilitate your work.

Cable address : Amcomat, Rio.

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EXHIBIT No. 351

[Copy]

W. H. SMYTH-BEOGRAD,  
Belgrade, March 18, 1933.

Mr. MELVIN HALL,  
% American Consulate, Ankara, Turkey.

DEAR MAJOR HALL: On March 13th, I received your telegram from Ankara reading as follows:

"Do prospects justify visit of Vaughan President Wright now northern Europe. Telegraph Melvinhall Amembassy Ankara."

I investigated the matter thoroughly and wired you last night to Ankara as follows:

"Yes for eventual rush orders. Gould of Pratt Whitney working here."

For your information, it appears that the French Legation in Belgrade has been bringing very heavy pressure to bear on the Yugoslavian Ministry of War and that as the result, the Yugoslavian air force will probably take Jupiter 7-cylinder and Jupiter 9-cylinder motors for their main requirements and possibly some K-14 for a few special cases. There is talk of using Jupiter 9-cylinder motors on some old planes which are reported of doing 400 kilometers an hour, and there is a possibility that this plane will also be adopted as standard.

Somebody has put the rumour around here that you have been spending such a long time in Turkey because the Turkish Hawks have not come up to their promised speed and that you are having a lot of trouble with the Turkish Government about this. This rumour has probably been put out by the French, but in any case if you have time on your way back from Istanbul, it might pay you to stop here and to go to Novi Sad to refute the rumour in person.

At the same time you could break the good news to Stanojevic about the reduction in price and the announcement of the SR-1820-F-5 plane.

Even if the French should secure the general order for motors and planes, I believe we should be able to sell at least a few motors to the air force on the basis that if and when a war breaks, the Curtiss-Wright Company will be one of the first in the position to give them quick delivery on date, and it will be well for them to have some practice on these motors so as to know what to expect from these planes.

I understand that Mr. Gould of the Pratt & Whitney Co., has been here for the past week working hard on the air force.

Hoping to have the pleasure of seeing you in Belgrade on your way to Paris, I remain,

Yours very truly,

(S.) W. H. SMYTH.

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("Exhibit No. 352" appears in text on p. 778)

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EXHIBIT No. 353.

[Copy]

FEBRUARY 17, 1932.

A. B. MERCANTILE,  
Helsingfors, Finland.

(Attention: Engineer Schroderus.)

GENTLEMEN: We are pleased to advise you for your information that the Lithuanian Ministry of Defense has ordered from us five (5) Challenger

engines for installation in their training planes. We believe that you will desire to communicate this information to the Finnish Ministry of Defense.

We would also advise you confidentially that the Turkish Government has passed an order to us for twenty-four (24) Curtiss-Hawk single seater pursuit planes with Cyclone engines, six (6) Fledgling training planes with Whirlwind engines, together with a quantity of spare engines. This information is not for publication and is to be communicated by you only in a confidential manner, should you deem it desirable to inform the Ministry to this effect.

We enclose herewith a confirmation of our telegram to you of this date, informing you briefly of the new type of light observation and reconnaissance plane which we are now in a position to offer at a remarkably low price. This plane has a very high performance and is equally satisfactory mounted on wheels, floats, or skis. Should the Ministry be interested we would be pleased to forward full details of specifications and performances.

With kind personal regards from the undersigned.

Yours very truly,

CURTISS-WRIGHT EXPORT CORPORATION,  
MELVIN HALL,

*Vice President & General Manager.*

MH  
EMG  
enc. 1.

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(There was no exhibit marked "No. 354")

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EXHIBIT No. 355

*Air Mail*  
185

FEBRUARY 9, 1933.

Mr. ELMER J. FAUCETT,  
*Compania de Aviacion Faucett, S.A.,*  
*Apartado 1429, Lima, Peru.*

DEAR SLIM: Just received a letter from Jerry Wagner stating the Peruvian Government is insisting upon a duty of 5 percent on a declared value of \$3,000 for bringing the "Rambler" into Peru from Chile, and is also insisting that the duty be paid in Chilean pesos at an exchange of 45 pesos to the dollar. This is the bootleg rate of exchange—the official Government rate being 16.50 pesos to the dollar. The Peruvian Government is entirely out of order in their demands. Will you kindly see what you can do about it?

If the "Rambler" is taken into Peru, please have it definitely understood that the machine does not belong to you, but is the property of the Curtiss-Wright Export Corporation of New York. This is for the purpose of preventing any possibility of confiscation during the period of the Government's little comic-opera war.

Sincerely hope the work of setting up and delivering the Hawks will progress smoothly. Jack Jennings' dad had a letter the other day stating that it was probable that the Hawks would be assembled in Las Palmas, instead of at Ancon. This leads me to believe that they intend to ship the pontoons up the Marañon River, and fly the ships on wheels to that point, instead of going in directly from the west coast over the hills to the Amazon with the pontoon equipment.

Is there any possibility of selling Peru additional Hawks or additional equipment of any kind?

I am very anxious to get back to Lima as quickly as possible and may be able to leave here within the next 4 or 6 weeks.

Please remember that no spare engines have yet been purchased for the Hawks, so please bring a little pressure to bear on the Air Corps officials and on Mr. Fardo, and see if this business cannot be concluded in the near future. For your confidential information, you might diplomatically inform interested parties that your neighbor to the extreme north is still purchasing in large quantities. Do not overlook such items as bombs, ammunition, machine guns, equipment, etc.

My kindest regards to all the boys and best of luck.

Yours sincerely,

C. W. WEBSTER.

P.S.—Are you serious about the little party on March 4?



## EXHIBIT No. 356

[Copy]

NOVEMBER 1ST, 1933.

338

Mr. JOAQUIN SAMPER H. (UMETA & SAMPER),  
*Apartado Postal 536, Bogota, Colombia.*

DEAR MR. SAMPER: Sorry to say that the press of other matters has prevented my writing you recently.

Lt. Gonzalez arrived here and delivered the two films which we have found very interesting to see. I am having copies made and will return your negatives when this is completed. I am somewhat at a loss, however, just how to return them as I imagine there would be all kinds of custom difficulties if we simply mailed them to you. Please let me know, therefore, the procedure we should follow in this connection.

I am very favorably impressed with Lt. Gonzalez, and we have arranged, together with Mr. Olano, to take him into our factory in Buffalo just as soon as the necessary government permission is obtained, where he will have an opportunity to study the methods which we employ in the manufacture of our aircraft. Mr. Olano felt that this was the purpose to which he wished Lt. Gonzalez' efforts directed. You may be sure that we will do everything to see that his stay in Buffalo is pleasant, interesting, and instructive.

We have recently signed with Mr. Olano a contract covering one more Trainer. The price at which the plane was to be sold is \$6,225.00 f.o.b our factory, St. Louis. While the contract is prepared and signed here, Mr. Olano explained that, due to the emergency situation no longer existing, it was necessary to have this contract approved in Colombia before we could proceed with the order and receive the customary deposit. Although this contract was signed on October 16th, we have not yet been instructed by the consulate here that authorization has been received from Colombia. You might look into this matter in Bogota and see if you can hurry it up.

In one of your recent letters you refer to the attack-type military monoplane which we are building under contract for the U.S. Army—Army designation A-12. We have not sent you any information on this plane other than the official release due to the fact that we are not permitted to give out any information on this plane by the U.S. Government. This is in accordance with their customary policy whereby newly developed planes are not released for export sale until they have been one year in operation by the U.S. Government. We will be very pleased indeed to submit full specifications and details on this plane just as soon as it is permitted by the Government here. It will be very interesting for Lt. Gonzalez to be in Buffalo while we are building up these forty-six planes now on order for the Government. We expect the first of these to be completed along in December, so he will be there just at the right time.

When we will be able to offer these planes for export sale, we do not know, but it may be several months before we can do this. Meanwhile, I think you should concentrate your efforts in endeavoring to get further orders for Hawks and Falcons, as we feel that the Colombian Government, now that they have made such a splendid advance in building up an air force, should not permit these efforts to lag. There is no telling when they will need a very strong air force.

We also suggest that you give very serious consideration to the Condor bomber, full particulars on which we have recently submitted to you. We know of no better plane in the world which is available to the Colombian Government to be compared with this Condor bomber.

Sometime ago you indicated that the Colombian Government would replace the Hawks and Falcons which had been lost. We are very anxious to know what the developments are along these lines.

According to Lt. Gonzalez, the current opinion in Colombia is that the negotiations with Peru will come to naught, in which case Colombia will again be faced with the necessity of a strong air force. We know, as a matter of fact, that Peru has not been idle in adding to their equipment, and, unless Colombia maintains and increases their air force which they have now started, they will lose the advantage which they now have.

We note with interest your activities in appointing a representative in Call to be near the school, and we should be very interested to receive reports of the school's operation and advices in connection with our planes operating there. You will recall that some time ago you submitted reports in connec-

tion with various complaints about the Trainers. We have written you fully in this connection and are awaiting your advice as to what action we should take. We want the Colombian Government to be thoroughly satisfied with the equipment which they have purchased from us, and as you know we have offered to make good any defects that there are, but we must know what these are.

We have sent, as you requested, a number of booklets to your Call office. We will, of course, continue to correspond directly with you in Bogota as in the past.

I think you know that Mr. Olano has resigned as consul general here in New York and has now gone in for aviation in a serious way. He has arranged, together with Mr. Santos, to take the United States Navy course at Pensacola, where he is now. I have been in conference with him on this program for many months past, but as he requested that I treat this confidentially, I have not felt free to tell you anything about it. I have done everything possible to assist him in his plans and will continue to do so.

It will be an excellent thing for Colombia to have these Navy-trained officers available. Mr. Olano is very enthusiastic about the development of aviation in Colombia, and with the thoroughly practical groundwork which he will obtain during the next year while undergoing his training, it should make him not only a most competent pilot but give him great experience and knowledge of aviation in general. I am very pleased indeed that he is taking this course. He has the great natural ability as a pilot, and I have cooperated with him here in arranging for him to do quite a little flying before he went to Pensacola.

Mr. Oscobar is now acting consul in New York and I am confident that our friendly relations will continue there.

We must, however, look to you to actively push the sale of our equipment in Colombia, and we trust that you will spare no efforts in endeavoring to arrange for the Colombian Government to place some further orders. Any information you can give us in connection with this matter will be greatly appreciated.

Kindest personal regards.

Sincerely,

CURTISS-WRIGHT EXPORT CORPORATION,  
(Sgd.) W. F. GOULDING, *Vice President.*

WFG/t

P.S.—Have the models for the minister of war been located?

P.P.S.—Have just received your letter dated Oct. 28th, #465. We have not received any report from Todhunter outlining further details in connection with the troubles experienced with the Trainers. Kindly check up on this and send us a copy.

I have noted your remarks about the models and hope that these will be located very shortly. Please keep us advised regarding the developments of your investigation.

W. F. G.

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EXHIBIT No. 357

LIMA, December 16th, 1933.

MR. OWEN SHANNON,  
*Curtiss-Wright Export Corp., New York City.*

DEAR MR. SHANNON: I have a number of notes and communications on my desk not pertaining to any direct interchange of letters between ourselves but that I felt like writing to you about if for no other reason than that of giving you a feel of the pulse in Peru.

Sales of airplanes are off for the time being, principally for lack of funds. The arrival of the last of the English ships together with the arrival of the first batch of French airplanes has probably been just as important in slowing up my work. The political situation in the country has taken a turn towards the bad, and I understand from Web that the Rio conference will turn out to be useless.

The Peruvians apparently have just received a good burning on the Fairy Fox. This ship at sea level cannot catch up with our old Stinsons, with the Stinson cruising at 1,750 r.p.m. and the Fairy running wide open. I'm thinking the Colombians will have a few good chuckles with their new Falcons at all altitudes under 15,000 feet and in all probability at the high altitudes as well. These things are being pointed out to all the officers not concerned with the purchase of the English and French equipment.

The first French airplanes to arrive have been Morane trainers with 120 hp. Lorraine engines. The ship looks flimsy compared especially with the Fledglings and the Consolidated jobs here. The French pursuit ships are the Petrel (probably a Nieuport) with 500 hp. Lorraine engines. This ship is a high-wing monoplane with *wing radiators*. The French claim 35,000 feet ceiling but in South America, very few people believe a Frenchman anyway.

I am unable to get a decent figure for the Wooten Falcon. They have offered a price of \$5,000.00 which is ridiculous and it appears improbable that they will pay more unless we get a change of inspector generals, at which time I could bring the matter up again. Please advise Web in this connection. This ship needs recovering badly and I feel that the price agreed to between Web and Faucett is reasonable. This ship should be flown at least once a month in order to keep the motor from rusting, even though the motor is being turned over a few times once a week. I think the Ecuadoreans might buy this ship if it was recovered; why not contact Flores Guerra about it?

The trigger motors have arrived and I am attempting to have orders issued whereby I can be assured that they will return the old ones.

On our bomb quotations, we are lower than any other American quotation but still a little higher than the Vickers people. Our deliveries are far superior, however, and we stand a good chance of securing this business.

As regards your #10 of the 28th ult., better send me along the three instruction books as requested. All the ones previously sent to the Faucett Company have been properly distributed.

I understand thru Web that Casey has a new portable boundary light. We might be able to sell some here for use down in the jungles. Web had with him a working model that I would like to get if he brought it home with him.

Will you be kind enough to mail me a pair of "American Transport" goggles with calobar lenses. These are for my own use. I will mail you the necessary funds the moment I hear from you.

Proposals have been submitted on all the items we have exchanged correspondence about. I am still waiting for prices on horizons and directional gyros. Will appreciate this information as soon as available.

Sincerely yours,

DAN E. TOBIN.

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EXHIBIT No. 358

MARCH 15, 1934.

To: Tobin, Lima Peru.  
From: Webster.

Good work have received deposit. Stop. Airmail contract immediately and have minister marine instruct bank Chase to establish irrevocable credit balance Stop. Confidentially your competitors have just placed order 23 additional Falcons, 15 Hawks, but no deposit yet. Stop. Strongly recommend Peru make deposit immediately additional Hawks, Falcons, for delivery priority. Stop. Your present schedule ends May 28 but starting May 14 can deliver two additional airplanes each week until June 1st, then four each week until July 1st, then nine per week but you must act immediately. Stop. Can begin delivery Ospreys forty days at rate of two possibly three each week depending quantity c.i.f. price \$18,500 each including two bombracks, machine guns, and \$1,000 commission. Stop. Have guns for nine Falcons, three Hawks, but Colt factory swamped possibly necessitating European guns for additional contracts will this be satisfactory. Stop. Recommend using Cyclone two engine and aluminum finisl. Advise will telegraph later regarding Condors and used planes but sell Wooten Falcon for \$10,000 including \$1,000 commission. Stop. How about parachutes.

EXHIBIT No. 359

[Copy]

[Via air mail—#101]

MAY 3, 1933.

Captain C. K. TRAVIS,  
*c/o American Consulate, La Paz, Bolivia.*

DEAR CLIFF: The Fairchild Company is anxious to know what the prospects are for the sale of some of their aerial camera guns in Bolivia, catalogues and prices on which were sent you with our letter of March 9th. As I advised you at that time, Fairchild have given us temporary exclusive representation on their guns, which will not be made permanent unless we can produce some business for them. As we expect this gun to be a good seller, we are anxious to get their permanent sales rights on it and hope you can get an order for some in the near future.

During the past few days the New York papers have carried stories of the Bolivian planes bombing some of the Paraguayan rail centers with considerable success. We are glad to see they are at last making some real use of their planes, and hope their success will convince them of the advantages they would gain by getting more of the Hawks and Ospreys.

From one of your recent cables, we thought this might be the case and that they planned ordering three more Hawks and six Ospreys.

We hope these orders will be forthcoming quickly, as Buffalo will soon be cleaning up their present Hawk production, and if the order came in now we could give them much better delivery than later on.

If there are any prospects of getting some business for cartridges, links or bombs, let us know the sizes and quantity, as we believe we can now quote prices that should get the orders, particularly if we do not have to include any agent commissions.

As Web probably wrote you, Jimmy Doolittle put on a successful demonstration of the Hawk at Shanghai and is now on the way to Canton to demonstrate the first of the lot of eighteen ordered by them.

What is Bolivia using for training ships?

Our Trainer with the five-cylinder Whirlwind boosted to 220 hp., would give them pretty good performance at La Paz. We could also equip it with slots, if desired.

You could offer them the standard two-place Trainer with the 220 hp. Wright in lots of six at \$6,000.00 c.i.f. Arica. The slots would cost an additional \$300.00.

We could ship the first Trainer in five to six weeks and at the rate of two per week thereafter.

We have supplied some of these Trainers to China, and are now building six for Colombia.

We are also building three Fledglings for Colombia and if we could get an order in the next few weeks for some for Bolivia we could start shipment in about six to seven weeks and one per week thereafter.

On a lot of at least six Fledglings, equipped with the seven-cylinder Whirlwind boosted to 340 hp., without armament, you can quote \$15,000.00 c.i.f. Arica.

The armament, consisting of one synchronized gun, one flexible scarf mount and flexible gun, and two A-3 bomb racks, would cost \$2,000.00 per plane extra.

The 340-hp. Whirlwind Fledgling will give a performance at La Paz of 110 m.p.h., high speed, landing speed, 30 m.p.h., ceiling, 23,000 feet.

Until we started building the three for Colombia we had not been in production on the Fledglings since 1930. However, it should be especially suitable for primary military training at La Paz. As you probably know, Brazil still has, I think, eight in use of the ten (used) ships they bought in 1931. These ships had all had considerable use here before being sent to Brazil.

Colombia also has three Fledglings still in use that they bought in 1931.

In September we offered used Fledglings through Cueto, but no more of these are available now.

Colombia now has on order three more Hawks, three Falcons, three Fledglings, and six Trainers with the 195-hp. 5-cylinder Whirlwinds.

We have heard a rumor that Peru has bought two Corsairs, but have not yet gotten confirmation of it.

I sure hope you can close some more orders soon, as things have been slowing up here during the past few weeks, and there does not seem to be much other

business in sight, except possibly Argentina and China. Several of the Central American countries are talking about planes, but they are all so broke we can't expect to get much from them.

I hope you are not finding that altitude too much for you.

Regards from the crowd here.

Sincerely,

OWEN SHANNON.

OS: D

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EXHIBIT No. 360

CURTISS-WRIGHT EXPORT CORPORATION,  
*New York, February 10, 1933.*

Mr. LAWRENCE LEON,  
*Avenida Roque Saenz Pena 890,  
Buenos Aires, Argentina.*

DEAR LAWRENCE: Newspapers the last few days have been carrying stories about the pending and probably political and revolutionary upheaval in Uruguay.

I believe it would do no harm to slide over to Montevideo as soon as convenient and contact the proper officials in an effort to promote the sale of aircraft or any class of munitions. Also, in this connection, do you think it advisable to make a personal contact with Paraguayan Government officials in Asuncion.

I know that this is a rotten trip to make up the river, but it seems to me that the Bolivia-Paraguay trouble has not yet reached its peak and the conditions instead of becoming better are gradually getting worse. If such is the case, it will be absolutely necessary for Paraguay to find the money for the purchase of aircraft and other munitions. If we are able to sell them anything, we will have to work very carefully and quietly, and possibly work through you, as an individual, as the Bolivian Government would naturally raise "merry hell" if they believed that we were dealing with their enemies.

Yours sincerely,

C. W. WEBSTER.

P.S. This morning's newspaper carried a short story about Berrisso's proposed flight to New York, up the west coast. Do you think he will actually start this time and, if so, let me have any information you can as we will naturally like to see something of him when he arrives.

C. W. W.

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EXHIBIT No. 361.

[Copy]

CURTISS-WRIGHT EXPORT CORPORATION,  
*La Paz, Bolivia, May 17, 1933.*

OS #10

Mr. OWEN SHANNON,  
*Curtiss-Wright Export Corporation,  
27 West 57th Street, New York.*

DEAR OWENS: This will acknowledge your letter #101 which was received today. Thanks for sending it c/o the consulate; that enables me to get this letter off on the mail tomorrow morning.

Regarding the camera guns, I went to work on that as soon as your letter and description was received, or rather, as soon as I arrived back in La Paz in March. The Government here has a flock of French camera guns that were purchased some years ago and I was informed definitely that they were not in the market for more guns. As a matter of fact, the attitude here seems to be against anything that cannot be used for actual fighting. For example, the practice bombs did not go over at all. I pointed out that actual money could be saved by training their pilots to some degree of efficiency in bombing, but no interest nor action was taken. They still have a number of old porcelain practice bombs but there has been no effort made to use them. I will tackle the camera-gun proposition again, but I am sure there will be no results. All

attention here is centered on actual fighting and they lose sight of the fact that the only way to produce efficient fighters is through proper and intensive training.

You are quite right in assuming that the Bolivians are making good use of our planes in bombing. They have created a real menace to the Paraguayans as well as a deep fear. The Chief of Operations in the Chaco (Air Corps) has been urging the Government for several weeks to buy six more Ospreys and three additional Hawks, and the decision now, after having passed all the minor departments and the General Staff, rests with General Kundt, Commander in Chief of Field Operations. As I wrote Web, I expect a definite answer from the Government late this week or early next week. Slowness and red tape is still the order of the day here. There also might be a chance to sell some Travelair bombers. Some of the Brass Hats who are in positions of power here, although they know nothing whatever of aviation, seem to think that the answer to the whole situation is a flock of 4,000-pound bombers. The remark was made that the Ospreys and Hawks were toys because they only carried some 460 pounds of bombs. That, of course, is the natural reaction of these people after all of these bombing expeditions with really good results. They have gone bomb-minded.

As regards bombs and cartridges, Europe has that pretty well sewed up as they can offer them at much lower prices than we possibly could on account of the exchange and cheaper labor.

I was sure surprised to learn that Jimmy Doolittle is in China. I'll bet my last dollar that he sure put on a real show for the Chinese. Sure would like to be over there to test and deliver the Hawks.

Bolivia still has a few Vickers Vendaces of a near pre-war vintage that they are using for trainers. They also plan to repair and place in service some old French Caudrons that have been lying around in the hangars for a number of years. They are not interested in new trainers at present. Fighters is what they want.

I am pushing our equipment with every ounce of energy but I think that aside from the Ospreys and Hawks, and possibly the Travelair bomber, there is little chance of introducing new equipment. Anyway, it is a consolation to know that aside from three Junkers tri-motors presented to Bolivia by Patino, there hasn't been a single plane sold here with the exception of our own.

Webster & Aslton will soon be able to take over here on business details and as soon as I finish the technical side of the negotiations I am going to shag my fanny out of here and go down to the coast where I can get a breath of air with some oxygen in it.

Best of regards to the gang in New York.

Sincerely,

(signed) CLIFF.

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EXHIBIT No. 362

[Copy]

(Casilla 627. Cable address "Recneps")

JAMES H. SPENCER,

Santiago, Chile, February 14, 1935.

Mr. C. W. WEBSTER,  
Curtiss-Wright Export Corporation,  
27 West 57th Street, New York.

DEAR WEB: Your letter of Jan. 31st duly received and you have of course been advised by Jerry of my negotiations with him. It was for this particular reason that I did not reply to your cable of December 30th.

The situation at present is as follows:

Paraguay, with whom I have been dealing thro' the minister here in Santiago, and also thro' an official of the same Government in Buenos Aires, have shown an interest in at least the "Hawk" that is here. They made a counter offer for this machine equipped with armament and bomb racks, but the offer was so ridiculously low that Jerry told me that it was no use even to consult you. Only yesterday the subject came up again, and I have stood pat on the price of \$20,000, including armament, which, as you will see, does not cover very much margin, as against your figure of \$15,000 without guns.

I am of course in hopes of something materializing, but all these countries seem to take a month of Sundays to decide anything.

On the other hand, Bolivia with whom I was also negotiating, showed an interest, and the Bolivian Minister here did quite a lot of cabling over the subject.

Then Echenique started negotiations at a lower figure—with the result that my early work was lost. As I now understand the situation, Bolivia will buy *if Chile will concede* the permit to fly these two machines to La Paz.

The difficulty of more than one person dealing on this kind of business is obvious, and governments will not go very far with any intermediary unless he can show proper credentials. In the present case it was one of lower price, and a desire to buy two planes so that they should not go to the enemy.

It now remains to be seen who will eventually, if at all, obtain possession of these machines. I have advised Paraguay that the one who puts up the money first in New York will be the owner.

Chile, Argentine, Peru, and Brazil are trying to bring about a settlement of the Chaco dispute, and the two first countries (on the surface at least) are trying to prohibit any war munitions reaching destinations thro' their respective countries.

I don't see how they expect to force such an issue, as both the warring countries have international treaties on this point, which gives them full privilege.

In the meantime both countries are fighting, with the long odds in favor of Paraguay.

If you plan returning here before long, please let me know, as I would like to take advantage of your trip to ask you to bring me a few things.

With kind regards,

Sincerely yours,

(Sgd.) JAMES H. SPENCER.

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EXHIBIT No. 363

CURTISS-WRIGHT EXPORT CORPORATION,  
CASILLA 3098, LOS CERRILLOS,  
Santiago, Chile, March 15th, 1933.

Mr. C. W. WEBSTER,  
Curtiss-Wright Export Corp.,  
29 West 57th St., New York City.

DEAR WEB: We cabled you on the 13th that the Peruvian Ambassador demanded immediate action with regard to delivery of the Hawk and Falcon, and the following day received your cable "O.K. delivery." From this message we understood that the \$36,000 held by the Chase National Bank had been placed to your credit without restrictions.

Now, the whole trouble is in getting permission to fly the ships out of the country. Since the money was first deposited in New York, Pancho has come along almost every day to say that he expected authorization the following day, and we are now in just the same fix as we were then. The Peruvian Ambassador came out to the factory on Monday and took up a very furious attitude over the business, saying that he had complied with his part of the contract and that it was up to us to deliver the goods. It seems quite evident that Pancho has been bluffing the Ambassador all along by saying that as soon as the money was paid the ships would fly away, little thinking of the difficulties to be met in trying to do so. With the present action taken by the Chilean Foreign Minister to foment peace in S. America, he cannot possibly give his consent to allow war material to leave Chile, especially to a country engaged in warfare. Consequently, we are stuck in the mud.

Pancho has just left the factory for the ministry in an endeavor and as a last resource to obtain permission to ship the machines by steamer to Callao and the Peruvian Ambassador has offered to pay all expense to be incurred in boxing and freight. This will not hide the fact that the planes are intended for Peru and will become known by everybody sooner or later. So we really think the minister will not offer any kind of facilities. We are at a loss to imagine what to do further, as we have thought out every possible way of getting the machines out of the country, even going so far as trying to get permission to fly them to the States.

Pancho sold the ships placed at the factory ready for flight *so he says*, so what more can we do? He has requested us to cable you place the \$3,000, on each ship to his credit in the National City Bank, but we have deemed it necessary to wait until something definite has been arranged about getting the planes away before doing so. If the ships cannot leave the factory (we have specific instructions from the authorities that under no circumstances must the leave the hangar) we may even be asked by the Peruvian Ambassador to refund the \$36,000 and consider the contract rescinded. Should anything develop one way or the other we will cable you immediately.

You will doubtless have heard of the unfortunate mishap which befell McMillen last Saturday in the flying from Mendoza to Santiago in a Fairchild, resulting in his death and that of the radio operator. From official reports he apparently had motor failure and tried to make a landing on the top of a small mountain, but in trying to get in short, Smithy seems to think that he caught a down current which made him crash into the side just a few meters from the top. Both McMillan and his companion were found burnt to a cinder. The accident happened only 30 kilometers from Mendoza.

The Rambler is ready to fly up to Peru and Kesler will take off as soon as we head from Faucett as to destination.

No expense has been incurred on export dues, these being waived by the Peruvian authorities on instructions from Lima.

Hoping to see you down here very soon and may you bring some of your usual luck with you.

Kindest regards and wishes.

Yours very sincerely,

J. V. VAN WAGNER.

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EXHIBIT No. 364

[Copy]

CURTISS-WRIGHT EXPORT CORPORATION,  
New York, March 30, 1933.

Mr. JERRY VAN WAGNER,

*Casilla 3098, Santiago, Chile.*

DEAR JERRY: Your March 22 air-mail letter arrived this morning.

Was glad to hear that the Hawk and Falcon got away safely and with official permission.

Again please remember to refrain in all of your letters sent to this office from mentioning the name of Orsini. You can always refer to him as "Jones." Also do not converse with anyone regarding sales of machines or equipment going to other countries or any transactions concerning them. As mentioned in my previous letter, conditions are becoming very acute and I do not wish our files to contain anything with a bearing on this business. You can always send any necessary letters to my home and thereby keep them out of our files. It is perfectly all right for Pancho to mess around with things providing his activities and statements do not conflict with our present arrangements in other countries.

It is true that the French closed a contract with the Peruvian Government for 23 or 35 million francs credit which is to be spent exclusively for French equipment—complete airplanes, armament, radio, photographic, and other material. The Peruvian Government agrees to pay 700,000 francs per month, and is calling for complete delivery in 8 months. If the amount is 35 million francs (\$1,400,000) the payments of 700,000 francs (\$24,000) monthly will extend over a period of 5 years. A contract of this nature is not at all acceptable to us and we would not even consider it. I am quite sure that after the material has been delivered, the French outfit will find itself very much out of luck on the remaining payments. This contract is identical in many ways with the previous contract with United Aircraft, except that the amount has been increased and the time has been extended. In view of past Peruvian Government performances and the fact that United Aircraft is still holding the bag for about \$700,000, I cannot possibly conceive of anyone stepping into another and similar situation. I believe it is merely a move on the part of the French, with French Government backing, to make a gift to the Peruvian Government of this aircraft equipment for the purpose of establishing French equipment in Peruvian Government service. I also believe that the



French will follow their usual practice in handling the Peruvian Government a lot of junk and that the ultimate reaction will be very much in our favor. I hate to think of the Peruvian pilots flying this French equipment against Colombia and the 700 h.p. Cyclone Hawks.

I am giving you this information so that you may be in a position to offset any adverse publicity which may be passed around Santiago.

At the present time, I understand that 12 Breguet, 12 Potez, and 12 Morane machines have been designated and that training planes also will be provided.

Please see Commandante Aracena or other Air Corps officials and advise them that you have been instructed by the New York office to close the Los Cerrillos factory unless the Government sticks to its agreement to provide necessary work to keep it going. This means that the Government will have to order the necessary material to rebuild additional Hawks and Falcons.

Also, you have not replied to my previous question as to what has become of the dollars that were sent to Chile for the credit of the Chilean Government. Has this money been spent for the purchase of material in foreign countries or is it still in the National City Bank?

It is absolutely impossible to maintain the factory on an inoperative basis as its costs are prohibitive.

Another matter which I wish you would take up immediately and possibly through Dias Lira is the question involving the possible manufacture in the Santiago plant of airplanes intended for other South American countries. This is in view of a possible embargo on the part of the League of Nations and the United States Government. In other words, would we be permitted to ship material into Chile for assembly and fabrication for such countries as Colombia, Ecuador, Peru, Bolivia, etc.

Another point which you brought up in a previous letter is the fact that the Chilean Government would undoubtedly require us to pay a tax on the 10 Falcons which were sold last summer and fall. If this matter comes to a head, please remind the Chilean Government that we paid to them \$3,000 commission on each of these airplanes and that we certainly do not intend to pay the Government additional sums on this business. You can remind Aracena, but I do not believe that he is in back of such an idea, or any other officials, such as our two young lawyer friends, that they are in no position to ask us to pay a tax on this business. I think you understand what I mean.

Give Rogers of Irving Air Chute Company all the assistance you can. I told the Irving Company that the Chilean Government had not repacked their parachutes since the day they purchased them two or three years ago and it is highly advisable that some steps be taken to install a parachute department in the Army Air Corps for the proper handling and servicing of their chutes. Also remain as closely as you can to Rogers and see that he makes no price proposals without first consulting us. He did this in one or two other countries and it seriously embarrassed our business dealings. He must remember that Curtiss-Wright Export is selling representative of Irving in South America and that he must be guided by our policies and our prices. He is a direct factory representative but has no authority whatever to quote prices to our customers without first consulting us.

Regarding Byrne and the story you told Woodling, I feel that there is some action that you can take to prevent him from circulating around Santiago and recounting stories of his connections with Curtiss-Wright. If he is still a British subject, why not take this matter up with the British Embassy and see if something cannot be done to curb his activities.

Is Merino still in Santiago and what is he doing? The last time you mentioned him he was connected with the National Air Lines but recently MacGregor told me that he had left his outfit and was doing nothing.

Also is Marcial Arredonda still in the Air Corps and what is his connection?

Our particular situation in Chile involving the factory is slowing up considerably and it is imperative that something be done immediately to make the Air Corps realize the factory faces a complete shut-down unless they step on the gas, order some material and permit us to proceed with the overhaul of some of their cracked-up ships.

It is highly advisable that you ascertain what has become of the dollar account which we established in the National City Bank in Santiago for the Government's credit. It is naturally our desire to draw on this particular

account for the purchase of necessary factory material in preference to using the dollar reserve in our own hands in New York and which is rapidly disappearing. As soon as this is spent, the factory cannot possibly operate.

Not having been in Santiago for a few months, I have not the true picture of affairs but my impression is that Aracena has slowed up and is doing practically nothing to keep the ball rolling. Please see him immediately and bring this matter forcibly to his attention.

Do not forget that we still have available Conqueror Hawk in Holland. You might mention that to your friend, the ambassador, but in all correspondence regarding this particular individual and subsequent sales, I believe it advisable to carry on your correspondence with me, personally, instead of running it through the office in case of possible future percussions. If you were able to secure the release of the Hawk and the Falcon going to Peru, it is assumed that additional permission could be obtained for other operations. Get onto this job immediately and let me have all the information obtainable and what we could possibly expect in the way of Chilean Government cooperation or in the way of cooperation from individuals.

In one of your last cables, you state that the Hawk and Falcon were delivered without armament. What happened to the material in the tail of the Falcon?

Kind regards and best wishes to you all.

Yours sincerely,

C. W. WEBSTER.

P.S: Have you sent the Rambler to Peru?

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EXHIBIT No. 365

[Copy]

URUETA & SAMPER H.

Bogota, Colombia, S.A., April 3, 1934.

43/504

Mr. W. F. GOULDING,

*V. pres., Curtiss-Wright Export Corp.,*

*30 Rockefeller Plaza, New York, N.Y.*

DEAR MR. GOULDING: Since writing you last, March 24, I have received your letter #369 of March 22. This has served to confound me further, for as you know from cables exchanged between us I have been working under a continual series of assertions, denials, and confusion. I have only recently been assured by the highest executives that the order for the six Hawks and eight Falcons had been definitely placed at last, but your letter under reference, listing the difficulties which had been encountered there, together with previous contradictions, causes me to again doubt that the business has been actually consummated and so until I receive your written or cabled confirmation I shall continue to suffer the harassing uncertainty as to what has or has not been done.

Whereas, I can appreciate your viewpoint regarding your policy of not restricting sales to any one country in a certain geographical division, you can likewise understand that the position taken by the directors of your firm to sell to Colombia's potential enemy has greatly jeopardized future sales possibilities to this country. I have, of course, expended every effort to counteract the unfavorable impression created at the ministry when they received the information, but what the result will be over an extended period of time only time can tell. As you have undoubtedly guessed the usual confusion prevails in that sector and any definite prophesy would be of little value.

Referring again to the discussed order of 14 additional units, I should appreciate being informed at the earliest opportunity under the supposition that the order has been placed, what arrangement was decided upon regarding the machine guns.

The list of recommended spare parts has been delivered to the proper authorities of the aviation department and I hope to soon be able to advise you of a favorable decision regarding the placing of the order.

Yours very truly,

URUETA & SAMPER H. (SUCS)  
J. SAMPER.

## EXHIBIT No. 366

CURTISS WRIGHT EXPORT CORPORATION,  
*Osilla 3098, Los Cerillos, Santiago, Chile, May 6, 1933.*

Mr. C. W. WEBSTER,  
*Curtiss Wright Export Corporation,  
29 West 57th Street, New York City.*

DEAR WEB: Your letter dated April 27th, #86, to hand this morning.

With regard to the shipment of material to Peru, we have already cabled that according to the Chilean customs law, transshipments are permitted in any port, without being called upon to pay import duties, but as the material is for war purposes, it would be necessary for you to get definite information from the Chilean consul general in New York, before embarking on such a venture.

Regarding the other question you wished us to take up with Diaz Lira, and about which we have written you previously, we confirm our cable of the 4th inst. as follows:

(Part) "Government issuing decree making effective paragraph 7 your agreement Jessen dated 30th Sept. 1932."

Aracena and the Minister of National Defense are very anxious that the factory should be kept going, and if possible commence on production again. The President, Senor Alessandri, is very interested in the factory and would like to see our activities increase.

In my letter of 29th April I wrote about a visit we had from Mr. Bofil, who was interested in buying six planes, with armaments for Peru. We have had another visit from Mr. Bofil, and he showed us a letter he had received from the Peruvian commercial agent in Valparaiso, which proves that the Peruvian Government is actually interested in acquiring six airplanes as soon as possible. According to Mr. Bofil the commercial agent has more power in these questions, than the ambassador, as he is responsible for the purchase of material and produce for the Peruvian Army. We advised Mr. Bofil that we could not do anything in the matter and it would be necessary to make some arrangement with the Chilean Government if Peru wanted six plants urgently. It seems that Mr. Bofil is well-known in the Government and has been at work trying to get the Air Corps dispose of the three last machines repaired in the factory and three others undergoing repair. The director of material was sent out yesterday by Aracena to talk the matter over with us, and the idea is for us to take over the six planes—in a figurative way—and for us to sell them to Peru. The Air Corps will fix the price and the money will be placed to your credit in N.York. This money will then be utilized in buying modern equipment for Chile. Everything looks pretty hopeful and the Air Corps are anxious that the business results. As soon as anything definite has been arranged I will cable you.

To our cable referred to above we added: "Permission Falcon ready few days."

We expect early next week to have Capt. Wooten's Falcon ready for flight to Arica with all papers in order. Marcial Arredondo will not be able to fly the machine up the coast, but we will get hold of another reliable pilot. Up to now Capt. Wooten has no word from Washington that we have taken over the Falcon, so we cannot very well take off the numbers and signs until he does. Perhaps he will receive this week-end some instructions from the States in this connection. The only work which will be done is painting out the U.S. signs and we will also dope the fuselage. With this covering of dope, I think the fuselage will be O.K. and remain in first class condition for a long time.

As requested we will send the accessories and spare parts to Faucett by an early steamer. You suggest British or Italian lines. I think it will be more convenient to have them shipped up by one of the Chilean boats, if there are no restrictions on such materials leaving the country for Peru.

Best regards and wishes.

Yours very truly,

J. V. VAN WAGNER.

## EXHIBIT No. 367

## CURTISS WRIGHT EXPORT CORPORATION

*Casilla 3098, Los Cerillos, Santiago, Chile, 29th April, 1935.*

Mr. C. W. WEBSTER,  
*Curtis Wright Export Corporation,  
29 West 57th Street, New York City.*

DEAR WEB: I confirm the recent cables exchanged regarding Capt. Wooten's Falcon. After advising you that the Peruvian Ambassador had told us no reply to our offer had been received from his Government, we received a visit from a Mr. Bofil on the 20th of this month, with the object of making a deal for some interested party in Peru. He gave us to understand that the Peruvian Government wanted to acquire urgently 6 airplanes with armaments. It all seems very queer to us that outsiders are allowed to deal in these matters and from the foregoing it would appear that the Ambassador is playing some card with Mr. Bofil. Outside Aracena and the Paraguayan Minister, no one else other than the Peruvian Ambassador should have known that Capt. Wooten's plane was for sale. As you apparently wished us to dispose of the U.S. Army Falcon to anybody, we therefore made the same offer to Mr. Bofil who seemed to know the machine was for sale. The day we received your cable advising us to have the Falcon sent up to Arica with destination Lima, Mr. Bofil came to tell us that his "client" was about to close the deal. In view of your instructions we had to tell Mr. Bofil we could not do the business. We have had the Falcon registered in my name and taken out the necessary documents; we are still short of the most important item, and this is the Government's permission to fly the ship to Arica and then out of the country. Aracena is trying to use his influence with the Foreign Minister and Minister of National Defence, and will let us know how he makes out in a day or two. You must not forget the great trouble we had in getting the other Falcon and Hawk away. Arredondo will return from his vacation next week and we will see if it will be possible for him to fly the plane to Arica.

We cabled you this morning that Capt. Wooten is still without news from Washington about the ship being taken over by us, and we hope instructions will be cabled him in this respect at any moment, so that we can proceed to take out the U.S. Army signs and paint on the new registration number.

The Rambler has been ready to fly since Thursday, but has not been able to get away owing to bad weather. We secured the services of Senor Echegaray (Salavador's friend) and he took off on Thursday morning but returned after an hour as he could not get through the clouds. We had to install a reserve tank in the front cockpit to carry sufficient gas to make the hops up the Coast to Arica. Also we put in new spark plugs. All expense incurred on the Rambler will be charged to New York through our books in the usual way.

Donnelly left for LaPaz yesterday. He will fly as far as Arica and take the train from there to the Bolivian capital. Cliff Travis cabled to say that an autocarril may be sent down for Donnelly. You must remember that from yesterday we lose Donnelly's time, whilst he is away, at the rate of one dollar per hour.

The other day we received at the factory one of the two extra fuselages the Air Corps wish to have repaired, but I found it in even worse state than the rejected fuselages lying on the floor, and in my opinion is beyond repair. I am consulting the director of material as to what should be done with this fuselage.

I am obliged for the photographs and information sent with your letter #83 of 5th April, and will turn over to the right quarter the material required for publication in the historical album of the Chilean Air Service. I do not think any further information will be necessary.

With regard to your cable enquiry as to whether it would be possible to transship material in Arica for Callao, we confirm our reply after consulting Diaz Lira on the matter, that the Chilean customs law permits reshipment in any port for any outside destination. We suggested, however, that, as yours is material for war purposes, you consult the consul general in New York whether any difficulty would be met in effecting transshipments in Arica. Such material, of course, could not leave the customhouse, and therefore would not pay import duties. You would have to appoint a shipping agent in Arica to

attend to the transshipments and customs formalities, and we suggested Messrs. Grace (Arica Agencies, Ltd.), who have the best facilities in that port.

We have not heard a word from Pancho yet; presume he is still in Lima, but have no idea what he is doing up there.

Kindest regards.

Sincerely yours,

J. V. VAN WAGNER.

EXHIBIT No. 368

CURTISS WRIGHT EXPORT CORPORATION,

New York, March 28, 1933.

Mr. JERRY VAN WAGNER,  
Casilla 3098, Santiago, Chile.

DEAR JERRY: Enclosed is a clipping from a New York newspaper regarding the delivery of the Hawk and Falcon to Peru. I am quite sure that you did not deliberately hand out this information as in times like these it is advisable to refrain from any kind of publicity in connection with contracts in South America and especially with those countries that are in the state of war. In fact, do not release publicity of any kind unless instructed from here.

Today we received a cable from Lima asking us for prices on Colt-Browning gun equipment for both the Hawk and the Falcon. I immediately cabled you asking what armament, if any, was supplied. I recall that possibly the Falcon might have been partially supplied.

If you have not already done so, please advise immediately by cable to my personal address any developments in connection with Wooten's Falcon. I prefer to bury this transaction as much as possible as far as the office goes in order to prevent any possible adverse publicity.

The situation involving Peru is becoming very acute and is liable to be more so in the very near future. It looks to me like an embargo.

Best of luck and good wishes.

Yours sincerely,

C. W. WEBSTER.

EXHIBIT No. 369

[Via Airmail]

CASTRO LOPES & TEBYRICA

RUE DA ALFANDEGA 81-A-4 AND TEL. 3-5304

CAIXA POSTAL 2101, RIO DE JANEIRO

RUA S. BENTO 36-2A S/LOJA, SALA 17 TEL. 2-1459

CAIXA POSTAL 2672, SAO PAULO

RIO DE JANEIRO, November 4, 1932.

MR. C. W. WEBSTER,  
President Curtiss-Wright Export Corp.,  
27 West 57th Street, New York City.

DEAR SIR: Not having heard from you, since your departure for the South, we assume that you have returned to the United States via the Pacific coast, contrary to your intention of passing through Rio on your way back.

Complying with your verbal instructions, we withdrew the proposals we had submitted to the Government in behalf of your company. Orders were placed for 23 Voights, 14 Boeings, and 15 Wacos, and in view of the delay in shipping these planes, due to lack of cover for exchange, additional orders were placed for other types: 2 Belancas and 20 Faireys.

Recently 28 more Wacos and 20 Moths have been purchased by the Government. Of the previous orders, 7 Voights, 15 Wacos, 2 Belancos, and 20 Faireys have so far been delivered.

Among the planes seized from the Sao Paulo Government after the close of the revolution, there are seven Falcons which are believed to have been smuggled via Argentina. We have been interpellated at the Ministry of War regarding this business, which is still being investigated by the Federal authorities, and as they mistrust that during your stay in Buenos Aires you were

instrumental in getting the Falcons in Sao Paulo, we would suggest that you send us a memorandum clarifying the situation, in order to enable us to act in your interest in the event of a possible incompatibility being attributed to your company in connection with future government business in Brazil.

The experience derived from the Sao Paulo revolution has prompted the Federal Government to expand its aerial preparedness. Accordingly, two or three new military airports are being projected and the establishment of a local airplane factory is being seriously considered, also a further increase of the military air fleet is being strongly advocated at both ministries (War and Navy).

If we are to continue as your exclusive agents for Brazil we would naturally expect your formal appointment to this effect, followed by your support in the form of sales ammunition (airplane illustrations, specifications, performances, pricing tables, etc.) to enable us to go after the prospective business herein outlined.

Thanking you beforehand for an early reply, we are,

Yours cordially,

CASTRO LOPES & TEBYRICA.

EXHIBIT No. 370

[Copy]

CURTISS-WRIGHT EXPORT CORPORATION,  
New York, January 21, 1933.

Mr. S. SAMPAIO,  
Consul General of Brazil,  
17 Battery Place, New York.

MY DEAR MR. SAMPAIO: Confirming our conversation regarding the airplanes sold to the Santiago factory, and which later in some way seem to have found their way into Brazil, I wish to advise you that this entire transaction has been definitely closed, no material is left undelivered, and all funds paid to us have been entirely used. In other words, the contract is closed with no surplus.

We are still very anxious, as I advised you, to open negotiations with the Brazilian Government for the sale of aircraft and aircraft material and also for the sale of spare parts for the Wright Whirlwind engines installed in many of the airplanes now in use in the Brazilian Army Air Corps. It would be very much to the advantage of the Government to purchase these parts direct from us instead of through one of the airplane builders, and these builders naturally would have to purchase them from us and would expect their commission. This is a matter which you intended to take up with the proper Government officials.

Another matter of great interest to us is the idea of an airplane factory in Brazil. The proposal in connection with this was submitted to the Brazilian Government about a year ago, but up to the present time no action has been taken. I should like to have some information along these lines at your earliest convenience.

Yours very truly,

CURTISS-WRIGHT EXPORT CORPORATION,  
\_\_\_\_\_, President.

C. W. Webster  
jc

EXHIBIT No. 371

[Copy]

[Seal—57]

BRAZILIAN CONSULATE GENERAL,  
New York City, January 23, 1933.

C. W. WEBSTER,  
President Curtiss-Wright Export Corporation,  
27 West 57th Street, New York City.

MY DEAR PRESIDENT WEBSTER: I received today your letter of January 21st and I want to thank you very much for sending it. May I quote below the first paragraph of that letter:

"Confirming our conversation regarding the airplanes sold to the Santiago factory, and which later in some way seem to have found their way into Brazil, I wish to advise you that this entire transaction has been definitely closed, no material is left undelivered, and all funds paid to us have been entirely used. In other words, the contract is completely closed with no surplus."

Inasmuch as you are so kind as to confirm by letter our conversation, understanding my necessity of sending a document about it in my final report of the matter, I am sure that you will understand my request for a detail of the referred conversation which it did not occur to you to mention, and which it is my duty to make clear to my Government.

In our conversation you said to me that all the airplanes, which you *numbered at eleven*, were all delivered, the respective funds received, and payments made for them about the end of September 1932, but positively before the end of the revolution in Sao Paulo. In other words, the contract in question was completely closed with no surplus before the end of that revolution.

I will be grateful to you if you will confirm also by letter this detail, which I consider necessary in my report.

About the other matters referred to in the second and third paragraphs of your same letter, I am giving to them my best attention and will write to you very soon about them.

With anticipated thanks for the new favor I am requesting, I remain,

Very sincerely yours,

(Signed) SEBASTIAO SAMPAIO,  
*Consul General of Brazil.*

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EXHIBIT No. 372

[Copy]

CURTISS-WRIGHT EXPORT CORPORATION,  
*New York, January 28, 1933.*

MR. SEBASTIAO SAMPAIO.

*Consul General of Brazil,*

*Brazilian Consulate General,*

*New York, N.Y.*

MY DEAR MR. SAMPAIO: Complying with your request of January 23rd, and confirming our conversation regarding the airplanes that were sold in Buenos Aires and delivered at our factory in Santiago, Chile, and which you state eventually found their way into Brazil; all of the machines contracted for were delivered and the payments received by the end of September 1932, which was before the end of the revolution in Sao Paulo.

I trust this is the information that you require.

We are still awaiting information from you regarding the possibility of supplying the Federal Government with engine spare parts, and trust that we may hear from you regarding this project in the very near future

Yours very truly,

CURTISS-WRIGHT EXPORT CORPORATION,  
C. W. WEBSTER, *President.*

CW/w

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("Exhibit No. 373" was marked for identification only)

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EXHIBIT No. 374

[Copy]

[Air Mail #92]

MAY 13, 1933.

MR. V. J. VAN WAGNER,

*Casilla 3098, Santiago, Chile.*

DEAR JERRY: Your cable reading as follows was received yesterday afternoon at the house.

"Aracena offers sell outside ten Falcons, three Hawks on condition be replaced latest type. Quote price, c.i.f. Valparaiso water-cooled Conqueror Falcons, Hawks excluding all commissions."

I have studied carefully this cable but it infers several possibilities and being uncertain, I cabled you today as follows:

"Retel don't entirely understand proposition. Has Aracena customer for Falcons, Hawks; if so, where or must we find a customer? Price ten Conqueror Falcons, two guns, bomb racks, twenty-nine thousand dollars each. Three Conqueror Hawks, two guns, twenty-five thousand each. Same ships with Cyclone deduct one thousand dollars each and get much better performance."

A doubt exists in my mind whether Aracena, himself, has a customer for his used Falcons and Hawks and will handle the sale, or whether he is merely giving us the opportunity of finding a customer for his used equipment and expects to obtain a price sufficient to cover the same number of the late type of Falcons and Hawks. If this is so, he must still believe in Santa Claus, as I certainly do not know of any country in South America willing to pay \$28,000, for used D-12 Falcons and \$24,000, for used D-12 Hawks. Assuming that this is the case, he must be thinking of the deal last summer and fall when we cleaned out the Los Cerrillos factory. I do not expect that this opportunity will present itself again. On the other hand, he might be privately dealing with Paraguay, Bolivia, or Peru, and possibly Ecuador, but it seems ridiculous on the face of it that any of these countries would be willing to pay such fantastic prices for used equipment unless they were in desperate need of these planes and wanted immediate delivery.

In view of the present situation in South America, with Argentina, Chile, and Peru, considering the closing of its ports to Bolivian munitions shipments and in general declaring their neutrality, it appears that Aracena might have considerable difficulty in securing permission to ship any kind of airplanes out of Chile.

There are so many possibilities connected with this whole project that I hope you have already air-mailed me the detailed particulars. If any deal is consummated, please bear in mind that payment must be made in dollars in New York and be entirely free from any Chilean Government taxes.

You called for prices on the Conqueror Falcon and Hawk. The Cyclone-equipped machines would not only be \$1,000 each cheaper, but would have a better performance and we certainly would recommend them.

The enclosed photographs were taken in Buffalo the other day during flight tests of a Falcon on floats, equipped with the F-2 Cyclone of 700 hp., with full military load, consisting of pilot, gunner, 300 pounds of bombs, and 5 hours of fuel, it showed a maximum speed in excess of 175 miles per hour. Bearing in mind that these tests were made with floats, it is reasonable to assume that the ship will do at least 180 miles per hour with wheels. This same plane is also built for attack purposes with 2 additional guns installed in the lower wings. These would make practically no difference in the performance.

For your information we are building a demonstrator to send to Buenos Aires and should be ready for shipment in from 4 to 6 weeks. This will go down on wheels for inspection of the Argentine Army and Navy and probably will also be demonstrated in Rio.

This really is a flying machine and for its price cannot be equalled anywhere in this type of plane that can be offered for sale in foreign countries. Of course, we have other and more modern planes coming through the experimental department, but which we are unable to offer except to the United States Government.

Please continue to send me all the information you can on the Aracena project and it would possibly be advisable to continue to contact me at the house as I have a sneaking idea that Peru might be involved and I do not wish to embarrass other sales negotiations with other countries.

My sincere good wishes,

C. W. WEBSTER.

mw.  
encls.



## EXHIBIT No. 375

[Copy]

CURTISS-WRIGHT EXPORT CORPORATION,  
New York, February 28, 1933.Mr. SALVADOR SANFUENTES,  
Casilla 3098, Santiago, Chile.

DEAR SALVADOR: With reference to your cable of February 27th and your letters to Mr. Woodling and myself of November 29th:

You have apparently forgotten our conversation in Santiago covering this matter. At that time, I explained to you that you could not expect a commission of 5 percent on the sale of the last 10 Falcons, but that I would handle the matter of adjustment and take care of your interests to the best of my ability. You were apparently satisfied at the time of our conversation, and the tone of your letter of November 29th was somewhat of a surprise to me.

Going back to the original contract with the Chilean Government, you will remember that 40 machines were specified, 20 to be Falcons, on which a one-third deposit was made, and 20 more of a type to be decided upon later. Only 10 Falcons were ever delivered and paid for, and these in pesos, which we were unable to withdraw from the bank, and it then became necessary to close the factory and maintain the cost of an inoperative plant at great expense to the Curtiss-Wright Company. Later we had the opportunity of selling the 5 Falcons to another customer and subsequently the remaining 5 Falcons to the same individual. The arrangement of disposing of these 10 Falcons, however, involved the cancellation of the remaining 10 Falcons on order for the Chilean Government and also the cancellation of the 20 additional machines specified in the original contract. This naturally caused a complete upset and breakdown in our entire financial set-up for the expense of building and equipping the factory in Santiago, training the 25 mechanics in the United States, and the attendant cost of their transportation to and from the United States.

The selling price to our new customer on the first 5 Falcons was \$31,000 each, but it was necessary to pay the Chilean Government a commission of \$3,131.51 on each plane, in addition to a commission of \$4,000 on each plane to other parties in Buenos Aires in order to close this contract. The Curtiss-Wright Company, therefore, received only \$23,868.49 each on the first 5 planes, which was \$3,000 per plane under the price called for in the Chilean Government contract. On the succeeding 5 Falcons, we received from our customer only \$27,500 each, but it was necessary to pay the Chilean Government a commission of \$3,151.51 on each plane, and to other people \$500 each on the first 3 of these planes, and \$1,500 each on the last two planes. Therefore, on the 10 Falcons cancelled by Chile and sold to the other customer, Curtiss-Wright received only \$236,684.90 instead of the contract price of \$268,684.90, or a loss of \$32,000 on the Chile contract.

In your letter of November 29th you were demanding 5 percent commission on a contract for 10 Falcons sold to the Chilean Government, which the Chilean Government was unable to go through with and cancelled. It is true that you worked on the ultimate sale of the cancelled material to another customer and you are entitled to some commission, but I cannot conscientiously recommend to my company that they pay you 5 percent on the full Chilean contract price which was never received by my company. The matter will have to be thoroughly discussed and an adjustment made, as I explained to you while in Santiago.

The other matter of 20 percent commission on armament sold to us by Chile is entirely out of order, as our customer refused to pay us a higher price than that quoted by the Chilean Government, and this armament was delivered by us to our customer at exactly cost price. This money was retained by Curtiss and applied against the Chilean debt to Curtiss-Wright. This arrangement assisted us in delivering the spares which were on order, and on which you are entitled to your 5 percent commission.

You also refer to one-third payment to Curtiss by the Chilean Government on the original contract price. This one-third payment was returned to the Chilean Government when the contract was canceled.

According to our books, we owe you 5 percent commission on the contract for spare parts, which amounts to \$58,269.60; your commission being \$2,913.48. Against this there is charged \$59.56 for automobile tires purchased for you by Jerry in 1931, and charged against your commission account, leaving a balance in your favor of \$2,853.92. This is all the company owes you, with the exception of the commission on the 10 Falcons, which will have to await a mutual adjustment.

Any time you wish to confirm the foregoing statements or figures, we will be very glad to place the books of the Curtiss-Wright Export Corporation at your disposal.

I had planned to return to South America in March, but now my plans are rather uncertain, so if you are coming to the States, we can adjust everything very quickly, I am sure.

Mr. Woodling is opening an account in your name in a New York bank, and depositing your balance of \$2,853.92, and will send you the bank-deposit book and a check book.

I sincerely hope that everything is progressing smoothly. I am sorry we could not accept your proposition of selling the two planes in the Santiago factory for \$15,000 each, delivered in Argentina, this price to include your commission and delivery expense. It will be necessary for us to receive at least \$15,000 each, delivery "as is" at the Santiago factory. You know that it will be impossible to secure official permission to deliver this material in Argentina.

My sincere good wishes to Marianita and yourself, and I am looking forward to seeing you both soon.

Sincerely yours,

C. W. WEBSTER.

#### EXHIBIT No. 378

COMPANIA DE AVIACIÓN "FAUCE".

HOTEL BOLIVAR No. 296, LIMA,

Lima, 19th May 1933.

Mr. C. W. WEBSTER, *New York.*

DEAR WEB: Regarding the sale of aeroplanes here, many things went against us which we could not help; first, the Douglas O-38-S were at least 15 miles slower than Douglas stated, did not have the cruising speed nor range nor ceiling. When the "Hawks" arrived without electric starters and Bank & Turn instruments, they did not like it at all; than as we all know, the "Hawk" is slow on floats, but I believe they would have bought more if it had not been for Secretary of State Stinson's note to Peru, of course it was true but it created a very bad feeling against the North Americans. Everyone was very angry, Luis Pardo told me that he would never buy any more American aeroplanes under any consideration.

Then you remember that Peru's products, such as sugar, cotton, copper, wool, etc., cannot enter the U.S. on account of high tariffs, thanks to Hoover, but go to England; Peruvians do not like it at all. Then they talked of embargoes in the States and the possibility of delays in getting ships that did not touch in Colombian ports to bring the goods from the States; delays in delivery caused Peruvians to turn elsewhere for their goods. We know that they bought 6 "Faireys" from England, they got immediate delivery from stock; these seaplanes are *supposed* to have a top speed of 200 per.

Then some French interests gave their up to 25,000,000 francs, and I believe they soon expect to receive some 27 aeroplanes. Well, it is the biggest mess you ever saw in your life, no head or tail to the show, until just recently when the new president appointed a person to control all purchases.

I suppose you know that all our planes are on the other side of the "Hill", Dan and Red also. The Government stopped our coast service on 21st of April, and Dan, Red, and Pinillos went over on Sunday, 23rd, April, in nos. 4, 2, and 6, and I took no. 8 over on 4th May. We are just now finishing no. 5 and it will have to go too, unless the was should be called off soon. Dan and Red are with the Government now.

As soon as I finish no. 5 I want to start a new job, and install a "Cyclone" (our rebuilt Stinsons carry 1,400 lbs. of pay load at 115 m.p.h.). I have everything except some tubing and the tie rods for the wings. I got the spares from Posey, Portland, Oregon, a long time ago, and they cost us \$65.00 for four spares in the rough against Stinson's \$130.00 for one finished one. I want to build this

ship with 30 square feet more of surface, 4" wider and 4" higher and about 12" longer. I am sure this job would cruise at 140 or 150 m.p.h. by cleaning up the landing gear.

The Government is highly pleased with our Stinsons and I am sure if I can get this job out within 3 or 4 months, I can control the commercial field in Peru, and then get connected up with Chile. I must do something as prices asked in the U.S. are so high that we cannot ever expect to buy the lowest priced job on the market now. I do not expect that this job, outside of the motor propeller and instruments will cost me over \$4,000—dollars gold to build—based on the experience and labor costs of rebuilding our Stinsons. This job would go to any place in Peru and get off again with a full load.

Could you get me a man experienced in building fuselages from the Travel Air Factory, and at what price? Just make a few inquiries and let me know, *do not tell anyone just yet*. Also what about a stress engineer, or who could we get to stress the job? Curtiss Stoner has helped me a good bit, he is good but has not the time to spare.

The public is complaining every day, and wants our service back. Panagra is in a hell of a fix now, they cannot very well raise prices now, and they also cannot afford to run a Ford where they do not get the \$1.80 per, and so they put on the Lockheed, and the public does not like it at all.

We are certain that the new president will put the country straight soon, exchange has improved considerably, all Peruvian products have gone up and everybody is looking forward cheerfully.

What have you heard in New York regarding "Faucett's outfit" since P. A. took over the China company? Westervelt wrote me some time ago that all their stock might fall into the hands of P. A. *This is private*. Everyone is disgusted with the Ford that Jasper sold to the Government, it cost \$5,000, plus \$8,000 freight. Red took the Ryan over the "Hill" yesterday, the "Fledglings" are in daily use and everybody is happy. They are fitted with "Challengers" and they also have three spare motors; I expect to send you an order for spares soon. Jack is working at "Las Palmas" now.

The "Rambler" had a forced landing in Chile and broke the propeller, so it is still there.

With regard to shipments to Peru, why ship anything by Grace unless very urgent? They even refused to ship two sets of cylinders to New York yesterday, so we are shipping by the Pacific Steam. These are the last two sets of cylinders to be reground. We now have 5 motors reground, all with the new forged pistons, new valves, new front sections of crankcase, new propellers on all ships, oil radiators, instruments and shock struts, motors equipped with 10-1 blowers. On my way over to San Ramon, I reached 19,000 feet with four passengers and about 100 lbs. of baggage. No. 2 turned out to be a good job with the new Wright J-6. The next day after it went over the "Hill" a Peruvian pilot taking off with a Fairchild (Panagra) crashed into the left wing of No. 2 and completely destroyed the wing and lift struts (the only damage) the Fairchild was completely wrecked.

Hope to hear soon from you, keep your chin up and your nose dry. Best of luck.

Yours,

(Sgd.) SLIM.

#### EXHIBIT No. 377

[Copy]

CURTISS-WRIGHT EXPORT CORPORATION  
27 WEST 57TH STREET, NEW YORK CITY  
FABRICA CHILENA DE AEROPLANOS

CASILLA 3098, LOS CERRILLOS, SANTIAGO, CHILE, August 22nd, 1933.

Mr. C. W. WEBSTER,

% Curtiss-Wright Export Corp.,

29 West 57th Street, New York City, U.S.A.

DEAR WEB: I have just received your letters nos. 107 and 108, and it was good to hear from you after such a long absence.

I appreciate very much your remarks on the factory administration, and am glad you do not hold me responsible for the bad luck we have had. I am

also glad at the way you have treated Shaw and he is very grateful to New York for their consideration. Donnelly is in the Chaco and I have not had any news from him since he left. I still have his checks so cannot get a signed receipt for them until he comes back.

Referring to cables exchanged in regard to the Government's offer of nitrate for new equipment, we have still been unable to get complete details from the Minister of National Defence. He has been doing a round of inspection during the last few days and it has not been possible to interview him. Salvador expects to see him tomorrow, and will then again refer to this matter. I have already written that Horace Graham is in Europe so cannot consult him in this connection.

I intend calling on Messrs. Buchanan & Co. this evening or tomorrow and discuss with them the proposals given in their letter to you of 13th July last. It occurs to me that they are mixed up in the nitrate business and probably want to pull off a deal for the Government. I cannot think of any customer other than the Chilean Government, but it seems rather strange that we should be asked to consult you with a view to carrying out the business, and at the same time Messrs. Buchanan state in the last paragraph of their letter "that the possibilities of business are great and when this purchase is put through it will only be by us." It sounds interesting and will let you know probably by this mail the outcome of my interview with Buchanan & Co.

We are still pushing forward the law for tax exemption; Aracena advised us some time ago that it was on the verge of being signed, but it appears to be still awaiting the signature of the President. We can only keep asking about it until the final stage be passed.

My farm is looking in good shape after having planted a few hundred more fruit trees and cleared all the rough stuff away. I am moving out there about the middle of next month and will let my house in town for the summer.

Thanks for your kind wishes, which both Diana and myself heartily reciprocate.

Very sincerely,

(Signed) JERRY.  
P.T.O.

CORREO AEREO

P.S.—I was into see Messrs. Buchanan & Co. this morning and, as I thought, they are in the nitrate market for the Chilean Government and wish to purchase new equipment for the Air Corps, Linea Aerea, the Militia Republicana, and private individuals. Buchanan & Co.'s agents in New York are Gibbs & Sons, and they will attend to all the negotiations from that end. I suggest, therefore, that you get into contact with Messrs. Gibbs and find out complete details, as I really think there is a great possibility of good business.

Messrs. Gibbs are nitrate distributors, so they will find a market for this product, and you will merely have to quote your prices for airplane equipment and spare parts, etc.

Salvador was in to see the minister of national defense on this same matter last evening, but do not know how he made out. I will keep you posted of future developments from this side and will thank you to advise me how you make out at your end.

(Signed) JERRY.

EXHIBIT No. 378

Er 113

CURTISS-WRIGHT EXPORT CORPORATION,  
New York City, November 8, 1933.

To Mr. J. A. B. SMITH,  
cc Mr. Allard, Bolivia:

Mr. Webster writes as follows regarding the terms of payment on the prospective order for Condors from Bolivia:

"I had no time to write you from La Paz just before I left as every minute was spent with Government officials right up until the train left. Bolivia wants to acquire 10 bombing planes and will take at least 7 and possibly all of them from us, providing we can make a mutually agreeable deal. They will spend from \$800,000 to \$1,000,000 with us if we can get together. Their proposition is this: Pay 25 or 30% cash with the contract and the balance

in equal monthly instalments over a period of 18 months. The entire contract to be guaranteed by the Banco Central. Of course, this is their proposition and I believe I can probably get a larger cash payment and possibly a shorter period of time. The Banco Central, while not a government bank, holds all the government's gold reserve and also the "Miners Drafts" which are really monthly taxes from the tin mines, are paid directly into the bank to the extent of about \$200,000 per month. I went over to see the President of the Banco Mercantile, whom I know, W. A. Pickwood, who is also General Manager of the Antofagasta-Bolivian Railroad and who has lived in Bolivia for a great many years. The Banco Mercantile is Patino's bank, and I believe also that Pickwood represents Dillon, Read & Co., although I am not sure. Pickwood told me that if I were able to have the President pass a law through Congress covering such a proposition and authorizing the Banco Central to make such monthly payments and then draw my contract under that law—specifying that money from the miners' drafts were to be used for the contract—the Banco Central to make such payments monthly direct to us and not through the government—that such a contract was absolutely sure. I went back to Lopez and the Minister of War and put that proposition up to them. They both told me that such an arrangement could be made and requested that Travis go down to the Chaco immediately in company with the Minister of War, Chief of Staff, and President of the Banco Central and go over the entire aircraft program with Gen. Kundt. Travis started down by train and 4 days on trucks and will come out through the Argentine frontier after this session and meet me in Buenos Aires the latter part of the week.

"Take this letter up to JAB and Tom Morgan and Jack Allard and let them read it. Here is the way I figure it might be done, providing, of course, that New York is inclined to consider such a proposal. The price I would quote would take care of an 'extra commission' and delivered in La Paz by air, the Condors would be sold for around \$70,000. For example, if the contract was \$800,000 and we were paid around \$250,000 cash, the balance, or \$550,000, would be spread over 12 or 18 months whichever was decided upon. It would require 6 months or possibly a little less to turn out the 10 ships and if the period was 18 months we could have been paid at the expiration of that time, in round figures, about \$430,000, consisting of the original \$250,000 deposit and 6 months installments of about \$30,000 each, so that the gamble would not be great. No commissions would be paid to anyone until the entire contract had been paid for. This entire project, of course, will have to be thoroughly discussed with New York and I believe I will have time to get back home before they will wish a definite answer, and can start back here again within a few weeks after my arrival in New York.

"We have Junkers to compete with as well as the British and both have expressed their willingness to play with Bolivia. I was told frankly by Lopez, who, by the way, is just about as strong as the president, and by the Minister of War, that they have no intention of quitting the war until they get what they are after. Paton himself in Paris is supplying funds constantly and with the backing and guarantee such as I have outlined I believe that a contract would be absolutely safe. I was also asked to secure about 8 good Army bombing pilots who might be available and out of jobs and looking for a little excite and money, to come down with the ships and go to work in the Chaco for the government. This was a confidential request so do not mention it even to the Consul General. I believe your figures on costs of flying the ships down are somewhat high, as Panagra fly down their Fords and the cost is considerably lower; however, this is a matter that can be worked out later. If this project is interesting to New York, you can phone me at the Plaza Hotel in Baires but cable me first and let me know what day and time you intend to call.

"We have not been able to get very far in Chile. Today is a 'fiesta' with everyone off their jobs. Have an appointment with Aracena tomorrow morning and have spent the last two days with Merino. While he is only connected with the Linea Nacional, he is the only individual that seems to be getting any money to spend on aviation. Aracena seems to be a weak sister. Merino claims that he will have in the neighborhood of a million dollars next year for aviation and frankly and confidently urged us not to let go of the factory, but, nevertheless I intend to talk it over with the President. Merino is very close to the President and is consulted about everything in connection with aviation. to the extent of going over the head of the Minister of War. I would not be surprised to see Merino back at the head of Army aviation by the first

of the year. He told me today that he wants commercial ships as well as Hawks and Falcons and also training jobs. I can give you no more information than this until I have gone further into it tomorrow or next day.

"Harvey Brewton is here and have spent much time with him. He expects to leave on Sunday's plane for Bolivia and will also probably go down into the Chaco. Shorty Berger is also down there and additional spares, including engines, will undoubtedly be purchased. I did not answer your cable about the Osprey payment as you will undoubtedly have it within a day or two. Last Friday in the Minister of War's office I saw the signed order to cable the funds to New York but it usually takes a few days of red tape to get it through. The full payment for the Trainers was also signed by Lopez but had not reached the Minister of War, so that should go through this week or early next week. Remember that we have had exceptionally good business from Bolivia so try to be as patient as you can on the payments.

"As I told you in a previous letter, the Peruvian Government wishes also to make a similar deal with us for material as the French accepted. The French have been paid everything on schedule time and are asking to double the present contract. It is possible to work out a plan whereby we would be paid directly by the International Petroleum Company from taxes due the government for material in the neighborhood of a million dollars. Both this project and the Bolivian project can be discussed with New York when I arrive there just before Christmas. In the meantime, I wish JAB and the others would give it some thought. As I told you before, Peru expects to mix things again with Colombia. In this connection, if there is trouble on the part of Colombia objecting to us selling Peru, we can make a deal whereby the material would be intended for the Bolivian Government and shipped along with their orders to Mollendo. Bolivia and Peru are working very closely together. Chile has now lifted the ban on shipments to Arica for Bolivia and is asking for the business through her ports but Lopez told me that he did not wish to hurt Peru's feelings and although it was more difficult to ship through Mollendo, he intended to play ball with Peru."

(Sgd.) O.A.S.  
OWEN SHANNON.

OS:js

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EXHIBIT No. 379

[Copy]

LA PAZ, December 15, 1933.

Mr. C. W. WEBSTER,  
*Curtiss-Wright Export Corporation,*  
New York.

MY DEAR WEB: Thanks for your letter of December 6. Your other letter mentioned therein has not turned up yet. The mail service here is slow and you must be careful what you say in letters.

*Condors.*—Two of the ministers are at present down in the Chaco. One of them is the new Minister of Defense—Benavidez—who you met in Lopez' office, and the other is Jose Antonio Quiroga, the new Minister of War. A list of new acquisitions has been made up by the Contraloria, amongst which we have managed to place 5 Condors, but there is some talk of the Estado mayor increasing this quantity to 9 units. In their list each machine appears at \$70,000, U.S.C. The position today is that they await the report of these Ministers and more important still nobody knows whether the war will last or not. At present the League of Nations Commission is in La Paz, but everything is kept so quiet that nobody knows what is happening. The general feeling is that the war will go on and at present the Government is busy making its financial arrangements. As you know, as from January 1 Bolivia's tin-export quota is being increased by some 4,600 tons of fine tin per annum and the Government's intention is to take up 2,000 tons of fine tin for itself in order to acquire more sterling. This would bring them to £400,000. This scheme may prove difficult to work, as it will mean that the Government itself will have to buy and ship its own quota of tin, so it may happen that the miners will be obliged to deliver 100% of their monthly shipments in drafts on London to the Banco Central de Bolivia. At present they deliver 60% nominally; I say nominally because the miners are supposed to hand over as little as possible against their shipments.

With regard to our proposition, the Government's idea would be to get as long a credit as possible—say, up to 24 months, which, of course, is far too much. With the increase in the tin quota we have suggested that as they must have credit that the sale of 5 Condors be guaranteed by Patino Mines in New York, or Simon I. Patino himself, both guarantees being perfectly good, and I have no doubt you will agree to this in the event of our pulling this deal off. Naturally, our aim is to give them as little credit as possible and with the safest guarantees. No doubt the Government will also make the consul in New York intervene in the price question and probably also in dealing with Patino Mines, but before doing anything please cable us in case you are approached.

There is absolutely no doubt that things are moving in the right direction for us, and if they do buy anything, our Condors will be bought. It will interest you to know that a sale which was being negotiated by Junkers, together with the Lloyd Aereo Boliviano, for 2 tri-motors was cancelled yesterday. This was a difficult job because in the event of purchases being made the Lloyd Aereo assist the Government financially by paying for part of the machines for their own account.

We are right on top of matter and any developments will be cabled up immediately. I have the feeling that even if we do not—well, the full 5 or 9 machines—that we shall get something.

*Cyclone engines.*—This has been a worrying and unpleasant business and for some days it looked as if we were all in the soup in spite of the fact that most people saw through Bilbao's game. Fortunately, however, things have now completely changed with the assistance of Colonel Jordan. His telegraphic report from Cochabamba, and his personal expose here were both excellent and the whole affair, we think, has blown over to a great extent. One important thing is that Bilbao is to get out and Jordan will be made chief of aviation down there which is a God send for us. Both Cliff and Brewton are still down there and I have again wired Travis that he should stay there as long as possible specially whilst the two Ministers are still there. It is possible that Lopez will be going down as well in which case I shall ask Cliff to wait for him in Munoz or Villamontes.

I think our position as regards the Junkers' competition will also change, as Kundt is now out of it. Penaranda and Toro are now the chiefs down below, and Toro specially is a good friend of mine, and a great admirer of the Osprey. He told me this himself when he was up here a few days ago.

I am sorry that I cannot give you more definite news, but everything is undecided at present. My own feeling is that unless Paraguay comes across with some fair proposition on the war, will carry on and meanwhile Bolivia is making her own financial arrangements in case she has to carry on and meanwhile Bolivia is making her own financial arrangements in case she has to carry on. Fortunately, we are in the happy position of being able to export a valuable metal like tin, and with exports actually about to increase.

Travis's presence in the Chaco is most important, as the pilots are very friendly indeed towards him and he is very discreet in his ways. Brewton, with his knowledge, of course, is also very valuable, so between the two some excellent work must have been done. Berger is here and he started assembling the first Osprey this morning. The other two have not arrived yet, but we expect on the Alto at latest on Wednesday next. We have no news from you as to the shipment of the trainers, and if no advice has come by mail when you receive this letter you might cable us, as they are anxious to get up quickly. We may sell another two trainers. I am pushing hard on this because this will make all the pilots, specially the new ones, think Curtiss-Wright, which is bound to have influence on future purchases.

My respects to Mrs. Webster, and with best saludos from Webby and self,

Yours aye,

(Sgd.) TONY.

P.S.—If the deal looks like coming off, your presence here early in January will be indispensable. We shall cable you about this later, however. Meanwhile, I hope you will also pull off your other Condor sale.

## EXHIBIT No. 381

[Copy]

APRIL 5TH, 1934.

Mr. ROBERTO ESCOBAR,

*Acting Consul General, Consulate General of Colombia,  
21 West Street, New York, N.Y.*

DEAR MR. ESCOBAR: You know from copy of agreement which I handed you that we had agreed to furnish and recommend certain personnel to go to Colombia. The agreement I have reference to is one dated January 31st, 1934, under which we were to furnish an expert in the flying of Condor planes, to accompany the planes to Colombia, and remain there for a period not to exceed three months to give instruction at the school fields in the handling of the Condor planes.

We have selected one of our pilots from St. Louis who is expert in the operation of the Condor. His name is Harvey Grey, and he will be ready to go to Colombia when the first Condor is ready. Quite probably you will wish to take advantage of his services to fly the first plane to Colombia.

Under the terms of the agreement this pilot will actually be employed by us and the Colombian Government will, in turn, reimburse us on account of his services. While we would be quite agreeable to his flying this first plane to Colombia, due to this question of the pilots being in our employ, it must be clearly understood and agreed that no responsibility attaches to us after our delivery of the planes on floats, as per the contract, at our airport in North Beach. The third clause of this agreement is intended to take care of this situation.

In addition to this one pilot, we also agreed to recommend for employment by the Colombian Government, the personnel necessary to fly the Condor planes to Colombia. Assuming that Mr. Grey would pilot the first plane there would remain the requirement of two additional pilots. Due to the nature of the flight, and the importance of safe arrival, we feel that only the most competent pilot personnel should be considered in this connection: men who have had experience in flying planes of this type over long water hops.

Therefore Mr. Damon, president of our company in St. Louis, who is constructing the Condors, after considerable selection, recommended the necessary two men for this work. We have been in touch with both of these gentlemen and have discussed, tentatively, with them, the nature of this employment. They are both available, and ready to go when the planes are ready. They would both, however, like to know, as far in advance as possible, whether or not they are to be employed on this mission. I would suggest, therefore, that this matter be decided as soon as possible.

One of these men is Harry D. Copland, whose address is Garrison Road, Hingham, Mass. The other is Ira Smalling, room 501, Beaver Bldg., Madison, Wisc., c/o Oscar Schwartz.

Both of these men have had considerable naval experience flying multi-engine seaplanes, so that they are thoroughly familiar with water flying and navigation, both of which subjects are of the utmost importance in this flight to Colombia. Both men have been flying continuously for a number of years, and their experience and hours of flight on multi-motored planes, both land-plane and seaplane, is well over 1,000. Both men have previously been employed in the Curtiss-Wright organization, and are well and favorably known to us. We have no hesitation whatever in recommending them for this mission, both on the basis of their experience and personality. Both men have suggested that if they are to make this trip that they be definitely assured as far in advance as possible to give them an opportunity to gather all of the data possible in connection with the particular route to be followed. Both have had flight experience in this southern area, having been airline pilots on similar routes. They wish, however, to post themselves fully on existing conditions and to determine exactly the particular route to be followed, and they point out that on account of weather conditions and the scarcity of facilities, they cannot plan too carefully on such a flight.

Both men feel that they should receive for this particular mission \$500 and expenses—assuming, of course, that the entire mission would be completed within one month from the date of their employment, and if the trip exceeds a period of 1 month they should receive additional compensation at the rate of \$500 per month. It has been our experience that for a mission of this kind it would be very difficult to interest a sufficiently high-grade pilot for



less than the amount specified, and we really feel that in consideration of the nature of the task and experience required, also the responsibility attached thereto, that this would not be a high amount to pay.

If you should desire any mechanical personnel we will be pleased to recommend them in addition to the pilot personnel. Of course, a copilot is desirable. At the time I was in Colombia the possibility of certain Colombian pilots coming up here was discussed, but if this is not done you may wish to use certain other personnel which you are organizing for Colombia, in the capacity of copilots.

One of our St. Louis mechanics seems especially interested in making this trip. His name is George Clark, who formerly made trips for us to Latin-American countries. He is a very expert mechanic and has a very pleasing personality, speaks Spanish, and in addition to his aircraft mechanical knowledge is an expert on armament.

Of course, we assume you will have radios installed in these planes. This is practically a necessity for this trip, and we will be glad to make recommendations with respect to radio operators. Frankly, we think that it would be easier and better to have these recommended by the company which furnishes the radios.

In addition to the foregoing personnel, we also agreed to recommend an expert Wright engine mechanic competent to instruct and supervise the maintenance and care of Whirlwind and Cyclone engines. This requires a very high grade, intelligent mechanic with a certain amount of instruction experience and, in this connection, we recommend Mr. George Langille, whom the writer introduced to Mr. Pradilla on April 3rd. I understand Mr. Pradilla was favorably impressed with this man and it is simply a question of whether the Colombian Government wishes to employ a mechanic as mentioned in our agreement under which we agreed to make certain personnel recommendations. The foregoing will, I believe, discharge our obligations in connection with this agreement, and we urge you to advise us promptly just what you wish us to do. I assure you it is our desire to cooperate with you to the fullest extent and assist you in every way in obtaining the services of expert personnel. If we can be of any further assistance in connection with the employment of the men mentioned above, do not hesitate to call upon us and we will do everything we can to help you.

Sincerely yours,

CURTISS-WRIGHT EXPORT CORPORATION,  
W. F. GOULDING, Vice President.

WFG/t.

EXHIBIT No. 382

[Via air mail]

No. 53

MARCH 30, 1934.

MR. ANTHONY ASHTON,  
*Messrs. Webster & Ashton,*  
*Casilla 144, La Paz, Bolivia.*

DEAR TONY: I have been so terribly busy here the last few weeks that I have not been able to write as frequently as I wished. In order to bring you up to date, I am covering the entire situation as it stands today.

In answer to your letter of March 17th, we are very glad that you finally were able to get a definite decision from the Government. The matter dragged along to such an extent that if you had not acted when you did we would not have been able to get machine guns. As a matter of fact, it was not until this week that we finally received a definite delivery schedule from the Colt Company. In addition to that, our own factory found it necessary to increase prices and I was forced to cable you to withdraw our quotation. Your deposit arrived March 20th and it was not until March 26th, or last Monday, that I was able to get the company to accept the order. If I appeared to be curt with you, it was because I was having a hell of a job here trying to save the business. I realize that you have your own troubles, and many of them, but so do I. I returned from La Paz on February 8th and advised the company that the contract was closed, just as the Minister and Lopez indicated. Both of these

gentlemen had asked me to do certain work up here in connection with the delivery of Condors, while arrangements were being made in Bolivia for the contract. As time dragged on and nothing happened, I was in a very embarrassing position. Then the Government began asking for lower prices. I had made myself very clear, definite on price, during conversations with the Minister and saw no reason for further discussions along this line. In fact, if they had waited any longer the price would have been higher.

We were also dealing with other customers, and your original delivery promise, owing to your delay, had been given to another purchaser. However, despite this fact, we will stick to our original promise and have the first ship ready at the factory in about seventy-five days.

In this connection you cabled last night asking for date of delivery on the first Condor. I replied as per copy enclosed. You will remember, Tony, that my promise while in La Paz was seventy-five days. You instructed me to make it forty-five days and "not to worry." This was done, so it is now up to you to smooth over any argument.

Delivery inspection: During my conversation with the Minister he asked me if we would permit the Bureau Veritas to inspect before delivery. I inquired as to what that organization consisted of and about the expense and was told that the expense would be very small. So I agreed to it. I have since made inquiries about that organization and found it to be a French outfit, which is not so good, but I will have a talk with their representative on Monday. I cannot give you any other information in this letter.

The entire idea of having the Bureau Veritas inspect the Condors before they leave for La Paz is the most ridiculous thing I have ever heard of. It is merely useless expense and a nuisance. They probably never saw a Condor before and what good can be gained by having their man in St. Louis? Haven't we delivered enough airplanes to convince the Government that we are more to be depended upon than an outside party? Does the Government believe for one moment that we would start a bunch of American pilots, all friends of ours, on a 6,000-mile flight unless the ships were O.K., and what good could the Bureau Veritas do? We certainly do not intend to permit them to come into our factory and instruct them what goes into the manufacture of a Condor. This would result in considerable delay and much expense and would necessitate a higher cost. The only thing that we will permit the Bureau Veritas to do is to receive the ships at our factory in St. Louis in lieu of having complete airplanes inspected in Bolivia as in the past. However, I will write you more about them on Monday.

Pilots: While in La Paz I offered my own services gratis and as a friendly gesture, to handle the delivery of the Condors. I also agreed at the request of the Government to secure some pilots who would remain in Bolivia and handle them in service. I told the Government that it would cost from \$150 to \$200 per week for good pilots. I can now secure them as I cabled you for \$600 for one chief pilot, \$500 for three first pilots and \$400 for copilots. The Government now decides that these men have to accept 30% of their salaries in National currency. All the good pilots want American dollars and will not accept any part of their salaries in National currency. You must have this adjusted quickly.

Delivery costs: While in La Paz I told the Government that it would cost approximately \$8,000 per machine for insurance and flight expenses. It will not be less than that. I also asked the Government to transfer \$32,000 to New York to apply against those costs. I do not care if they send me the money or send it to the consul. In fact, I do not care if they send it at all, but if they wish to get these Condors to La Paz, they should send it to someone in New York and quickly.

Within a few weeks we will have to start spending money in connection with that job and you cannot send to La Paz for funds each time it is necessary to do a little traveling or to order gas and oil to send to each place en route. You do not realize the time and work it will require of me to handle this job. First we must apply to the Department of Commerce for ships' licenses and numbers and these will have to be issued in my name. We must then apply for and receive permission from each of the countries over which we will fly and then secure permission to land at the various overnight stops. We must also contract and pay for gas and oil and have it placed at each of the overnight stops. We must also station a man at each of these places to handle fuel and make necessary arrangements for the ships when they arrive. All of this costs money and the Government must make it available for me if they

wish me to do the job. They cannot expect me to cable La Paz each time that I need a few dollars. I have a man in Washington on permits now and I am advancing his expenses myself.

Insurance: I spent all morning with the insurance people arguing about costs. On Monday morning I will have their definite proposal and will write you again.

Bomb racks: In answer to your cable of March 27th, the racks on the Condor wings will carry bombs from 30 to 120 lb. each and in the fuselage from 300 to 1,100 lb. If the Government intends to use bombs of more than 600 lb. these same racks in the fuselage will accommodate them.

A few days ago Mr. Decker, the consul general, came to the office, acting upon cable instructions from the Minister of Defence, to discuss various phases of the Condor situation. He argued about the high-priced pilots and the cost of flying the Condors to La Paz. Please be good enough to advise the Government that if they believe our estimated costs are too high for pilots and the delivery of the Condors, we will only be too glad to have them take over the job themselves. There is absolutely no profit in it for us and we are doing the job merely as a friendly act and would be greatly relieved if they would have the consul or someone else do it for us. It would seem advisable to us to deliver all four Condors at one time, but judging from your cable last night, asking for a delivery date on the first Condor, that you wish us to send them down separately. I am fearful that if we follow this procedure that considerable conversation and possibly criticism will result from some source and that obstacles will be encountered in order to delay some of the ships. However, if the Government wishes us to send them separately, we will be very glad to undertake to do so, but please have it understood that we will not be responsible for any diplomatic move that might be made by other countries to prevent us from flying these ships to Bolivia.

I believe this covers the entire situation to date and on Monday, I will write you regarding insurance costs and the Bureau Veritas.

My sincere good wishes and the best of luck.

Sincerely yours,

C. W. WEBSTER.

P.S.—Please extend to Shorty our best wishes for a speedy recovery and keep us constantly advised as to his condition.

P.P.S.—It will also be necessary for the Government to place an order for parachutes for at least eight pilots and copilots for the Condors and while they are about, they might just as well increase this number to 25 or 30 to take care of their necessary requirements.

#### EXHIBIT No. 383

[Copy]

HOTEL DEL PRADO,  
*Barranquilla, Colombia, South America, April 25, 1934.*

DEAR PARM: I am enclosing herewith copies of other correspondence with the usual set for Burdie and one copy of this letter for Ralph Damon.

I spent last week-end in Cartagena with Comm. Strong and the American pilots and mechanics who have recently arrived, 24 pilots and approximately the same number of mechanics. Comm. Strong is in a little hot water and it is mostly in his interest that I am writing this letter. It seems that Comm. Strong left the States with the understanding that pilots were to be recruited who are willing to fight if necessary and instruct Colombian students otherwise. Contracts were drawn up accordingly and every one was very happy until the press got wind of the movement. The State Department then had to take official cognizance to which they were forced to react negatively in order to maintain a strict neutrality in South America. The pilots were told that passports would not be issued with the fighting clause in their contract and that should they engage in actual military combat after arriving here the consuls would be instructed to take up their passports and they would automatically lose their citizenship. A new contract was therefore drawn up, with the permission of Bogota, which eliminated the fighting clause. It seems that Comm. Strong was not consulted regarding this new contract and it was his understanding and intention all along that these pilots immediately organize as a fighting squadron and begin training as such at Cartagena.

When Comm. Strong met the pilots and was informed of the above happenings he asked for an immediate decision as to which of the two contracts they intended to keep, letting them know that he would not compromise. If they intend to instruct only they will fly only training planes and vice versa if they intend to fight. They unanimously decided to stick by the second contract, in other words, instruct only.

Comm. Strong is quite incensed as a result of their decision and I presume that he is sincere in giving the impression that he didn't know of the second contract. At any rate he wants to take immediate steps to get other pilots down here who are willing to fight. He indicated to me that he will be in hot water with the War Minister who also thought this group would function as a fighting unit (as to who gave the permission for the second contract in Bogota, Quien sabe?). I therefore told him that I would give you all the dope in order that you may help recruit new pilots if you so desire.

He thought that Ralph Damon could interest the Naval Reserve unit at St. Louis as some of these fellows had previously indicated a willingness to go in for flying of this sort. Please understand, however, that there is no obligation whatever for any action on the part of the Curtiss Co. He wanted you all to know just as another agent so to speak for contacting the type of pilot who is desirable.

He wants men with military flight training (or naval) who have been trained in dive bombing and airplane gunnery. A high type of individual is necessary in order that Colombia may have the best impression possible of Americans which impression will be reflected by their use of American goods and equipment.

Comm. Strong has consulted a lawyer here who advises that it is impossible for anyone to lose citizenship unless it is renounced or allegiance sworn to another flag. This may or may not be true but it does seem to me that citizenship could not be taken away for so small an offense as fighting in a foreign country.

With regard to the inducements, Comm. Strong advises that a contract with the fighting clause will be given for one year. This country has a big aviation expansion program afoot and there will be considerable opportunity in the field for five years to come. Contracts will in all probability be renewed if the pilot party so desires. The pay will be \$500.00 per month, half deposited in the U.S. and half payable in Colombia in pesos at the official rate of exchange which incidentally is considerably below the commercial rate.

I don't know whether you will wish to do anything about this or not, my opinion is probably not. At any rate if you do, I would suggest having the pilots write Comm. Strong at Hotel Granada, Bogota, addressing him as Mr. J. H. Strong. I would suggest that of course in any contacts with pilots it be made perfectly clear that the Curtiss Co. is in no way responsible for anything other than merely letting them know that Comm. Strong is interested. Since Ralph Damon's name was mentioned by the Comm., he may or may not wish to acknowledge receipt of this information to the Comm. direct.

I think I will have to bear some of the brunt of this holocaust by giving some of the Cuban pilots now in the country instruction on floats in order that they may begin training as a tactical unit.

With best regards,

Sincerely yours,

WILLIAM J. CROSSWELL.

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EXHIBIT No. 384

[Copy]

FEBRUARY 6, 1934.

MR. ROBERT L. EARLE,  
c/o Curtiss-Wright Corporation,  
501 Southern Building, Washington, D.C.

DEAR EARLE: Jack Allard has asked me to write and see if you could obtain from the Army a list of about twenty-five recent graduates of Kelley Field, together with their service records, from which we could pick a number for ferrying airplanes to a foreign country with the possibility that they might obtain employment with that foreign government.

We understand that a number of Kelley graduates have been discharged recently and these are the men to whom we refer.

There exists an opening for a man in China to act as machine-gun instructor who may also be selected from this list.

Thanking you in advance, I am

Sincerely yours,

pgz/mk.

INTERCONTINENT AVIATION, INC.

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EXHIBIT No. 385

[COPY]

FEBRUARY 13, 1934.

Mr. ROBERT L. EARLE,

*Curtiss-Wright Corporation, 501 Southern Building,  
Washington, D.C.*

DEAR EARLE: I talked with Mr. Allard regarding the specifications for pilots and he advised that he does not wish to disclose any information regarding what countries the pilots are to go to. He wishes you to obtain the names of pursuit, bombardment, attack, and observation pilots who are interested in going to a foreign country and a specification from them as to what country they would like to go.

From time to time we have occasion to send men out and we would like to have in our files information concerning a number of such pilots.

We also suggest that you approach the Navy on this subject and obtain a list of Navy-trained pilots who may be available for such work as we at times have occasion to send out airplanes on floats.

I would suggest that you have Lt. Hollidge write us fully giving complete information as to himself with references whom we may contact and that you supply us with as much information as you can concerning him in connection with the position of machine-gun instructor in China.

We are not sure that this position is still open but it will pay about 800 Hongkong dollars a month and should afford an opportunity for an Army-trained man to continue his work along military lines.

Sincerely yours,

INTERCONTINENT AVIATION, INC.  
PAUL G. ZIMMERMAN.

pgz.mh

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EXHIBIT No. 386

CURTISS WRIGHT EXPORT CORPORATION,  
*New York, April 27, 1933.*

Mr. JERRY VAN WAGNER,

*Casilla 3098, Santiago, Chile.*

DEAR JERRY: We cabled you today as per confirmation attached.

The Grace Co., owing to considerable pressure from the Colombian Government, has refused to accept shipments consigned to the Peruvian Government or to Faucett, which makes it necessary to ship to the Canal for reshipment on British or Italian vessels.

The thought occurred to us that we might circumvent the difficulty by shipping to Arica and reshipping from there to Callao. Inasmuch as the Chilean Government has closed the port of Arica to Bolivia, it is possible that they will take similar action with Peru. I would suggest that you take this matter up with Dias Ibra and see if permission can be obtained to go into Arica and then come back up north to Callao.

In connection with Wooten's Falcon, we have taken this over from the Army and wish to have it recovered as quickly as possible and spend as little money as possible in putting it in presentable condition. Begin immediately with your application for permission to fly it north to Lima. This particular matter will have to be handled very diplomatically and carefully. If Pancho Echenique could obtain permission for the Hawk and Falcon to go into Peru, you should have no difficulty in securing permission for this Falcon. The object is to get it out of Chile as quickly as possible, and arrange for Arrendonda to fly it up to Arica possibly, and for one of Faucett's pilots to take it up to Lima.

The accessories and spare parts will have to be shipped on a British, or Italian, or another steamship, consigned to Faucett. It will be impossible for you to use the Grace Line. Please make arrangements as soon as you can and advise me when the material has actually been delivered into your hands and send me a complete list of all equipment.

Sincere good wishes.

Yours very truly,

C. W. WEBSTER.

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EXHIBIT No. 387

[Copy]

JAVIER DIAZ LIRA, ATTORNEY,  
Santiago, April 20, 1933.

Mr. J. VAN WAGNER,

*Manager Curtiss-Wright Export Corp., City.*

DEAR MR. VAN WAGNER: After a number of conversations that I have had with several officials, I want to confirm to you what I mentioned in my letter of the 10th inst., to the effect that there is not any difficulty, as respects the Government of Chile, in the Curtiss Company extending its activities of building planes for sale and exportation to other countries. There is no regulation, neither in the law nor in the contract which resulted in the setting-up of the factory in Chile, that might prevent that activity of the company which you represent.

On the Government's part, the initiative of the factory is considered not only with acceptance but even with evident pleasure, I have today discussed this matter fully with Mr. Diego Aracena, Chief of the Air Force, who told me that he accepted with enthusiasm the notice that the factory would intensify its work and production of airplanes for sale in Chile or in foreign markets, and, knowing the importance and benefit that this would mean to the country and to the advantages that would also accrue to the National Air Force, he would support all protection with reference thereto before the Government.

On my part, although I don't see any legal reasons that could hinder Mr. Webster's plan, nevertheless, as a measure of prudence and courtesy to the Government, I recommend that you send a letter to the Chief of the Air Force, informing him of the company's plan and request his conformity with the assurance that it will be well received.

With this in view, I am enclosing a proposed letter that you can study and consult with Mr. Webster on same if you deem it necessary.

Very truly yours,

(Sgd.) JAVIER DIAZ LIRA.

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EXHIBIT No. 388

[Via airmail, no. 22]

APRIL 15, 1933.

CIA DE AVIACION "FAUCETT"; S.A., APTDO 1429,  
Lima, Peru.

GENTLEMEN: We just received advice by telephone from the Barr Shipping Corp., our forwarding agents, that the Grace Line notified them they would be unable to accept any shipments consigned to you that moved on their steamers via a Colombian port. Evidently the Grace Line is taking a strong hand due to the fact that they have been subject to considerable pressure on the part of Colombian Government authorities in carrying material of a military nature. Our information is that the Colombian Government knows you are buying material for the Government of Peru, and consequently, is making every effort to prevent such material from reaching Peru.

While we have not been officially informed of this from the Grace Line direct, we will take this matter up with them on Monday with a view of having them change this ruling. As far as we can see, there is no reason why they should refuse shipments consigned to you when the same thing may apply to hundreds of other concerns in Peru buying material which ultimately may reach the government. At any rate, if the refusal is definite, we could arrange to ship all your goods via the Canal. This would necessarily delay delivery of material to you considerably in view of the infrequency of sailings from Europe of

steamers that do not touch Buenaventura. We understand the service from Europe of steamers via the Canal direct to a Peruvian port is about once a month.

It may be possible that you might be able to appoint your shipping agents in Callao to receive goods in your name, and in that way avoid the Grace Line from putting a stop to direct shipments for your account. You could no doubt arrange to have the government and, likewise the Peruvian consul in New York accept shipments free of consular fees and duties, so that the Government may continue to get material through you. We could declare the material by other terms on the bill of lading so as to throw the steamship company off the track; e.g., we could declare engine parts as "internal combustion parts"; "spark plugs"; other aeroplane parts could likewise be changed; e.g., "steel tubing" in place of aeroplane parts; "lacquer" instead of "dope", etc., etc. We suggest you act on this immediately and give us the name of your forwarders by cable, referring specifically to this letter number for our guidance. We will write you further as soon as we have had an opportunity to discuss this matter with the steamship company.

Very truly yours,

CURTISS-WRIGHT EXPORT CORPORATION,  
S. J. ABELow.

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("Exhibit No. 389" appears in text on p. 810)

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EXHIBIT No. 390

[Copy of telegraphic message]

To: Aeroexco, New York.  
From: China Co., Shanghai, China.

Date: April 3, 1933.

About 1 to about 2 months ago I suggested Minister of Finance enter(s) (into) contract(s) acquiring large humber(s) (of) military airplane(s) as protection against possible American embargo (upon) Stop Minister of Finance have signed contract (with) Intercontinent Aviation, Inc., March 29th for 96 military airplane(s) subject to cancellation 15 days notice either party(ies) (to) Stop No description(s) plane(s), no price(s), no delivery date mentioned Stop Please notify Department of State of this contract stating that Chinese Government aviation expert(s) to decide about on type(s) at a later date No publicity of any kind must not be given this matter as Minister of Finance exceedingly anxious (to) transaction not to be known anyone except Department of State official(s) Stop It must be understood that this is not purchase(s) agreement(s) and is a contract(s) (for) for the purpose(s) (of) protecting Government against embargo (upon) this contract give us moral advantage(s) over competitor(s) Stop Writing fully.

mf cc Messrs. Morgan, Smith, Webster, Goulding, Shannon.

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[Copy of telegraphic message]

To: Aeroexco, New York.  
From: China Co., Shanghai, China.

Date: April 3, 1933.

Jouett recommended purchase 40 Northrop Aircraft Corp. bomber Stop He has suggested that he be authorized (to) return to United States in order to negotiate purchase(s) at not more than \$40,000.00 each Stop If you can work out some extremely attractive deal on the basis of 30 and 40 Northrop Aircraft Corporation and 27 Curtiss Hawks consider it advisable quote immediately Stop Love United Aircraft Exports pressing hard for business understand offering attractive price Stop British very active effort to sell I am doing everything possible.

cc Messrs. Morgan, Smith, Webster, Goulding, Shannon.

## EXHIBIT No. 391

[Copied from carbon copy. Written in pencil: South American Tour 1931]

JULY 8, 1930.

Mr. J. S. ALLARD,  
*Curtiss-Wright Export Corp.,*  
 27 West 57th Street, New York City.

DEAR JACK: The following is a more or less complete outline of the conversion Mr. Farnsworth had with Fowler Barker this afternoon. Undoubtedly you are cognizant of all these facts, but it will do no harm certainly to jot them down.

It seems that Mr. Young recently received rather lengthy reports from the Commercial Attaché at Buenos Aires and Montevideo expressing their apprehension over strong European aeronautical competition. There is to be a British aircraft carrier in a river Plate around December 21st, carrying about 20 assorted airplanes of English manufacture. Italy has stationed de Pinedo as Air Attaché in Buenos Aires and is evidently making a strong bid for business. The French position was greatly strengthened by the recent trans-Atlantic flight carrying mail to South America.

There evidently was a consultation between Captain Fleming, our Military Attaché for Argentina and Uruguay and the two Commercial Attachés in these countries, and Leigh Wade, who as you know, is down there representing the Consolidated people. This conference resulted in the determination to attempt to arrange some sort of a demonstration from the United States to counteract the European activities. The Department of Commerce will possibly interview the leaders of the aircraft industry here and see what their attitude would be toward sending a group of planes to South America, possibly some of those participating in the national air tour this year. It is thought possible that if the manufacturers so desire, a delegation of them will interview Secretary Ingalls and gain his consent for the use of one of our carriers to transport the planes to South America, citing the action of the British as a precedent. Undoubtedly this demonstration if ever made tangible would visit the International aeronautical exhibition to be held at Montevideo during the first half of February 1931.

I am quite sure that this idea has not been broached to any of our competitors and nothing may ever come of it, but in the event that something does materialize we will at least have had a little bit of warning.

Very truly yours,

RPF-MB-4571

Washington File: "South American Tour, 1931."

## EXHIBIT No. 392

[Copied from carbon copy]

WASHINGTON OFFICE, September 29, 1930.

BURDETTE S. WRIGHT, Washington, D.C.

J. S. ALLARD, New York City.

Carrier Trip to South America.

I was in Mr. Ingalls' office this morning and his office urged that we push in every way possible the completion of the arranging for the carrier to go to South America. Comdr. Moulton believes that we must take the matter up with the White House by possibly a head of the Aeronautical Chamber of Commerce. I know that you are handling the matter as representative of theirs, together with the help of the Department of Commerce. It looks as though I may be out of town Wednesday of this week at Dayton, but I am hoping that I may be able to delay the trip until Thursday in order to be here when you are here on Wednesday.

Very truly yours,

BSW/LH-5641.

Washington office: "Carrier Trip to South America."



## EXHIBIT No. 393

[Copied from original]

CURTISS-WRIGHT EXPORT CORPORATION,  
October 7, 1930.

Inter-office correspondence.

From: J. S. Allard.

To: B. S. Wright.

Subject: Naval carrier to South America.

Thanks for yours of October 3d on this subject, and as a result, Leigh Rogers and I are today drafting the letter for Fred Rentschler to present to Mr. Hoover.

We will try to get this thing through in the very near future.

Sincerely yours,

(Sgd.) J. S. ALLARD.

EMN.

Washington file: "Naval Carrier to South America."

## EXHIBIT No. 394

Inter-office memorandum.

[Copied from original]

CURTISS-WRIGHT CORPORATION,  
EXPORT DIVISION,  
March 11, 1931.

From: Mr. C. W. Webster, New York.

To: Mr. Burdette S. Wright, Washington.

Subject: Chile, visit of Comandante Merino.

In line with my telephone conversation this morning, Comandante Arturo Merino B., Sub-Secretario of the Interior for Aviation, is the chief of all Chilean aviation—Army, Navy, and civilian. He is the biggest foreign customer we have and is entirely responsible for all our business in Chile.

During the recent visit of the Prince of Wales to Chile, the Prince personally invited Merino to visit him this spring, which invitation was accepted. His original plan was to proceed to England first, and then visit the United States, but we have persuaded him to visit the United States first in order to witness the Air Corps manoeuvres during May. He has agreed to this program providing an official invitation is extended to him by the U.S. Government through the War Department as a foreign observer.

This means a great deal to us, as Merino has never been out of his own country and has always been partial to European methods and materials until we began to supply him with equipment a few years ago. It is up to us to lean over backward in selling Merino American ideas, methods, and equipment, and upon his arrival here we are arranging an elaborate and extensive program calling for visits to various airports in this country. If possible, we would like to have you arrange for permission to visit various Army and Navy stations and have him meet the Army and Navy Secretaries, and, if possible, President Hoover. This seems advisable and necessary in order to offset the efforts of the Prince of Wales.

Until 1928 the entire Chilean Air Service was equipped with British material. It is now about 90% American.

If Merino comes to the United States, he will fly as far as Miami as the guest of Pan American Airways. We intend to pick him up at Miami with a private machine and bring him to New York. It is possible that I will have finished my work in Chile, so that I can accompany him back to the States.

Your efforts to supply an official invitation promptly will be appreciated, as I would like to extend our own personal invitation not later than the first of next week.

I am leaving Wednesday, March 18th, for Miami, where I will pick up the Pan American Airways, arriving in Chile the last of March.

In order to further emphasize the importance of making these arrangements for Comandante Merino I should mention that we have at present orders

amounting to \$1,200,000 for the Chilean Government with another million or million and a half ready to be closed within the next month or so.

Many thanks for your kind cooperation.

C. W. WEBSTER.  
(Sgd.) WEB.

jc

Washington file: "Chile."

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EXHIBIT No. 395

[Copied from carbon copy]

WASHINGTON OFFICE, August 12, 1930.

Burdette S. Wright, Washington, D.C.

J. S. Allard, Curtiss-Wright Export Corp., 27 West 57th St.

Poland

Colonel Foy of the Military Intelligence Division called Farnsworth to his office this morning and showed him some correspondence received from Major Emer Yeager, Military Attaché at the American Embassy, Warsaw, Poland. Major Yeager, among other things, said that the performance of our pilots, planes, and motors, made a profound impression in Bucharest and Rumania. He happened to be standing by the side of the Chief of Rumanian Aviation in Bucharest while Doolittle was doing his stuff. The chief apparently expected the wings to drop off the Hawk at any moment during a power dive and had never seen anything at all like Doolittle's performance.

In Warsaw, Captain Cannon seems to have carried off the honors with his superb handling of the Fiedgling. He apparently put it through completely its paces leaving a firmly seated conviction of the stability, steadiness, and remarkable performance of the plane. As one Pole expressed it, he made it do everything but dance. All in all, the officials, including French and British Attachés, were deeply impressed with the power of the motors and the strength of the ships.

Another dispatch deals with the jealousy of the French and English aroused by this flight. Shortly after our demonstration was finished, France made an official flight with high ranking officers to Warsaw and Baltic countries.

This trip was made very secretly and with a minimum of publicity. Major Yeager tells of a flight of British airplanes to twelve Balkan and Scandinavian countries to be made in September. This is supposed to be merely an official flight of the Royal Air Force, but Major Yeager learned from reliable source that it was definitely planned to off-set any good impressions of American aviation made by our Curtiss-Wright tour.

Colonel Foy also had a dispatch from Warsaw enclosing what seems to be Polish pilot's licenses awarded to the members of the flight by the Chief of Polish Aviation as a mark of his appreciation. These insignia and accompanying letter are being sent to me here and I shall in turn forward them to you.

Yours very truly,

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RPF/LH-4965

Washington File: Poland.

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EXHIBIT No. 396

HELSINGFORS, FINLAND, February 18, 1931.

THE AMERICAN CHARGÉ d'AFFAIRES,

American Legation,

Helsingfors.

SIR: Pursuant to our conversation of this date, and complying with your suggestion, I beg to submit herewith a copy of communication prepared by the undersigned for translation into Finnish and submission to the Minister of Defense and certain other high authorities of the Government of Finland who have some interest and voice in the choice of a suitable high-powered aviation motor for the Finnish Air Force. This communication will be submitted in original to the Defence Minister tomorrow.

It appears probable that a decision will be reached in the very near future with respect to a moderate initial order of new motors, which immediate order will in all probability lead to further and more important orders for the same type of engine later in the current year. I am assured that the responsi-

ble technical authorities of the Finnish Air Force, while not in unanimous agreement, favor our Wright "Cyclone" R-1820. Should the decision be in our favor, it will be the first important aeronautical business in the Baltic countries placed with American manufacturers.

I have warning, however, that the decision may be influenced by political considerations, and I have good reason to believe that the Gnome et Rhone Company (French) are bringing considerable pressure to bear in an effort to secure this business for their "Jutiper" or "Mercury" engine which they build under license from the Bristol Aeroplane Co. (British). This pressure is of a nature which reflects little credit on the business ethics of the Gnome et Rhone Co. The Finnish Air Force possesses a certain quantity of Gnome et Rhone "Jutipers" and I believe that some fourteen of these engines are now in the Gnome et Rhone factory near Paris for overhaul. The company apparently agreed to carry out this overhaul free of cost, but once having received the motors they appear now to be using them as a lever, coupled with threats of making difficulties in future with respect to spare parts for the other "Jutipers" in Finnish hands, to force the Finns to divert their projected order for new motors to Gnome et Rhone.

Our European competitors are undoubtedly using both economic and political arguments against American manufacturers, and have succeeded in convincing certain of the Finnish officials in high authority that America is out of the question, or at least not dependable, for geographical and political reasons, as a suitable source of supply for military equipment. I believe their arguments fundamentally unsound and have attempted to combat them in my communication to the Minister of Defence.

It has been suggested to me, and quite strongly, that it would be very helpful if the American Legation should use its good offices in this instance to combat this propaganda of our European competitors and accredited representatives of their respective governments. Confidentially, I may mention that Colonel Vuori, Chief of the Finnish Air Force, who has stated frankly that he favors the "Cyclone" advised me last night that it would do a vast amount of good if the Chargé d'Affaires could talk personally with the Foreign Minister, the Finance Minister, the Defence Minister, and possibly the Minister of Commerce, on the politico-economic situation as it may affect the subject of this memorandum, stressing especially the fact that the United States would be a dependable and rapid source of supply for Finland under all conditions that might conceivably arise. It may be that certain of the grounds for such a contention that I have advanced in my communication to the Minister of Defence will meet with your concurrence.

It is possible that trade arguments will also be advanced against us, which would seem answerable in view of America's friendly relations with Finland, the recent decision of our Treasury Department respecting "dumping" and the vast amounts of money loaned to Finland by the United States and potentially available for future loans.

Any assistance in this matter that you may deem proper to afford will undoubtedly be of value to American export business in general, as well as being greatly appreciated by the undersigned and the interests represented by him.

Respectfully,

CURTISS-WRIGHT EXPORT CORPORATION,  
MELVIN HALL, *Vice President*.

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EXHIBIT No. 397

MEMORANDUM

JUNE 19, 1934.

To: THOMAS A. MORGAN.

From: ALBERT I. LODWICK.

Subject: Importance of the export market to the aviation industry.

1. From a national defense standpoint, it is essential that a large number of men be trained in the manufacture of aircraft in order to produce large quantities of aircraft in case of an emergency. Therefore, it is a distinct advantage to this country to maintain the greatest possible sales volume of

American aircraft and engines abroad in order to provide employment for the largest number of men.

2. It is estimated that 75% of the cost of producing an aircraft engine is for labor, that is, including the labor involved in the material and accessories furnished for the production of an engine.

In the manufacture of airplanes it is estimated that 66% of the total cost of an airplane is for labor, that is, including the labor involved in the manufacture of accessories and materials required for the production of the airplane.

The export business of the aeronautical industry during 1933 provided 10,620,000 man-hours of labor.

3. The export business has enabled a number of American aviation companies to continue operation. Without this business many American aviation factories would have been forced to close their doors, resulting in further unemployment as well as reducing the sources of supply for military and commercial aircraft which would be of vital importance to our Government in case of an emergency.

4. All aircraft and aircraft engines of a military nature must first be released by either the Army or Navy before an American manufacturer is permitted to ship these products to a foreign country. This policy definitely protects the United States from a national defense standpoint by retaining the latest plane and engine developments exclusively for our own military and naval air forces.

5. The export aviation business reduces the cost of airplanes and engines to the United States Government due to the fact that a proportion of the fixed charges and overhead is charged to the foreign business.

6. The greater the number of countries purchasing our airplanes and engines, the greater our knowledge of the potentiality of their air force. Our pilots, mechanics, and salesmen procure very valuable knowledge of flying conditions, terrain, available landing fields, in foreign countries, which would be of great military value in case of an emergency.

7. Licenses to manufacture American aircraft and/or engines in foreign countries have been granted, after approval by the United States Army or the United States Navy, in several cases to foreign manufacturers. It usually takes from two to three years for foreign companies to manufacture the American product, by which time that product would be in the obsolescent stage in the United States. Any restrictions upon the exporting of American aviation products will doubtless cause our foreign customers to divert their trade to foreign competitors, thus building up the aviation industry in foreign countries, to the detriment of American aviation. It will also encourage foreign countries to establish their own aircraft and aircraft engine manufacturing plants rather than depend on the United States and their source of supply. Such action by many of our present export customers would seriously affect the status of the aviation industry in the United States who are dependent upon the export field for over 35% of their sales volume.

8. The following table indicates the increasing importance of exports to the total production of the aviation industry. In 1933, over one-third of the entire production of aeronautical products was shipped to foreign countries. Aeronautical exports were larger in 1933 than any other year in aviation history. The important part played by exports in relation to our total production is due not only to the sales promotion efforts and the high quality of our products, but is also due to the cooperation the industry has received from the commercial attachés and other United States Government representatives located in foreign countries. These figures are of even greater importance when it is realized that American aircraft available for export is in the obsolescent stage and that it must compete with foreign products which are released for export in many cases after passing the experimental stage. Foreign countries have likewise assisted their commercial companies in developing business by sending their naval aviation units to foreign countries to demonstrate their latest types of flying equipment. An example of this was the visit of the British Navy to Turkey in 1929, and the flight of 35 Savoia Marchetti Torpedo and Bombing planes from Italy to Athens, Constantinople, Varna, and Odessa, in June 1929.

*Total United States production as compared to exports of American aircraft, aircraft engines, parts and accessories*

	Total production <sup>1</sup>	Aeronautical exports	Percent of total		Total production <sup>1</sup>	Aeronautical exports	Percent of total
1928.....	\$64,662,491	\$3,664,723	5	1931.....	\$54,520,627	\$4,867,087	8
1929.....	70,334,107	9,125,345	12	1932.....	34,861,185	7,946,533	26
1930.....	60,486,177	8,818,110	14	1933.....	25,676,165	9,203,978	32

<sup>1</sup> Production figures are used due to the fact that reliable sales figures are not available for years prior to 1930.

The above table indicates that the export business is more essential now than at any previous time. This business enables many factories to continue operation which will be of inestimable value to the Nation in case of an emergency. Any restrictions placed on the exportation of aeronautical equipment will divert this business to foreign competitive manufacturers as well as encourage foreign nations who are now our customers to establish their own factories to manufacture the products which now give employment to thousands of laborers in this country. Many factories must be kept in operation in times of peace if they are to meet the demands that an emergency creates.

9. During the past two years, the aeronautical exports of the United States have been larger than those of any other country. The following table indicates that the United States exports in 1933 totaled \$9,203,978 compared to \$6,210,171 for the United Kingdom, our nearest competitor. The United States exports in 1933 almost equalled the combined exports of the United Kingdom and France. However, this enviable position has only been held by American aviation during the past two years. This situation has been brought about by the satisfactory operation of American airplanes and engines abroad which have resulted in large repeat orders during the past two years. Undoubtedly, some of our foreign competitors would welcome an embargo in those countries which have transferred their purchases of aeronautical equipment to the United States, and in this way injure the aviation industry of this country.

An examination of the following figures will indicate the increasing importance of American aeronautical products in the export field:

*Exports of aeronautical equipment from the United States, Great Britain, France, and Italy, 1928 to 1933*

	United States <sup>1</sup>	United Kingdom <sup>2</sup>	France <sup>3</sup>	Italy <sup>4</sup>
1928.....	\$3,664,723	\$6,466,898	\$5,469,027	\$2,180,909
1929.....	9,125,345	10,620,086	8,455,283	1,157,080
1931.....	8,818,110	9,971,900	8,278,452	332,055
1931.....	4,867,687	8,441,734	4,559,979	1,179,032
1932.....	7,946,533	6,107,130	2,693,393	1,272,236
1933.....	9,203,978	6,210,171	3,035,907	2,218,974
Total.....	43,626,376	47,817,919	32,492,041	8,320,286

<sup>1</sup> Department of Commerce, Bureau of Foreign and Domestic Commerce, Trade Statistics Division.

<sup>2</sup> "Accounts Relating to Trade and Navigation of the United Kingdom", December 1933, December 1931, and December 1930.

<sup>3</sup> "Statistiques Mensuelles du Commerce Exterior de la France", December 1933, December 1931, and December 1930.

<sup>4</sup> "Statistica del Commercio Speciale di Importazione e di Esportazione", December 1933, December 1931, and December 1930.

10. In connection with the rivalry between the United States and European nations for the export business of the world, it is interesting to compare the wages paid in order to determine those countries which have a price advantage. An examination of the following figures indicate a decided advantage in favor of our European competitors.

*Average cost of labor per hour in aircraft and aircraft-engine manufacturing plants*

	United States	England	France
	<i>Cents</i>	<i>Cents</i>	<i>Cents</i>
Aircraft manufacturing.....	64	33	40
Aircraft engine manufacturing.....	70	34	43

In spite of the fact that England and France pay lower wages for skilled labor required in the manufacture of aircraft and aircraft engines, they pay far higher prices for their military aircraft engines, as is indicated by the following figures. The prices paid by England and France doubtless enables their engine manufacturers to carry on an aggressive experimental engineering program as well as show a profit from their operations. Such a policy keeps alive production facilities which would be of inestimable value in case of an emergency.

**PRICE PER HORSEPOWER PAID FOR MILITARY AIRCRAFT ENGINES**

England, \$15,000 per horsepower.

France, \$18.35 per horsepower for liquid-cooled engines.

France, \$12.50 per horsepower for air-cooled engines.

United States, \$11.50 per horsepower for liquid-cooled engines.

United States, \$7.98 per horsepower for air-cooled engines.

**SUMMARY**

During the past few years the United States exports of aeronautical products have increased to such an extent that the United States leads the world today in the export field. The export business constitutes a large part of the total aviation production in the United States. The establishment in foreign countries today of American aviation products is extremely important, due to the fact that many nations are today formulating the nucleus of an air force.

In future years the demand for aircraft products will undoubtedly increase. This not only means added aircraft purchases but means annual purchases of spare parts and accessories to keep their planes in operation. Further, it is necessary for these countries to purchase and set up equipment for the maintenance and repair of aircraft. If this machinery is set up for American planes, and relations with these countries are satisfactory for several years, it will be very difficult for our foreign competitors to obtain the expert business we now enjoy. These countries who are now building up an air force will purchase aeronautical equipment from France, England, Italy, or some other foreign country, if they believe that trade restrictions in the future may prevent their procuring spare parts for the American flying equipment they are purchasing today. Thus, the aviation industry of foreign nations will benefit to the detriment of the aviation industry in this country. Congressional investigations, embargoes, pacifistic talk, and propaganda will doubtless cause some of our present customers to buy abroad, due to the uncertainty of delivery and the uncertainty of obtaining spare parts in the future. The greater the volume of aviation business in this country, the better our national defense.

Restrictions on aviation exports will not only send business to our foreign competitors but will tend to cause more unemployment in this country, decrease the productive capacity of our factories, and weaken our national defense.

A policy of continued investigation, uncertainty of the future, and trade restrictions will likewise encourage many foreign nations desirous of building up an air force to establish their own airplane and airplane-engine factories rather than depend on the United States as a source of supply.

The problem settles down to a question of whether factories in Europe or the United States will enjoy this foreign business.

ALBERT I. LODWICK.

AIL: RMW

## EXHIBIT No. 398

DECEMBER 10, 1929.

Mr. LEIGHTON W. ROGERS,  
*Chief Aeronautics Trade Division,  
Bureau of Foreign and Domestic Commerce, Washington, D.C.*

DEAR MR. ROGERS: The Curtiss Aeroplane Export Corporation has recently consummated contracts for sale of military pursuit airplanes to the Dutch East Indies and to the Siamese Government. There contracts have finally been obtained after several months of work through the combined efforts of our representatives and those of the Bureau of Foreign and Domestic Commerce.

We wish you to know how much we appreciate the splendid cooperation of your Division and of the Bureau and of the assistance given by your men in the field and your office in Washington. It is very probable that the contracts might not have been obtained had it not been for the service which your organization was able to extend, as, of course, there are certain angles of situations and information which can be obtained by an official representative of the United States Government, which would be impossible for a private individual to gain.

I certainly hope that the relation between this company and your Division may always remain as happy as they have been in the past and that you will continue to allow us the privilege of calling upon you for assistance in the furtherance of our foreign business, not only in the countries where you have already assisted us but, I hope, also in more extensive fields included in our future program of expansion. I can see where the assistance you might be able to give us in newer fields which we have not yet reached, could be of even greater service to us than in those where we have already carried on negotiations, as, of course, making the initial step in new territory is the most difficult part, unless contracts have already been established ahead of us and we are able to use them for guidance.

Again thanking you for the splendid cooperation I wish to remain,

Very truly yours,

(Sgd.) BURDETTE S. WRIGHT.

RLF/CC-2244.

Washington file: General.

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(" Exhibit No. 399 " appears in text on p. 819)

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## EXHIBIT No. 400

[Copied from carbon copy]

JANUARY 31, 1930.

Mr. LEIGHTON W. ROGERS,  
*Chief Aeronautics Trade Division,  
Bureau of Foreign and Domestic Commerce,  
Washington, D.C.*

DEAR MR. ROGERS: You, I know, understand the difficulties which are confronting American aircraft manufacturers in the field of sales. The over production of the past year, and the reorganizations and mergers in the industry are bringing about a general reorganization and intensification of sales methods. It will be necessary for us to indulge in much more intensive effort in foreign markets during the coming year than it was in the past.

The recent stock market conditions and their effect on the business of the country as a whole emphasize the need for such efforts in foreign markets by the aircraft industry.

My company has expressed its appreciation in no uncertain terms of the assistance which it has received from the Department of Commerce, and in sales problems, especially exports, from the Aeronautics Trade Division. As an example, your aeronautics specialist in South America was instrumental last year in paving the way for, and in the consummation of, a sale for six of our airplanes in Brazil—a market from which we had not received any business for years. Such contributions to marketing constitute aid of original and outstanding value.

Because of the strong competition offered by European aircraft manufacturers in the Far East, the embargo against United States aircraft in Australia

(which it has been impossible to have lifted through diplomatic channels and by correspondence) and the missionary work which should be done at this time in the Far East in general, we are naturally very much interested in having an impartial observer for the aeronautics industry cover those territories in the same manner in which South America has been covered by your Bureau. The time is particularly opportune to have a qualified aeronautics man visit Australia, New Zealand and, if possible, South Africa. The Chinese market needs attention particularly because of the price competition offered by European makers.

We have known for some time that the Department was asking Congress for funds to enable it to carry on and extend this foreign field work for the aeronautics industry, and this letter is being written to ask you about the status of that request for appropriations. Frankly, the company wants the assistance which these appropriations will bring into being.

Very truly yours,

BURDETTE S. WRIGHT, *Vice President.*

Washington file: General.

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EXHIBIT No. 401

[Copy]

DEPARTMENT OF COMMERCE,  
*Bureau of Foreign and Domestic Commerce,*  
Washington, May 12, 1933.

Confidential.

In reply refer to . . . . 45.

Mr. C. W. WEBSTER,

*President Curtiss-Wright Export Corporation,*  
27 West 57th Street, New York, N.Y.

DEAR MR. WEBSTER: Kindly refer to my letter of April 14, about the visit of the Brazilian Army Air Service officers who arrived yesterday on the "Southern Cross." It would be impolitic, I believe, to mention the proposition mentioned below to the Brazilian group now here.

In connection with their visit, I note from correspondence from our Rio de Janeiro office that Captain Henrique Dyott Fontenelle was not included in the mission and, according to our office, was the principal advocate of Brazil's purchase and virtual standardization upon American aeronautics equipment.

The Rio de Janeiro office suggested that some American manufacturers, or group of them, might desire to pay Fontenelle's way to this country, taking advantage of the present low steamship rates. First-class round-trip passages from Rio de Janeiro to Chicago and return now available for about \$250.00, such round-trip passages being good for a period of six months in connection with the Century of Progress Exposition at Chicago.)

It is understood that Captain Fontenelle can arrange to make the trip insofar as leave from his duties is concerned. This man has been placed in charge of the organization of the observation group of the Army.

I quote from a report dated April 13 from Mr. Pierrot, and am pleased to attach the statement referred to therein:

"I have just secured a copy of the recommendations made by Fontenelle during the first two weeks of the revolution, when the War Dept. was in a quandary as to what type of equipment to purchase, and when a tremendous amount of pressure was being brought upon War Dept. officials by French and British manufacturers to buy their equipment. This translation of Fontenelle's report is of particular interest in substantiating the statements I made in my letter to the effect that he, more than any other single flying officer, had been responsible for the purchases of the large number of American planes acquired by the Army during the latter months of the revolution."

I am passing this suggestion on to you without any recommendation on my part, as well as to other United States manufacturers likely to be interested, and who have been active in the Brazilian market.

Please let me have your reaction.

Very truly yours,

(Signed) LEIGHTON W. ROGERS,  
*Chief Aeronautics Trade Division.*

Inclosure 68209.



## EXHIBIT No. 402

FEBRUARY 18, 1931.

Confidential.

Memorandum for Mr. Dickson, Charge d'Affaires.

Referring to previous conversations on the subject of the pending purchase of aeronautical equipment by the Finnish Air Corps, for which they have appropriations totalling approximately SMKs 60,000,000 (residue from 1930 to 1931 new allowances), the immediate purchase of 10 airplanes engines, possibly 18, at around \$6,500 each, which has been debated for a number of months is, according to my latest information, to be decided on within a week or 10 days.

As you know, two American companies, the United Aircraft Export Corporation of New York, with their Pratt & Whitney "Hornet B", and the Curtiss-Wright Export Corporation of New York with their Wright "Cyclone 1820" are competing with French Gnome et Hrone "Bristol Jupiters", English Armstrong, Siddeley's "Jaguar Major" German Siemens-Halske's SH 20", and a German made Pratt & Whitney "Hornet A". I have in confidence from responsible officials of the Air Corps that the consensus of opinion of the Technical Board appointed to examine engines suitable for the needs of the Air Corps is in favor of the Wright "Cyclone", with a noticeable amount of sentiment favoring also the other American engine—the "Hornet B". Undoubtedly, however, at this particular moment, the "Cyclone" is most favored. There is too a body of opinion which has grown out of experience with French, English, and German engines, and training of the air force personnel, in the countries mentioned, strongly favoring respective French, British, and German engines. The ramifications of the tendencies to favor European engines involve personal inclinations, friendships, former alliances, and various other unidentified reasons.

It now appears, within the past several days, that while on the whole the American engine is best liked, it is doubtful if a decision to give the order for this particular group of engines will be tendered to America—and undoubtedly the company receiving the first order will logically be given the orders to follow—because no one in the council considering the purchases is willing to take the responsibility for giving the order to America. There have not been heretofore any American engines used in Finland (there is one engine from America now on test with the Ministry of Defense—a Wright "Cyclone 1750"), because of a more or less inherent belief that the Finnish Government would prefer to turn its orders to Europeans countries on account of possible closer political affiliations with European countries in the event of war. The argument used is the above in a general way, but specifically it is stated that the comparative distance of the United States from Finland, and of the European countries mentioned, makes the possibility of securing supplies when needed must more problematical. As a matter of fact, it is the experience of importers of American goods here such as machinery, automobile, and other manufactured articles, that their orders to the United States are frequently filled and deliveries made to Finland in much quicker time than orders for similar products sent to European countries. A case in point is the Wright "Cyclone 1820" test engine sent to the Air Corps for trial. This engine was shipped from New York on June 27, 1930, and arrived in Helsingfors, July 15, 1930. The order had been placed for the shipment a week or so before June 27. The Armstrong-Siddeley "Jaguar" so I am told by people in the Ministry of Defense, took a considerable longer time to get here, being shipped from England, due principally to the length of time between receipt of the order and the actual shipment of engine. The relative shortness of deliveries from America is due to several factors inherent in American business methods (1) fast production, (2) prompt attention to orders, and (3) direct steamship connections between New York and Helsingfors each week with a scheduled time of 14 days between the ports.

This present engine order is of considerable importance to American aeronautical manufacturers; it represents the first order of any importance for engines for military use to be made available to American manufacturers in as advantageous a prospect; it is definitely the first order for airplane engines which American manufacturers have had as good a chance to get in Finland; if this order goes to America, it opens up very good prospects for future business in Finland, and would very much strengthen the chance for doing business in surrounding countries, in the Baltic States and Scandinavia. One of the American companies, the Curtiss-Wright Export Corporation, has devoted considerable time and money in following up this opportunity, which I uncovered in

October 1929; in June of last year they sent a demonstrating mission of three airplanes to Finland at large expense and since then have had three highly paid men visit Finland for varying lengths of time. The United Aircraft Export Corporation have also sent one man to Finland in connection with this matter, having shown an active interest in it some months after Curtiss-Wright had earnestly taken it up.

In view of the apparent political sentiment in the government here against the purchase of American engines, even though the Technical Board in the General Staff prefer the American engines, I believe that it would be of considerable assistance if certain government officials who might have a say in the final decision could be informed of the facts in the matter, as to American deliveries, etc.

Cordially yours,

OSBORN S. WATSON, *Commercial Attaché.*

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EXHIBIT No. 403

DEPARTMENT OF COMMERCE,  
BUREAU OF FOREIGN AND DOMESTIC COMMERCE,  
Washington, March 24, 1931.

In reply refer to 45.

Mr. J. S. ALLARD,  
*Vice President and General Manager Curtiss-Wright Export Corporation,  
27 West 57th Street, New York, N.Y.*

DEAR JACK: Attached is a copy of a confidential letter from Commercial Attaché Watson at Helsingfors, and of a memorandum which he wrote to the Chargé d'Affaires of the Legation there, concerning the status of the Finnish airport engine order.

As you will see, the recent delay on the part of the Finnish Government in placing the order is due to increased pressure being brought to bear on the part of some of your European competitors.

Very truly yours,

(Sgd.) LEIGHTON W. ROGERS,  
*Chief, Aeronautics Trade Division.*

Inclosure 38875.

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EXHIBIT No. 404

OFFICE OF THE AMERICAN COMMERCIAL ATTACHÉ,  
*Helsingfors, Finland, February 23, 1933.*

DIRECTOR BUREAU OF FOREIGN AND DOMESTIC COMMERCE,  
*Department of Commerce, Washington, D.C.*

(Attention: Mr. Leighton W. Rogers, Chief, Aeronautics Trade Div.)  
Subject: Finnish Purchase of Czechoslovak Airplanes.

SIR: I have inquired into the method of construction used by Smolick on the airplanes which the Finnish Government has contracted for and for which they also have a building license. From what I can gather, the construction used by Smolick is the dural and welded steel tubing plan as used in the United States. I believe that the wing construction is with wood longeron and dural ribs. This is the construction which is referred to in Jane's All the World's Aircraft with respect to airplanes preceding this model.

In connection with this Czechoslovak purchase, even though it was a proposition of a kind of barter, the very fact that the Finns bought from the Czechs instead of from the English makes me believe to a certain extent that all of this official pressure by the English is not as effective as it might be. I have heard the sentiment voiced recently that perhaps this official pressure proposition has gone a little too far up here. I sincerely trust that this is the case. A few days ago at a dinner the secretary of the legation was talking to Mr. Ryti, the Governor of the Bank of Finland, about Finnish Government purchases, and Mr. Ryti categorically stated that it was a Finnish Government policy to buy the best things they could at the cheapest price, regardless of political considerations. This sounds rather funny to me in the face of some

recent Finnish Government purchases from England, but I am taking a spark of hope from this Czechoslovak order. I expect our two big companies at home, who really have spent a considerable amount of money up here in Finland, are more or less inclined at this time to let this particular small territory ride for the time being. They have not had anybody up here at all since I came back. Both of them have very good agents, but I do not think that pressure from headquarters from time to time is a very salutary thing. I certainly hope that it may be possible within the not too distant future for some sort of cooperation to be brought about between the American aircraft firms who do a good deal of export, as referred to in Mr. Warner's article about which I wrote you a few days ago so that we may then be able to take off our coats and drive right into the middle of these government orders.

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("Exhibit No. 405" appears in text on p. 821)

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EXHIBIT No. 406

[Copy]

In reply refer to 45.

DEPARTMENT OF COMMERCE,  
BUREAU OF FOREIGN AND DOMESTIC COMMERCE,  
Washington, March 12, 1932.

[Confidential]

Mr. C. W. WEBSTER,  
*President Curtiss-Wright Export Corporation,*  
*27 West Fifty-seventh Street, New York, N.Y.*

DEAR MR. WEBSTER: As you may have already heard, there is an aviation mission on the west coast from Canton which arrived in Seattle on March 8. It consists of Brigadier General Woo G. Garr, commander of the second squadron of the Canton Aviation Bureau, and Colonel S. K. Yee, Director of the Cantonese Intelligence Bureau. These officers are representing General Chang Wei Jung, Commander of the Canton Aviation Bureau whom you will recall as former Chief of the Nationalist Air Force at Nanking. According to Trade Commissioner Edward P. Howard, they came to inspect aircraft factories and advise the San Francisco Chinese regarding airplane purchases for presentation to China.

I could not advise you of their presence in the United States before, since I was requested not to from China. For obvious reasons I urge your keeping the information contained in this letter in strict confidence. Under no circumstances should any publicity be given out about the mission.

I understand that the two officers arrived from Seattle at San Francisco yesterday, where they will stay for approximately two weeks. They will then proceed to Los Angeles, Chicago, Detroit, Washington, New York, and Boston. I shall endeavor to arrange it so that they will visit Buffalo.

You will be interested to learn that there is in San Francisco a joint committee of the Chinese Chamber of Commerce and six Chinese trading companies which requested our San Francisco office to help make a preliminary survey for the use of the mission of pursuit bombing and observation planes. This joint committee has raised some funds from Chinese-Americans for the purchase of planes. Whether the Chinese-Americans in other cities who are reported to have raised, or to be raising, funds for this purpose will see the delegation is unknown. It is assumed that the officers will survey this field while here, if these activities have not already been consolidated by the San Francisco committee, since, as you know over 90 percent of the Chinese-Americans are Cantonese. Cleveland, Buffalo, Syracuse, Boston, and Detroit have been mentioned by the press in this connection.

When our office in San Francisco asked our help we sent out one of the catalogs of Curtiss military planes; also, photographs of the YP-20 and the O2C2 "Hell Diver" with statements of performance and specifications. In passing this information, we mentioned, because of the Chinese preference for air-cooled engines, that some other Curtiss-Wright planes, as made for the United States military services, were liquid-cooled and if the committee and

delegation were interested in these, your corporation would be pleased to furnish details.

You can get in touch with the mission through our Mr. Wesley Ash, District Manager, U.S. Bureau of Foreign and Domestic Commerce, at 310 Customhouse, San Francisco. In doing so please make no mention of the fact that I suggested this action.

Very truly yours,

(Signed) LEIGHTON W. ROGERS,  
Chief, Aeronautics Trade Division.

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("Exhibit No. 407" appears in text on p. 823)

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EXHIBIT No. 408

FEBRUARY 21, 1933.

Mr. H. P. MACGOWAN,  
*Acting Commercial Attaché,  
Edificio del Banco Hipotecario de Colombia,  
Bogota, Colombia.*

DEAR MR. MACGOWAN: I want to acknowledge receipt of your letter of February 1st and extend our appreciation of the great assistance we can always get from your office.

The Department in Washington advised us that they had a cable from you asking us to submit information on the planes that we are able to offer. As we have already passed this information, by cable, to Joaquín Samper, and knowing his close contact with you, I have simply cabled you in reply that he has all the necessary information. We have, I think, made a most advantageous offer on more Hawks and Ospreys and I hope something will result. Delivery is always an important factor and on these two planes I think we are in a position to make deliveries that cannot be equalled by any other company. My own opinion is that they should have more of both of these planes, and with the equipment consisting largely of these planes they will have a fighting air force which would give them command of the air.

Mr. Samper has advised me of Benny Mendez accident in one of the Hawks, and while I have written him a brief note expressing our best wishes for his speedy recovery, I should appreciate it if you see him personally to tell him we are indeed sorry to learn of his accident and trust that he will soon be all right again. We are, of course, following the press advices with respect to developments, but always appreciate hearing from your office what is going on.

The service man, Osborne, whom you mentioned, did not go to Colombia. We are sending another man, Harvey Brewton, who will probably arrive in Colombia within two weeks, and if he gets up to Bogota I told him to get in touch with you.

Kindest personal regards.

Sincerely yours,

W. F. GOULDING, *Vice President.*

WFG/f.

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EXHIBIT No. 409

[Copy]

PARIS, May 23, 1932.

JULIEN E. GILLESPIE, Esq.,  
*American Commercial Attaché,  
American Embassy, Istanbul, Turkey.*

DEAR JULIEN: The attached copy of a letter to the Secretary of Commerce, which I am enclosing for your information, is self-explanatory.

I am indeed appreciative of the cooperation which we have received from the Department of Commerce and particularly from yourself. Your assistance and wise counsel have been invaluable, and when I say that we are counting greatly upon your good advice and collaboration in our future dealings with the Turkish Government, you know what I mean.

I have lately received extremely bad reports from both Italian and French constructors with respect to their dealings with the Turkish Government, and the difficulties which have been created in practically all contracts with the Turkish governmental departments as an excuse for delaying and reducing the payments called for by the contracts. It seems to me that the Turkish Government is now very much on trial with respect to American business. We are calling upon them to meet their obligations promptly and honorably, as we propose to meet ours, and when they do so I am convinced that this favorable experience will be of assistance to the Turkish authorities in future dealings with the United States. Should the occasion happen to arise, which I trust it will not, I suggest that this might properly be pointed out to the authorities concerned by you or the Ambassador.

With kind personal regards and best wishes,

Sincerely yours,

MELVIN HALL.

MH/rbs.

EXHIBIT No. 410

[Copy]

MAY 11, 1933.

Mr. JULIAN GULLESPIE,  
*American Commercial Attaché,  
American Embassy, Istanbul, Turkey.*

DEAR GILLIE: Yesterday I wrote Henry the first letter simply because I wanted to hold up your letter until I could give you some definite information about what we are going to do on the Kayseri situation. I would must rather have written you first as I have the deepest appreciation for your many courtesies to me while I was in Turkey, but I thought you would understand by reason for holding up the letter and I assure you that my appreciation is none the less sincere by making this the second letter to Turkey since my return.

In the first place, I cannot begin to thank you or Inez for what you did to make my stay in Turkey pleasant. Also your courtesies, when the two Helens were with me, were equally appreciated by them. With all the fussing and fuming I did about my long stay in Turkey, I really had a good time and enjoyed the experience. The good time was solely enjoyed with and through you. The experience was gained in my work with the Government and our agents. Your courtesy in letting me use your office as you did will always be remembered and your good nature and sound judgment and assistance to me in our discussions of my many problems were priceless.

Yesterday I received your cable about the Kayseri situation and I am grateful for your thoughtfulness in sending it to me. When you send such cables or incur any expense on Curtiss business will you please collect the costs from Bob Farnsworth. There is no reason in the world why your office should stand these expenses and I want your definite promise that you will collect them from Bob.

I have the complete approval of the board of directors to replace Capt. Coon at the factory and to send out the necessary personnel to step up production to completely satisfy the Turkish Government. Today I am interviewing Bob Simon who has had a vast amount of experience in factory management with Fairchild, Berliner-Joyce, and ourselves. He has been highly recommended by Ted Wright of our Buffalo plant and if my interview with him satisfies me he will probably be the man we will send out and you may rest assured that we are working just as fast as it is humanly possible, and will get him out there on the earliest boat. Substantially, my plan is to do as I told you when we discussed this problem in your office. Nothing will be said to Coon until his replacement arrives and the replacement will tie in with Emin Bey and Bob Farnsworth before proceeding to Kayseri. Then if Bob is available, he and Emin Bey should take this replacement down to Kayseri and introduce him and get him started. If Bob is not available I would suggest that Ferdie Hulse be the man to go with him. The replacement will have a suitable letter to Capt. Coon outlining the situation and Bob or Hulse will be instructed as to the procedure to follow to get Coon back home. Fortunately, my board of

directors understand the situation in Turkey much better than I had hoped for and they are with me 100% in my present plans and I look for results that we can be proud of and which will satisfy the Turkish Government.

I have the approval of submitting a counterproposal to the Government on the new air-lines proposition and work is progressing most satisfactorily here on drafting a proposal. I hope to send it out by steamer within the next week and believe that the Turkish Government will realize from the proposal the sincerity of Curtiss-Wright in working on all of their aviation problems with them.

I am sorry that the Hawks have not been accepted as yet but I have had some encouraging news from Bob and I cannot help but feel that the Turkish Government are doing all that they can to protect themselves against criticism in the procedure they are following on these further tests. I am sure everything will come out all right and the net result of our experience has been that we have learned a valuable but very expensive lesson.

I showed the two reels of my movies last night and the picture that I took of you and Henry coming out of the Embassy is excellent, Helen and I will cherish this picture and show it many times just to have a good view of your good self.

Please give my very best, in which Helen joins me, to Inez and the children and tell Mary Howard that I still love her and will come back to Turkey some day to see her. Also again many thanks for all you did for us and here's hoping things work out to your entire satisfaction as I am sure they will. The best dope I can get on the situation in the future for Department of Commerce is that even though the Department's activities in foreign fields are curtailed the good men such as yourself will be retained on the job under either the State Department or the Consular Service, or in some manner, and I am sure that nobody will replace you in the matter of value to the Government. Don't work. We all hope for the best and you may rest assured that you have some great boosters working for you here.

Most sincerely,

J. S. Allard.

BMN.

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#### EXHIBIT No. 411

[Copy]

PAA-Via Pan Air.

APRIL 20, 1933.

DEAR WEB: Had Leon's cable this morning, and want to tell you that I appreciate Leon having thought of me, and that I realize that conditions are not such now as to justify you in adding to the expense of your organization.

I have intended writing to you for some time, that is, for the past two weeks, in connection with your representation here. You've got to get a good outfit with the best possible Government connections. Don't lay off this market now in the hope that there will be another mix-up which will put the ins out. Even if that occurs, it is no reason why you should sit by and see chances for business go by the boards. There is considerable talk right now, and some degree of certainty that there is going to be some more buying by the Government.

I know that there is definite interest in the acquisition by the army of a number of bombers. That business could be worked up if you had a good outfit here to handle it for you. I know that Mayrlink Veiga is working on it. I also know that M.V. are working actively on a proposition for an amphibian. The Government wants 16 amphibis—Loening preferred. I have told Lafayette I would communicate with you to see what could be done in the matter of having you quote him. If Loening or Douglas are not yet bought, they will buy French stuff. Here's a chance for you to knock off a pretty piece of business. I know that you are wondering where the dollars are coming from. Has anyone lost any money yet on the supplies they made during and after the last revolution? Don't worry about money. This Government, which will elect itself for at least four more years, is giving the War Dept. pretty much everything it asks for, and so long as Americans continue to drink coffee there will be dollar exchange. The financing can be handled, with a little managing at this end.

There has been a tremendous amount of interest recently in your representation. Several firms have asked us to communicate with you but most of them

have been of the sort that I did not feel that it was worth while to call to your attention. The Cia Provendas (Cia. Promotora de Vendas) Edifício A Noite, sala 1316, is the best of the lot, and has all sorts of good things to recommend it. It is all set so far as its ability to handle Government business is concerned, particularly in the War and Navy Depts. One of the directors of the firm is a brother of the interventor of the State of Rio de Janeiro, and others are all tied up with politics. Obviously, the crowd would not be so hot if there were a change of Government, but I have never seen things quieter here than they have been in the last four months. The local boys took all the fight out of the Paulistas, for the time being, at least, and I feel certain that we can expect a few more months of calm, at least, unless the elections result in some local disturbances. I don't think that you can count on another real revolution for some time.

Coincidence—just now Castro Lopes called me on the phone to ask me to have you advise him of his standing. He wants to know whether you are still interested in having them continue to work for you. He also said that there is considerable interest in your equipment. Write him a letter and tell him that you have decided to cancel the arrangement you had with him, in view of the unfortunate financial situation and the inability of Curtiss to get any business from the Federal Government in the past two years.

The group of Brazilian pilots (Army) that is going to the States is scheduled to leave on the Southern Cross, arriving in N.Y. on May 11. You will want to see to it that you or someone from your organization meets them and take care of them.

Maj. Plinio will be in charge of the group. Mello and Wanderly and Julio, all friends of mine, will be on the junket. They will visit the principal factories, and I am depending on you impressing them sufficiently in Buffalo to sell them the idea of buying Curtiss. They expect to go as far as Seattle.

Let me have a word from you personally about your intentions in this market. Do me the favor not to just let things go along as they are now for I'm telling you, you will regret it. There is going to be some more money made here soon, and you should be in on it. Let me have a reply immediately as to the Loening business. These planes are intended for Amazon service. On this business it would be well to let me know what you think of handling it through Mayrink Veiga. They are hot on the business, and I feel sure they can put it across. Provendas also could handle it, and are in a great stew because you have not communicated with them. Inasmuch as Leon will be coming back soon, you may want him to do the appointing when he gets here. In that case, it would be advisable to cancel with Castro Lopes before that time so that he will have a clear field.

With best regards to you, Leon, and the other boys in the office I have met.

Sincerely,

(Signed) **PIERROT.**

Pan American Airways System. A Maior Rede de Transportes Aereos do Mundo.

("Exhibit No. 412" appears in text on p. 828)

#### EXHIBIT No. 413

[Copy]

Aer-P-1-EMN  
L11-4 (2)

NAVY DEPARTMENT,  
BUREAU OF AERONAUTICS,  
Washington, D.C., August 5, 1933.

From: Chief of the Bureau of Aeronautics.

To: All Inspectors of Naval Aircraft, U.S.N.

Subject: Policy Concerning Sale Abroad of Airplanes, Motors, and Accessories.

References:

- (a) Aeronautical Board Case No. 13, approved by Secnav. 10/13/26.
- (b) Aeronautical Board Case No. 34, approved by Secnav. 1/6/30.
- (c) Aeronautical Board Case No. 52, approved by Secnav. 10/12/32.
- (d) Buair. ltr. Aer-A-ML, A2-14 (3), A7-1, dated 5 June 1933.

1. References (a), (b), and (c) serve as a guide for this Bureau in its action relative to requests received concerning the release for export sale of airplanes, aircraft engines, and accessories. These references have been ap-

proved by the War Department as well as by the Navy Department and consequently the policy based thereon is a joint policy followed by the Chief of Air Corps, U.S. Army, and by the Bureau of Aeronautics.

2. The following is a summary of the provisions of references (a), (b), and (c) insofar as concerns matters which affect inspectors of naval aircraft and contractors for aeronautical material.

#### POLICY

3. The War and Navy Departments will encourage the American aeronautical industry in developing foreign business and assist in such development so far as consistent with national policy and the needs of the national defense.

The following general policy governs the consideration given the differing military values of various items of equipment. This policy is subject to exception when desirable in any particular case, and each case is determined upon its merits. Decisions will be made by the War and Navy Departments in specific cases.

(a) Release for foreign sale, or public description, will be withheld indefinitely on equipment containing features so novel as to constitute new inventions of purely military use.

(b) Designs including such features of marked novelty, either in general layout or details of construction, which have prospect of commercial usefulness, may be sold outside the services or abroad one year, generally, after going into regular production. The exact time of such release will depend upon the importance of the novel features concerned and will take into consideration the practicability of maintaining secrecy if the airplane is to be used from flying fields open to the public. Due consideration will also be given to the magnitude of the potential demand for the commercial product.

(c) Release will, in general, be withheld for approximately one year after going into production in the case of airplanes of purely military types, without prospective commercial value, whose performance or flying qualities are of such special interest that their early test by pilots outside the American services may be considered unwise.

(d) Airplanes, engines, and equipment which contain no strikingly novel features, but only efficient assembly of well-known elements, may be permitted foreign sale at an early date. Such permission may follow immediately after the completion of an experimental order and its test by either service. Such sale of any service type abroad shall be made without military equipment installed which either in itself or its mounting involves any important feature of novelty or consists of ordnance and armament equipment in use in combat and/or fleet operating organizations. No release of such ordnance and armament equipment for foreign sale will be made either with the airplane or separately unless a precedent for this release has already been established, or unless equipment of that model has been declared surplus.

(e) No negotiations for the sale abroad of aircraft power plants, or aeronautical accessories, which have been developed primarily for or with the assistance or direct encouragement of the War or Navy Departments, or whose usefulness is primarily or exclusively military, should be initiated without the permission of the Department interested. Similar permission should be required prior to any public exhibition or the publication of any description of such items.

#### PROCEDURE

4. The following procedure will be used in carrying out the above policy:

(a) The Aeronautical Board will not be required to consider all requests for the release of aeronautical equipment, but in lieu thereof

(b) The Chief of the Army Air Corps or the Chief of the Bureau of Aeronautics, according to which Department may have paramount interest in the case in question, is authorized to investigate the request in the light of existing policies and, after joint conference when a proper course of action has been decided upon, prepare an answer for the signature of the appropriate Secretary. Action taken in all such cases will be reported to the Secretary of the Aeronautical Board as a matter of record.

(c) In cases where the Chief of the Army Air Corps and the Chief of the Bureau of Aeronautics fail to agree, the matter shall be referred to the Aeronautical Board for action.



5. It is directed that the foregoing information be conveyed to all contractors who now or in the future may be expected to be under contract for any of the material in question.

6. Attention is invited to reference (d) for instructions relative to the measures to be taken for safeguarding material in a confidential status.

(Signed; facsimile) E. J. KING,  
E. J. KING,  
Rear Admiral, U.S.N.,  
Chief of Bureau of Aeronautics.

Copy to: CNO, DNI, Comdts. 3d, 4th, 5th, 9th, and 13th N.D.

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EXHIBIT No. 414

OCTOBER 12, 1932.

Mr. F. C. NICHOLS,  
*Colt's Patent Fire Arms Manufacturing Co., Hartford, Conn.*

DEAR MR. NICHOLS: The Automobile Tire & Tractor Co. has sent us copy of their letter, dated October 1st, addressed to you, which I believe you will find of considerable interest, particularly with respect to the tests which your gun is undergoing in Turkey.

With respect to Emlin Bey's closing paragraph, relative to remuneration for their efforts in developing business, I think that this is something that can best be covered through ourselves as, naturally, we always arrange to pay him a commission on sales and I think that all we need to take into consideration at the present time is in connection with aircraft type guns which we hope will be ordered for installation in our Hawks in Turkey. Of course, if this develops to a standardization of the Colt gun for all aircraft for the Turkish Air Force, you may be running into some complications with your Vickers arrangements, but that is something we could probably work out later. I should appreciate it if you would send me a copy of your reply to Tatco's letter and hope that you will not get involved in any question of commissions with them without discussing the matter with us.

In another letter which I have just received from Mr. Farnsworth, he refers particularly to the recent visit of General MacArthur to Turkey, and the fact that General MacArthur was received with great pomp and enthusiasm by the Turkish dignitaries. Naturally, the General was made familiar with the business which we are carrying on with the Turkish authorities and, apparently, he talked up American military equipment to the skies in discussions which he had with the Turkish general staff. Bob Farnsworth says that for safety sake he is not putting down in black and white what was said, but I rather gather that your equipment and ours did not suffer from lack of praise. This, of course, is for your confidential information.

Very truly yours,

CURTISS-WRIGHT EXPORT CORPORATION,  
W. F. GOULDING, *Vice President.*

WFG/f

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EXHIBIT No. 415

[Copy]

NEW YORK, May 28, 1934.

Mr. P. A. HEWLETT,  
*Sperry, Central America:*

In reply to your memo of the 17th, we regret that as all of our business with Salvador and Panama is direct with the Government, we have no knowledge of the financial responsibility and credit standing of either Dada-Dada & Co., or Guardia & Cia., our agents in the above respective countries.

We have no agent in Guatemala but make all of our contacts through General John A. Considine, who is a major in the United States Army, loaned to the Guatemala Government.

Major Considine suggests that it would be more satisfactory for us to deal directly with the Government through him rather than attempt to deal through any local agent, as his recommendations are followed by the President in the purchase of all types of military equipment.

The Government of Guatemala has not recently made any purchases of aircraft and it is not likely that it will do so in the near future.

OWEN SHANNON.

OS.ja.

EXHIBIT No. 416

FEBRUARY 3, 1932.

Mr. LAWRENCE LEON,  
*Arroyo 880, Buenos Aires, Argentina.*

DEAR LAWRENCE: For your information, I enclose herewith a letter which I wrote Burdette Wright, who is in charge of our Washington office, in regard to the assignment of a U.S. naval officer to accompany the two Argentine naval officers who, we understand, will shortly arrive here for the purpose of selecting and purchasing aircraft equipment.

We are proceeding very cautiously in Washington and believe that when the request is made to our Naval Intelligence, if it is not already made, we can more or less guide their choice and see that an officer is selected who would most properly fit the job.

This letter also acknowledges your letter of January 18th regarding the Fokker situation. It is comforting to know that he is definitely out of the picture and I sincerely hope the matter will adjust itself in the near future so that we can proceed with the Argentine contract.

The information regarding the possibility of Sperry business has been transmitted to Messrs. Gillmore and Patterson at Sperry. I had lunch with them several weeks ago and the information I gave them is practically the same as you gave me in your letter.

Conditions in Brazil are becoming more active and it seems advisable that someone from our organization stop in there as soon as convenient and see what can be done. I had a couple of letters from Figueira in the last mail, one of which outlines the proposition which they are working on for the export of between 500,000 and 600,000 tons of manganese to the United States through a New York concern, the dollar proceeds of which would be devoted to the transaction involving the building of 40 military ships, probably Hawks, in a Brazilian factory along the lines of our proposal. Since making them a factory proposal, however, conditions here have changed considerably and we would prefer to have the Government operate along the same lines as the Government of Argentina is doing at the present time—build and operate a factory of their own, purchasing the manufacturing rights from us together with technical assistance and information.

Independent of a factory proposal they wish us to quote on 12 each, Cyclone Hawks, Hell Divers, and Falcons. They state that they have about \$800,000 to spend this year on aircraft equipment and urge us to send down a demonstrator, a Hawk, Hell Diver, or Falcon type. Figueira mentioned that the British are sending down fighters and that the Fleet Company has Leigh Wade down there at present with two training type machines and that the German Junkers also has demonstrator jobs on hand. It is impossible for us to send any demonstration machines into Brazil with the exception of a Cyclone Hawk. and in order to do this it would be necessary to bring back from Holland and rebuild with a Cyclone engine, bring the entire ship up to date, the Hawk used two years ago on the European mission. This would require at least three months' time.

Figueira mentioned that Brazil just purchased 35 Irving chutes.

I believe it is necessary that you spend a week or two in Brazil on your way home as it is beginning to look as though the Government intends to start something in the very near future.

Matters pertaining to our present contracts with the Argentine Government seem to be running along smoothly although not as rapidly as we might wish. Taravella finds that jigs, tools, and fixtures will cost considerably more money than the Government at first anticipated, and he is now reducing the list of material as much as he can so that the total amount when he cables it to Argentina will not scare the Government off the entire project. It is our belief that the entire list of material as submitted to us by Taravella will not be required by the Cordoba plant, as the Government will probably not be able to build as many engines as they expect to and that many operations could be handled by hand instead of by machine, thus making it unnecessary to acquire all the equipment they are calling for.

We have not yet heard from Pita in Paris regarding the advance payment on the seven Cyclones. Taravella cabled him again last night. It is Taravella's opinion that Pita is about to be recalled to Buenos Aires and for that reason is stalling on the job.

I hope the general situation is coming along satisfactorily and that we may soon be able to receive our advance payment on the 50 sets of Cyclone parts. My sincere good wishes and hope the physical condition is steadily improving.

Yours very truly,

C. W. WEBSTER.  
jc.

("Exhibit No. 417" appears in text on p. 830)

#### EXHIBIT No. 418

[Copy]

Inter-office memorandum.

CURTISS-WRIGHT CORPORATION,  
EXPORT DIVISION,  
Washington, D.C., June 12, 1933.

To: Mr. R. L. Earle.  
Subject: Central America.

We are informed that a Major A. R. Harris has been acting as U.S. military attaché to the legations in all five Central American Republics and Panama.

If this is so, it would probably be very much worthwhile for you to see him and load him up with Curtiss-Wright dope, catalogs, etc. If he is to be in New York before his return South, we would like to have an opportunity to see him.

Of these six countries, we believe we have fairly good agents in Panama and Salvador, both of which have bought Curtiss-Wright equipment. By the way, we just received an order from Salvador last week for three Ospreys, which, we understand, is the first military equipment purchased by them.

We understand Guatemala, Honduras, and Nicaragua are contemplating purchasing planes as soon as they have funds, and, as you already know, Honduras is planning to buy two or three ships now.

It is, therefore, important that we use every possible channel to put Curtiss-Wright planes across to all of these countries and Major Harris might prove helpful.

Up to this writing, we have had no contacts in Costa Rica and it might be worthwhile to stop in at their legation and give them the dope on our ships, particularly the Osprey and Trainer. Also find out to whom we should send information down there and what the prospects are of their making any purchases in the near future.

Sincerely,

Owen Shannon,  
mw.

Washington file.

(Signed) OWEN SHANNON.

("Exhibit No. 419" appears in text on p. 831)

#### Exhibit No. 420

[Copy]

WRIGHT AERONAUTICAL CORPORATION,  
Paterson, N.J., May 23, 1934.

To: Curtiss-Wright Export Corporation, New York City.  
Subject: Proposed contract with Argentine Government for Cyclone and Whirlwind engines.

In view of the fact that we believe it would be to the advantage of all concerned if the Argentine Government purchases Cyclone F-2 engines instead of

Cyclone FO3 engines and keeps spare sets of F-3 blowers on hand (8:3-1), we are offering the following to the Argentine Government:

The Cyclone F-2 is the same as the Cyclone F-3 except that the Cyclone F-2 engine has 7:1 blower gear ratio and the Cyclone F-3 engine has 8:31:1 blower gear ratio. Both engines have NA-F7 carburetors (four barrel).

When operating Cyclone F-2 engines it is possible to change them to F-3 Cyclones in from two hours to one day, depending on installation and facilities. This is done by changing the 7:1 blower gear to the 8:31:1 blower gear in the rear section of the engine. In certain installations where the rear section can be removed without interference, it is possible to make this change without removing the engine from the plane.

By stocking spare 8:31:1 blower gears for each Cyclone F-2 engine it is possible to have F-3 engines available on short notice in the event of national emergency requiring the use of the F-3 Cyclone.

The F-2 Cyclone at 1,950 r.p.m. from sea level to 5,500 feet altitude is superior in horsepower to the Cyclone F-3 engine—averaging from 40 to 50 more h.p.

The F-2 Cyclone at recommended cruising output of 1,750 r.p.m. from sea level to 7,500 feet altitude is superior in horsepower to the Cyclone F-3 engine, averaging about 25 more h.p.

Inasmuch as the majority of flying is generally done in the above ranges, it is evident that the Cyclone F-2 engine will have more h.p. available in the ranges where most often operated. This means that for average operations in the above ranges the Cyclone F-2 will give better take-off, superior performance, and, owing to the lower gear ratio of blower, have less wear on the engine.

In the ranges up 5,500 to 7,500 feet altitude, the F-2 Cyclones will not detonate as easily as the F-3 Cyclones. Therefore using 87 octane fuel it is possible to fly the F-2 Cyclones wide open without damage. This cannot be done with the F-3 Cyclones and if the F-3 Cyclones are operated full open in the customary ranges, difficulties may be experienced with attendant expenses.

At the same time, by having 8:31:1 blower gears in reserve, all F-2 Cyclones can be quickly converted to F-3 Cyclones in times of necessity or when special flights are required. In this case, an F-3 Cyclone is readily available having from 55 to 60 hp. more at 1,950 r.p.m. above 5,500 feet altitude and from 45 to 50 hp. at 1,750 r.p.m. above 7,500 feet altitude than the F-2 Cyclone.

#### REVIEW OF CONTRACT

We have had various members of our organization look over the proposed contract and offer the following suggestions:

1. *Page 1.*—(a) *Article 1. Material contracted for.*—We believe the word "until" should be "units."

(b) Under "*Description.*"—Please correct "Hornet" to read "B.G."; add to equipment supplied with Cyclone engine—"one cylinder head thermocouple with 15 feet lead and indicating gauge;" take out—"corresponding collector ring complete."

As you know, we do not supply collector rings with our Cyclone engines. Exhaust collector rings are not considered standard equipment with Cyclone engines as various installations differ and require different exhaust collectors. The type of exhaust collector is 100% dependent on the space inside the cowl, different securing for each type and different shapes. They are wholly dependent on design of the individual airplane. This should be explained to the Argentines with respect to the Cyclone engine.

However, we will furnish B/P of typical exhaust collector systems and data showing the area necessary to prevent back pressure. If the Argentines are unable to manufacture their own exhaust collector rings in the Argentine, we would be willing, upon their sending us complete drawings and full data of their installation, to have collector rings made up for them at their own expense.

2. *Page 1 and page 2, Hamilton standard propellers.*—We assume we will not supply these but that you will take care of matter. We would suggest in any event that you secure the following information from the Argentines:

(a) Maximum diameter of propeller that it is possible to use on the given airplanes—still maintaining proper ground clearance—proper ground clearance in the U.S.A. is 9 inches.

(b) Give the estimated high speed of the airplane in question at the critical altitude of the engine, and designate whether it is one of the Whirlwind- or one of the Cyclone-powered planes.

3. *Page 3, time of delivery.*—We can make following deliveries F.A.S. New York.

(a) 2 Cyclone SGR-1820 engines and 2 Whirlwind 250 H.P. engines, 30 days after notification that contract has been signed.

(b) 13 Cyclone SGR-1820 engines and 13 Whirlwind 250 H.P. engines—90 days after shipment of above engines (a).

4. *Page 6, technical documents.*—(a) "3. Assembly drawings of each type of motor, where dimensions of same may be determined exactly." We do not have these and therefore could not supply. However, the information which we believe they actually want would be supplied under "2—besides the longitudinal and cross-sectional cut drawings."

(b) "4. Installation drawings of the oil, gas, and \* \* \*." Would supply drawings of typical installations.

(c) "5. The constructive 'Tonend ring' or NACA cowlings \* \* \*." This should be secured from the manufacturer of cowls.

(d) 6. Installation drawings and instructions for propellers. You would have to secure from Hamilton Standard.

5. *Page 9, new orders.*—Please rewrite this to read as follows:

"The Government reserves the right of increasing the constituent items of all or any one of the materials called for in the present contract, in whatever limits it may deem desirable, and the supplier agrees to furnish same on the same terms and under the same technical conditions set forth in contract 452, article 5, last subdivision, provided, however, such right is exercised by the Government within 60 days from the date on which this contract is executed by the Supplier and provided the required deliveries are not beyond the manufacturing capacity of the supplier.

6. *Inverted flight, acrobatics.*—The carburetors, both 2 and 4 barrel, on the Cyclone engine have a "bypass" which has a metered fuel flow at rated power. This permits inverted flight (acrobatic) at full throttle rated power without difficulties.

If inverted flight (acrobatics) are done when the Cyclone is "throttled back" (or less than rated power), the Cyclone engines will run "rich" owing to the fact that the "bypass" meters the fuel flow for rated power, but otherwise no difficulties will occur.

7. *U.S. Army inspection.*—If the Argentines desire U.S. Army inspection of their Cyclones when being built at our plant, this can be arranged by getting in touch with us, and we will contact the Army inspector now stationed here at our plant, who will arrange the matter. The Army inspector has been contacted and we have been given assurance that he will be able to arrange this. The inspection he will give the Argentine engines will be identical with the inspection he customarily makes for the U.S. Army and will include full inspection, right through manufacturing, through testing, and to shipping. The Argentines will be required to pay the Army inspector the following for the inspection:

Cyclone geared	-----	\$125. 00 per engine
Whirlwind 250 direct	-----	100. 00 per engine

The following will apply to generators and starters:

Per generator	-----	\$5. 00
Per starter	-----	5. 00

Will you please also inform us on this point as to whether or not the Argentines are interested. In most respects such an arrangement as outlined above will be to the best advantage of the Argentines if they require other inspection than ours. It would, undoubtedly, cost them much less than if they had their own inspector on the job and they will have the assurance of the U.S. Army inspector who is stationed at our plant and who is entirely familiar with our engines.

8. *Certification of shipping papers.*—If the Argentines so desire, arrangements can be made so that the U.S. Army inspector certifies the shipping documents to the effect that the engines being shipped are the same as those which A. T. O. has been granted for the type in question.

9. *Proof of use by U.S. Army and U.S. Navy.*—It is not definite whether the U.S. Army or U.S. Navy would issue any written statement to the effect that they are or had bought certain materials. However, we believe we can supply you with copies of statements issued by the Aeronautical Chamber of Com-

merce, giving the Army and Navy contract awards and showing contract numbers of same. This will also show type and kind of engine. If this will be satisfactory, will you let us know?

WILLIAM A. REEKS.

CC: Messrs. George Chapline, T. M. Lucan, W. D. Kennedy, W. E. Colvin, Philip Shepley.

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EXHIBIT No. 421

LIMA, PERU, April 23, 1934.

INSPECTOR GENERAL OF AVIATION,  
*Lima, Peru.*

SIR: We wish to submit herewith our proposal for the combination Curtiss bomber, troop transport and ambulance plane. Specifications, performance data, and photographs are contained in the catalog attached.

The price on a quantity of three Condors, delivered in flying condition at our factory in St. Louis, equip with 5 Colt machine guns, bomb racks, bomb sights and containing the necessary equipment for troop transport, 12 litters for ambulance work, complete blind flying instruments, etc., is \$72,500 each. The additional cost for pontoon equipment is \$11,000 each.

We can deliver the first plane at our factory in St. Louis within 90 days of receipt of first payment and deliver one additional plane each 10 days thereafter.

The best terms of payment that we are able to offer is one third of the contract price at the time of contract and the balance in four equal monthly installments to begin 30 days after the first and advance payment, which means that the payments would extend over a total period of 5 months. It is understood that the balance of the two thirds payments would be covered by an irrevocable credit in a New York bank. Owing to fluctuating costs and other pending contracts this proposal is valid for only a 30-day period from this date.

We also wish to submit herewith a proposal for the latest type of Curtis Attack plane, known as the U.S. Army model A-12. Complete specifications and photographs are attached.

This plane is the most modern fighting unit of its type ever developed and has been furnished only to the U.S. Army Air Corps. Providing we have a contract for at least 10 planes we will be able to secure permission from the U.S. Government to build it for Peru. The selling price for 10 planes CIF Callao, equip with 5 machine guns and bomb racks is \$48,950 each and \$6,500 each additional for the pontoon equipment.

We believe we can secure prompt permission from the U.S. Government to accept a contract from Peru and depending upon this we could probably deliver the first machine in Buffalo within 90 days and continue at the rate of one plane each 10 days thereafter.

It is also probable that we could extend the same payment terms as on the Condors.

Yours very truly,

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("Exhibit No. 422" appears in text on p. 836)

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EXHIBIT No. 423

[Copied from carbon copy]

WASHINGTON OFFICE, October 16, 1931.

Burdetts S. Wright, Washington, D. C.

Mr. W. F. Goulding, New York City.

(China, possible release of Navy 02C-1.)

I understand there are about five or six undelivered 02C-1's coming through at Buffalo for the Navy. As I wired you, Comdr. Dillon is very much against our taking these ships but I have talked to him and know that we will not lose his friendship should we go over his head. Capt. Cook, the Assistant

Chief of the Bureau of Aeronautics of the Navy Department, told me that if it was urgent he would certainly look with favor on helping us out.

I accordingly ask by wire as to the urgency of the matter. We will go right after it if it is bonified and worth while.

Very truly yours,

BSW/1h-3673.

Washington File: "China".

EXHIBIT No. 424

[Copy]

ISTANBUL, TURKEY, February 19, 1933.

Captain HAMDI BEY,  
Technical Section, Ministry of National Defense,  
Ankara, Turkey.

MY DEAR CAPTAIN: In compliance with your request, I have pleasure in giving you a brief memorandum on the subject of the most recent types of bombardment aircraft developed in America. American experience has indicated that the slow-moving and unmaneuverable heavy bomber with a very large bomb load is a less effective weapon than the high speed, more maneuverable type carrying a moderate bomb load. For that reason all the latest type of bombers designed for the American Army are built for a bomb load of approximately 900-100 kgs. only, but with a very high speed which renders them much less vulnerable to attack either by hostile aircraft or antiaircraft cannon.

The most recent of these medium bombers are the Martin, the Douglas, and General Aviation, all of which are built with two model F Cyclone engines as their power plant. Between these there is little choice in performance and general design, but the new Martin is the fastest of them all, and is not only the fastest bomber in the world, but also is the fastest airplane in the world powered with more than one engine. I enclose a photograph herewith for your information of the Martin bomber which is known as the B-907. This plane is still on the secret list of the United States Army and consequently we have not available any detailed performance figures. Should the Government of Turkey be seriously interested in this or any other of the latest types of American bombing planes, we believe that it will be possible to secure release by the United States Army on special application.

The Martin bomber is a semilow wing monoplane with a large wing spread. The fuselage is of metal monocoque design and every effort has been made to reduce wind resistance by careful stream lining. The wings are internally braced which eliminates the necessity for exterior struts or wires. The landing gear is so designed as to be retractable in flight.

The entire airplane is constructed of aluminum alloy consisting of thick smooth sheets riveted to the framework of channel and tubular sections. This form of construction is very expensive, and the cost of building the Martin bomber is very high. I cannot give you exact figures at the present time but will be glad to obtain these in due course should the Turkish Government be really interested.

For your confidential information the speed of the Martin bomber is very considerably over 300 km. per hour.

This is all the information that I am able to give you at the present time concerning this airplane. The Glenn Martin Company is not a part of the Curtiss-Wright Corporation but is entirely independent of any other group and is on most friendly basis with Curtiss-Wright. We are therefore in a position to secure the greatest possible consideration and the best terms in respect to any orders placed by the Turkish Government. In bringing this airplane to your notice, though it is not built by ourselves, we are following our policy of cooperation with you to the end that the Turkish Government shall have the best possible aviation equipment which can be obtained anywhere in the world.

Yours very truly,

MELVIN HALL.

## EXHIBIT No. 425

[Copy]

Export

FEBRUARY 23, 1932.

W. F. GOULDING, New York Office.  
Mr. RALPH S. DAMON, Bristol, Pa.

## KEYSTONE BOMBERS FOR CHINA

This will confirm telephone conversations with you today, relative to prices and deliveries on Keystone Bombers, of the B-6-A type. We understand that, based on the present production situation and provided the order is received without delay and prior to completion of your present Army contract, you would undertake to supply us with bombers of any quantity up to ten, at a net price to you at Bristol of \$42,000 each, less engines and armament—your price to include internal bomb-rack installation, together with all bomb-release mechanism and mount for the floor gun. In other words, the plane complete, less the following which we would furnish:

- 2 Cyclone engines.
- 3 Browning guns.
- 2 flexible-scarf ring mounts.
- Gun sights for the 3 guns.

With respect to deliveries, we understand that you can furnish the first plane within sixty (60) days, two planes per week for the ensuing four weeks, and three each week thereafter. Furthermore, if release of any of the planes which you are now completing for the Army is accomplished, that you would be in a position to give us the first one of these planes in forty (40) days.

We understand that export packing would be extra, and that the price as quoted in your letter to us of November 13th relative to the Argentine inquiry, of \$2,500.00 per plane would apply.

We are today telegraphing to San Francisco a quotation based on the foregoing and will inform you of any further developments.

W. F. GOULDING.

WFG/f

## EXHIBIT No. 426

CURTIS-WRIGHT CORPORATION  
INTER-OFFICE MEMORANDUM  
EXPORT DIVISION

No. 55

OCTOBER 3, 1932.

W. F. GOULDING, New York Office.  
Mr. BURDETTE S. WRIGHT, Washington, D.C.

(Brazil)

Thanks very much for your letter of September 29th which I am passing along to Web.

Of course it is embarrassing to answer questions as to why United secured this Brazilian business. I think probably the best answer is as you have given it, to the effect that United was able to get release on United States Government contracts to give the best deliveries.

Another matter is the question of financing. Apparently United was able to work this out to their satisfaction, but just how it was done I am not entirely aware. As a matter of fact, I think it was worked out in connection with the Farm Board's coffee, but you don't need to tell people this if they don't know it.

If you can get any really reliable reports from the Department as to how the situation is shaping up, I would certainly appreciate it. Newspaper reports seem to indicate that the Federal Forces have all the best of it, but I wonder if this really is the case.

W. F. GOULDING.

WFG/f



## EXHIBIT No. 427

CURTISS-WRIGHT CORPORATION

INTER-OFFICE MEMO.

EXPORT

OCTOBER 3, 1932.

W. F. GOULDING, New York Office.  
Mr. GUY VAUGHAN, Paterson, N.J.

## BRAZIL

Jack Allard has passed me your letter of September 28th giving information which you gathered from Gene Willson that fifteen Vought Corsairs with Hornet engines have gone to Brazil. We understand that this is entirely correct and that further shipments have been made.

This is the order that United got which involved considerable financing and which United has featured on the financial pages of the newspapers to boost their stock.

There are many phases of this Brazil situation which do not appear in the newspapers and, while it may be somewhat embarrassing to explain why United has secured all this Brazil business and apparently we have gotten none, nevertheless if you knew the actual situation I don't believe you would feel that United is doing all the business in South America.

You, no doubt, realize that United had under construction for the Government a number of Corsairs and Boeings which the Navy released to permit them to offer excellent deliveries to Brazil. Unfortunately, Curtiss-Wright had no Government contracts which could be diverted for such prompt deliveries. The fact remains, however, that United, having taken this Brazil business, is not in as good a position to give deliveries on other orders for other countries as we are.

You are aware, I believe, of the orders which we have recently taken for the so-called "Osprey" which we are building in St. Louis, and there are excellent possibilities of getting some Hawk business, due to the fact that we are now in a better position to give deliveries than United.

Don't think for a minute that we are asleep at the switch in this South American situation; Web is down there and he went to Rio first. He has done some very good business for us since he reached South America.

W. F. GOULDING.

WFG/F

## EXHIBIT No. 428

CURTISS WRIGHT EXPORT CORPORATION

NEW YORK

BUFFALO, N.Y.,

January 7, 1933.

P. A. HEWLETT.

We have just received a telegram from Cuba saying that 4 pilots will be here Monday and will probably go to Buffalo Tuesday to fly the ships away. We quote below their telegram so you can take action on it.

"Referring to your letter December 27th I advise you that Lieutenants Gustavo Alfonso, Jose Barrientos, Pedro Duarte, Carlos Torre, sailed yesterday on Steamer *Santa Barbara* to bring planes to this country stop and machine guns and parachutes should be shipped in one case stop Insignia same as Curtiss Hawk numbers 19, 20, 21, and 22. I ask you to do the necessary with Army or Navy for four winter-flying suits which will be returned to them immediately."

Pack the 4 guns and 2 chutes as directed. Mark the case—

SECRETARIA DE LA GUERRA Y MARINA

CUERPO DE AVIACION

HABANA #1

and ship freight to Barr in the usual way.

83876-34-PT 4-20

You will know what to do about the flying suits.

Most important of all the ship are not to be flown by the Cubans until we wire you that we have received money. It was expected today but has not yet arrived.

If there are any questions that we can answer, phone us Monday morning or acknowledge by wire that everything is O.K.

A. B. CARRINGTON.

EXHIBIT No. 429

FEBRUARY 7, 1934.

Memorandum for Lieut. H. E. Regan.  
Subject: Loan of propellers.

When talking with you yesterday concerning the need for propellers to meet deliveries on a certain foreign contract, I thought that three 2-bladed propellers would take care of the situation. However, I have since found that our export Falcons do not use the same propeller as the export Hawks and therefore we really need a total of six instead of three. The propellers needed are as follows:

1. Three 2-bladed propellers 10 feet in diameter having no. 1½ blade root and according to Navy drawing no. 5868 or Navy drawing no. 5704.

2. Three 3-bladed propellers 9 feet 6 inches in diameter having no. 1½ blade root and according to Navy drawings nos. 5868 or 5704.

The need for these propellers is occasioned by our having negotiations with a certain foreign government for a number of airplanes, which must be delivered within a short period of time. The delivery of the first three Hawks and the first three Falcons, both of which are powered by direct drive Cyclone engines, must be earlier than we are able to obtain deliveries on propellers. We have contacted all propeller manufacturers and find that Hamilton-Standard can give us the best deliveries but even these will not be early enough to meet our needs for the first three Hawks and the first three Falcons referred to above. Inasmuch as the entire contract is contingent upon our meeting the delivery requirements of the customer, we are exceedingly anxious to somehow make arrangements to obtain these propellers within the required time.

It would therefore be greatly appreciated if the Bureau of Aeronautics could arrange to loan us three each of the two types of propellers described above, upon our guarantee to replace them in the very near future. We would desire to take delivery on the two-bladed propellers within the next two weeks and will guarantee replacement of them by not later than the first week in April. The three-bladed propellers will be needed before the middle of March and we would guarantee replacement of them by the middle of April. It is presumed that arrangements could be made to have the replacement propellers inspected by the Navy inspector at the Hamilton-Standard Co. as they are built.

The Bureau's kind consideration in arranging for the loan to us of the above six propellers will be sincerely appreciated.

Yours very truly,

ROBERT L. EARLE,  
*Washington Representative.*

EXHIBIT No. 430

[Copied from carbon copy]

SEPTEMBER 10, 1929.

HONORABLE F. TRUBEE DAVISON,  
*Asst. Secretary of War for Aeronautics,*  
*War Department, Washington, D.C.*

DEAR MR. SECRETARY: The Curtiss Aeroplane Export Corporation is negotiating a contract with the Peruvian Government for a quantity of airplanes, including 12 biplace planes which accordingly require 12 sets of rear gun installations.

It is requested that authority be granted by the War Department for the sale of the following material to the Curtiss Aeroplane Export Corporation, it being understood the same is on hand in the Ordnance Department:

24 Lewis flexible machine guns, model 1918  
72 ammunition pans or magazines  
12 carriers for six magazines

- 24 deflectors for shells for Lewis guns
- 24 extension charging handles
- 2 fillers for magazines
- 2 handles for magazine loading.

It is similarly requested that authority be granted for the sale of the following equipment, which it is understood is available in the Air Corps, at Wilbur Wright Field, Dayton, Ohio:

- 12 duplex Lewis mount, type G-2
- 12 double trigger control, Type H
- 12 double gun brace, type OA-259
- 12 scarf ring mounts
- 12 ring sights for flexible Lewis
- 12 wind vane sights for flexible Lewis.

Yours very truly,

Washington File: "Peru."

EXHIBIT No. 431

[Copied from original]

WAR DEPARTMENT,  
Washington, D.C., January 21, 1930.

In reply refer to G-4/25057-1

Mr. BURDETTE S. WRIGHT,  
*Curtiss Aeroplane Export Corporation,*  
501 Southern Building, Washington, D.C.

DEAR MR. WRIGHT: With reference to your letter of September 10, 1929, relative to the sale of certain Air Corps and Ordnance material to the Curtiss Aeroplane Export Corporation, it has been finally determined that the items listed are in excess of prospective War Department needs in the quantities enumerated.

Before the transaction is consummated, however, it will be necessary for you to obtain the approval of the State Department as to the exportation of the property in question for the purpose mentioned.

Sincerely yours,

(Sgd.) F. TRUBEE DAVIDSON,  
*Assistant Secretary of War.*

Washington file: "Peru."

EXHIBIT No. 432

[Copied from original]

CURTISS-WRIGHT EXPORT CORPORATION

INTEROFFICE CORRESPONDENCE

OCTOBER 30, 1930.

From: J. S. Allard.

To: Burdette S. Wright.

Subject: Air Corps policy on exporting of aeronautical equipment.

DEAR BURDIE: Thanks for yours of the 20th on the above subject and also on the subject of how certain munitions of war can be declared surplus, and whether or not commercial firms can buy such equipment and resell it to foreign countries at a profit.

It would certainly be nice if it develops that we can buy bombs from the War Department and sell them again, at a profit, to an approved foreign government.

Now, with reference to the work Captain Beveridge is doing in revising the Air Corps policy, I do not know what suggestions we can make in addition to what apparently Farnsworth has already made to the captain. It goes right back to the same subject that we have discussed many times in the past, and that is, if we can have a definite workable policy that is not too tied up with red tape and a lot of detail work, it will answer our purpose, but if the Air Corps is going to insist on a policy that precludes quick action in the handling of preliminary negotiations, it is going to be a serious detriment to us

in the securing of any foreign business. It would seem to me that they could outline a clear, concise policy of just what equipment they will be interested in with reference to export, and give us blanket approval on certain equipment; and on other equipment on which they want to know to which country it is going, require us to make a report of the countries to which we are quoting such equipment, as soon as we make the quotation, and without having the Air Corps give us a prompt answer, so that before our negotiations have proceeded too far, we can have something definite for our prospective customer. I believe that a simple policy can be formulated that will be more along the lines of business procedure rather than service procedure. We all know that service procedure is a complicated process and we have got to sell the Air Corps on the idea that when we are doing business it is most detrimental to have to conduct part of the business on the service-policy basis, and that, while we are most anxious and willing to cooperate with the Air Corps and do everything to their complete satisfaction, we would appreciate it if they would consider our position in the matter and try to draft up a policy that is simplified and workable under the conditions which we must operate, and these conditions frequently require rapid cable quotations and information which cannot be delayed several hours, days, or weeks.

If there are any details that you want from us, I will be glad to give them to you, but, on the whole, I think the above covers the situation.

Very truly yours,

(Sgd.) J. S. ALLARD.

Washington file: General.

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("Exhibit No. 433" appears in text on p. 841)

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EXHIBIT No. 434

[Copy]

CURTISS-WRIGHT CORPORATION,  
INTEROFFICE MEMORANDUM,  
EXPORT DIVISION,  
Washington, D.C., March 31, 1933.

Subject: Argentine.

Mr. BURDETTE S. WRIGHT.

Attached is a copy of a letter to Mr. Morgan which may be of interest to you. For your information, we are giving you a line on the possible future contracts with the Argentine Government.

As you know, we have already delivered 50 sets of the model E Cyclone engine to be machined up and assembled in the Argentine Government factory at Cordoba. In addition to this, we are supplying the entire tool equipment for the factory. This is in addition to between 35 and 40 complete engines of the Whirlwind and Cyclone models already delivered.

We now have pending a contract similar to the Cyclone parts contract which will call for between 50 and 100 sets of Whirlwind engine parts to be machined up and assembled in the Government factory. This will also probably involve the purchase of the necessary factory tool equipment.

In addition to this, we have pending the contract for between 15 and 20 complete sets of Cyclone Hawk parts to be assembled in the Government factory and which also involves the purchase of the necessary Cyclone engines.

We also have pending a contract for the conversion of 8 twin engine British Southampton flying boats to Cyclone engines instead of Lorraine-Dietrich engines. This involves the necessary engineering work and 16 engine mounts. It is possible that sufficient funds for the conversion of all 8 planes will not be available this year and in that case 4 or 5 will be converted.

We are also negotiating for 8 or 10 Cyclone Falcons for the Argentine Navy to replace Vought "Corsairs" now in service. We are up against a serious obstacle in that the Falcon has never been in U.S. naval service, except the Marine Corps, and the Argentine Navy will not accept equipment not having been used or specified by the U.S. Navy.

It is the desire of Captain Zar, Chief of Naval Aviation, to use the Falcon or any other suitable and capable Curtiss-Wright plane in preference to

United Aircraft equipment but we must provide him with all possible data and conversation in support of his ultimate selection of our material. Will you, therefore, kindly supply me as quickly as possible as much information as you can in support of this idea. For instance, How many Falcons were used by the Marine Corps; officials to supplement our sales arguments? Also how many Falcons used by the Army and their written reaction as to their service and efficiency?

Your usual prompt cooperation will be appreciated.

C. W. WEBSTER.

CWW/w.  
encl.

WASHINGTON, D.C.

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EXHIBIT No. 435

[Copy]

(Ex. 159 from Navy files)

CURTISS-WRIGHT CORPORATION,  
27 West 57th St., New York, April 6, 1933.

Please address reply to  
Southern Building,  
Washington, D.C.

The Honorable SECRETARY OF THE NAVY,  
*Navy Department, Washington, D.C.*

SIR: In connection with possible sale of aircraft to South American countries, we have received a request that we obtain from the Navy Department and from the War Department a statement of the experience these two departments have had with the Curtiss Falcon type of airplane in service. The questions involved include:

- (a) The number of planes of this general type purchased to date.
- (b) The type of missions they have been engaged on such as observation, attack, and light bombing.
- (c) The experience with this type of construction from maintenance and overhaul standpoint.
- (d) Statements that the plane has been adopted as a service type and has rendered good service.

We would more than appreciate a short statement along the above lines which we could forward to our agents for them to use in connection with the possibility of obtaining contracts on this type of airplane.

Any assistance that the Navy Department can give us in this regard will be of great advantage.

In view of the War Department having had extensive use of this type, similar letter is being addressed to the War Department.

Respectfully,

(Signed) BURETTE S. WRIGHT,  
*Vice President.*

BSW/CC-749

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EXHIBIT No. 436

[Copy]

Aer-P-6-ems  
L11-4(2)  
QM (28)

APRIL 20, 1933.

MY DEAR MR. WRIGHT: The Secretary of the Navy has referred to this office your letter of April 6, and accordingly the following information is furnished:

(a) Four OC-1's and twenty-one OC-2's were delivered between January and May 1928; there are at present seven of these operating with Aircraft Squadrons WCEF, San Diego, Calif.

(b) Seven of these planes were used in Nicaragua from February 1928 to June 1931 on observation, ground attack, and light bombing missions; nine were used in China on observation missions; this type has been used in

the United States for observation and attack training; individual planes of this type have been used for aerial photography.

(c) The following notes apply to the type of construction, maintenance, and overhaul:

(1) Trouble was experienced with the fuselage cross brace at the forward landing-gear fitting. This brace has to be reenforced with steel.

(2) The webs from the tail skid assembly all pulled out and had to be replaced with steel.

(3) The wing fittings in the center section had to be reenforced.

(4) After the above changes were made overhaul and maintenance conditions were excellent; many of these planes were flown 700 hours between overhauls; engines and parts needing attention were easily accessible.

(5) The following observations may be of interest:

(a) One plane which had been submerged in salt water for 36 hours was corroded so badly that it had to be surveyed.

(b) Longerons struck by bullets were shattered by the impact, there being considerable tearing around the bullet hole.

(c) These planes were originally designed to be powered by the D-12 water-cooled engine; when the P. & W. Wasp was installed a great deal of trouble was encountered with fixed gun fittings.

(d) This plane was used for several years as a Marine Corps observation plane and as such rendered excellent service. The long cruising range was a particularly advantageous characteristic.

Sincerely yours,

(Signed) A. B. Cook,  
Captain U.S.N., Acting Chief of Bureau.

Mr. BURDETTE S. WRIGHT,  
Vice-President, Curtiss-Wright Corporation, Southern Building,  
Washington, D.C.

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EXHIBIT No. 437

[Copy]

CURTISS-WRIGHT EXPORT CORPORATION,  
Washington, D.C., May 5, 1933.

Mr. BURDETTE S. WRIGHT,  
Argentine.

DEAR BURDIE: With further reference to the letter from the Navy Department, (Capt. Cook) would it be possible to go back at the Bureau with the explanation that the letter requested was for the purpose of assisting us in competing against foreign aircraft manufacturers, especially the British, who are making a very definite effort to crash into the Argentine territory.

We have the inside track on this business and Captain Zar, Chief of Naval Aviation, who was trained at Pensacola and who is anxious to see the Falcon installed in the Argentine Navy, is requesting us to supply him with something to back up his action should he be able to place this business with us. This particular information regarding Zar, of course, is confidential and is intended for you, and should not be passed along to the Navy, but if the Bureau could reword their letter eliminating the objectionable features, it would serve our purpose.

Using their present letter as a basis, the following suggestion taken from Capt. Cook's own letter would help us a great deal. Please bear in mind and impress upon the Bureau that it has been the policy of the Argentine Navy to use only such ships as are standard or have been used by the navies of the countries from which they purchase.

"The Secretary of the Navy has referred to this office your letter of April 6th, and accordingly the following information is furnished: Curtiss Falcons have been used since 1928 in Nicaragua and China on observation, ground attack, and light bombing missions and in the United States for ground attack and observation training and aerial photography. After a few changes made in the early types, overhaul and maintenance conditions were excellent, many of the planes having flown 700 hours between overhauls."

It is highly important that we get such a letter and it seems to us that the Navy would be perfectly justified in writing such a letter to assist us in over-

coming foreign competition and establishing American aircraft in Argentine naval service.

At the present time we are building a Cyclone-Falcon observation plane in the Buffalo factory which is to be sent to Argentina and possibly Brazil within the next 6 or 7 weeks for demonstration purposes. Also, for your information, United Aircraft, we are convinced, are sending one of the latest type Corsair observation planes on a similar mission. Our purpose in the Argentine is to close about 6 planes with the Navy, and also a contract with the Army involving the license to manufacture the Falcon in the government factory at Cordoba, together with the necessary material for building these planes. We are now concluding a contract with Argentina for the license to manufacture the Hawk, which involves the purchase of material for at least 15 planes this year, including the complete engines and also another contract for the license to manufacture our single-blade metal propellers, together with material for 100 propellers and the necessary tools, dies, etc.

Your usual efficient cooperation will be greatly appreciated.

(Sgd.) C. W. WEBSTER.

CWW/w.

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("Exhibit No. 438" appears in text on p. 844)

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("Exhibit No. 439" appears in text on p. 845)

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EXHIBIT No. 440

[Copied from carbon copy]

WASHINGTON OFFICE, *February 5, 1932.*

BURDETTE S. WRIGHT, Washington, D.C.

Mr. J. S. ALLARD, New York City.

O2C-1's for Dominican Republic.

I am attaching hereto a letter signed by Admiral Moffett replying to my letter in which I requested information on the O2C-1 airplanes in connection with our interest in selling to the Dominican Republic.

This is not a very elaborate statement, but represents what was finally decided upon after they had written two or three different samples. This can be used as an official letter in connection with the Export Company's efforts to sell to the Dominican Republic.

It would be well if you could suggest to the Dominican Republic that they send an inquiry to the Navy, through diplomatic channels, asking for information on the O2C-1 type in use by the Naval Reserve at its bases in this country and the Marine Corps in its operations in Nicaragua.

Very truly yours,

RLE/mb-350.

cc-W. F. Goulding.

Washington file: Santo Domingo.

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("Exhibit No. 441" appears in text on p. 845)

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EXHIBIT No. 442

[Copy]

(Mexican air officer.)

SALES,  
WASHINGTON, *July 19, 1933.*

Mr. R. L. EARLE: At the present time there is stationed at Consolidated Aircraft inspecting some trainers which are being built for Mexico, a Captain David Chagoya Rodriguy of the Mexican Air Corps, who has requested per-

mission to visit our plant at the earliest possible opportunity. Captain Chagoya is not particularly interested in anything outside of training activities, however, in view of the fact that the Mexican Government at this time has under consideration the purchase of a number of pursuit airplanes, on which the Export Company has been negotiating and the further fact that he is interested in our Hawks I believe a special effort should be made to secure permission for this visit.

In the above connection, you will recall that we were turned down by the Naval Intelligence Division and the U.S. Air Corps some time ago due to a letter which we had written, reflecting upon the fact that we had on our production floor, certain Army and Navy experimental jobs, which we did not consider it desirable for foreigners to view. However, since that time these experimental jobs have all been removed within the experimental department, with the exception of the A-12 production job and this has not proceeded to the point that, within the next 15 days, there should be any objection by the Air Corps for anyone to see same, as practically all the parts built up are in detail and are located in our feeder shops and in reality no one could see anything worth while or of such interest to allow them to copy.

At the time we wrote this letter, you recall, that same was considered desirable inasmuch as certain Japanese officers desired to visit the plant and we were building numerous planes for the Chinese. Really, at the present time we do not wish to open up the plant, due to the condition of our having on order ten additional Chinese Hawks for construction and also will have, without doubt, shortly a quantity of spare parts to build for that country.

However, recently we have secured permission from our Government allowing General Chang Hung Wan of the Chinese Army to visit our plant which permission was signed by Lt. Col. Nulsen and we therefore feel that by regulated contact you can, without doubt, secure permission for this Mexican.

In view of the condition that he is interested in making an immediate trip to the plant it would be appreciated if you will advise me by wire as to the results of your contact with the Intelligence Bureau.

With kindest regards, I am

Sincerely,

P. A. HEWLETT.

PAH:EV—7980.

CC: W. F. Goulding.

#### EXHIBIT No. 443

[Copied from original]

#### CURTISS-WRIGHT CORPORATION, INTER-OFFICE MEMORANDUM,

Date: January 29, 1932.

Place: New York, N.Y.

Place: Washington, D.C.

From: J. A. B. Smith,  
To: Mr. B. S. Wright,  
Subject:

I understand from Mr. Webster, that two Argentine Navy officers are being sent to this country to look over aviation materials and that we were named by the Navy intelligence to have a Navy officer designated to accompany them to this country.

If you will look into this and let me know the name of some Navy flyer who is friendly to our equipment and who would be acceptable to the Bureau of Aeronautics, I think I can get Captain Ellis, who is head of the Navy intelligence, to ask for the particular officer whom you might pick out.

(Sgd.) J. A. B. SMITH.

J. A. SMITH.

H.

s.h.

Washington file: "Argentine."



## EXHIBIT No. 444

[Copy]

CURTISS-WRIGHT CORPORATION,  
WASHINGTON OFFICE,  
NEW YORK CITY, May 24, 1934.

Mr. J. S. ALLARD,  
Cy: Mr. P. A. HEWLETT,  
*Export General.*

When talking to Capt. Kenney, the working Air Corps representative on the Joint Aeronautical Board, today he said that, while we do not have to do it, he thought as a matter of courtesy we should submit copies of all contracts and agreements with foreign governments to the Joint Aeronautical Board in order that they might know that the interests of the United States Government were being safeguarded, insofar as concerned military secrets. He said that this would help a lot when they were considering whether or not they should permit foreigners to visit our plants, in that if they knew we had a contract or agreement with the government represented it would expedite and possibly insure favorable action.

We told Capt. Kenney we knew nothing about our practice in matters of this kind but would be glad to forward his suggestions to you. The matter was called to Capt. Kenney's mind when talking about a couple of Rumanian inspectors and he would also like to know if we have a contract or an agreement with that country.

Yours very truly,

ROBERT L. EARLE.

CC-712

## EXHIBIT No. 445

Ex. 168.

CURTISS-WRIGHT EXPORT CORPORATION, NEW YORK,  
WASHINGTON, D.C., June 25, 1934.

Mr. ROBERT L. EARLE,  
*Export General.*

I have delayed answering your letter of May 24th on the subject above mentioned—CC-712—as I wanted to check into the matter very carefully. It is my opinion that our business does not permit of our furnishing copies of contracts and agreements with foreign governments. As a matter of fact, many times our business is done without any written contract or agreement. However, as you know, the interests of the U.S. Government are very well safeguarded, as we do not sell at export any equipment not released by the U.S. Government services.

I shall be very happy to show the Joint Aeronautical Board, at any time, just what business we have done in the past, which will bear this out, but it must be borne in mind that our business with foreign governments is strictly confidential, as it is obvious that one government is not interested in having other governments know all of the details of the business.

The Black committee has a complete analysis of the type of aircraft and engines that we have exported in the past five or six years and, as previously stated, we have never, nor do we ever, intend to export any equipment not released for export by the U.S. Government.

J. S. ALLARD.

BMN

## EXHIBIT No. 446

[Copied from carbon copy]

WASHINGTON OFFICE, *March 14, 1931*

(Personal and confidential)

Mr. Robert P. Farnsworth, Washington, D.C.

Mr. C. W. Webster, New York City.

Army maneuvers—Chile.

DEAR WEB: I have been able to secure for you G-1, G-2, G-3, and G-4 plans for the Air Corps exercises of 1931. This information is definitely not for publication, was secured by me in the face of a definite order prohibiting its issuance, and I beg you to be very careful in the manner in which you give this information to Merino. There are no particular military secrets contained therein, and I know that if there were the War Department would not object to Chile's knowing them, but the point is, they would prefer to give this to Chile themselves rather than through another agency such as us. Please keep tight hold on these four pamphlets and bring them back with you when you return. If they do get in other hands in Chile, it won't take much of a master intellect to discover their source, which would eventually be our Washington office, and this discovery might put us in considerable hot water.

I am also enclosing a copy of a cable which the Aeronautics Trade Division sent to their office at Santiago. This cable is not much good and errs in speaking of expense, but you can probably correct this when you are in Chile.

Again best wishes for a successful trip.

Sincerely,

rpf-mb-1118.

Enclosures.

Washington File: "Chile."

## EXHIBIT No. 447

CURTISS-WRIGHT CORPORATION

NEW YORK

ISTANBUL, TURKEY, *August 24, 1934.*

MR. BRUCE G. LEIGHTON.

DEAR BRUCE: I am enclosing copies of two self-explanatory letters to one W. A. Hansley. All I need to tell you in addition to these letters is a brief report of who Hansley and Blankman are and what they are doing in Roumania. L. V. Blankman has been interested in aviation ever since 1912. He was at one time with the Curtiss Company. He is basically a promoter and has been quite successful from all I can find out in the past. Hansley was formerly associated with Detroit Aircraft and the Lockheed Company as a test pilot and sales engineer. I don't know how he and Blankman got together, but they did, and made some Roumanian connections, with the result that Hansley went to Roumania a year and a half ago and has been there almost continuously ever since. He was successful in getting from the Roumanian Government an air-line concession, on the basis that he and his associates would finance the purchase of equipment and furnish the operating personnel, and the Government would furnish suitable airports, hangar facilities, etc., etc. He and Blankman personally raised sufficient money to purchase six Lockheed Orions formerly used by Varney Air Lines. These ships are being entirely reconditioned in the Lockheed plant at Los Angeles and will be shipped to Roumania around the first of the year. They get a guarantee of 75¢ per mile, which is really the Government subsidy. They think they can make some money, as they have some Roumanian interests in the company, and their tie-in with the Government officials is apparently very good.

Mr. Hansley returned from Roumania about three months ago, and I had a meeting with him and Mr. Blankman in Los Angeles about one month ago. The Roumanian Government asked Hansley to contact various manufacturers in America to see what, if any, plan could be worked out whereby the Rou-

Roumanian Government could build American aircraft, both military and commercial, in their airplane factory. The Roumanian Government had asked that some manufacturer go over there and finance the entire operation and control it, on a guaranteed volume of business from the Government, and on a cost-plus basis. Obviously, the idea didn't strike me with any favor, and I spent four hours selling Blankman and Hansley on the plan that I have briefly outlined in one of the attached letters—which you will readily note does not involve us in any cash investment or outlay. They have fallen for it one hundred percent, and Hansley sailed today at noon, and as I have stated in the closing paragraph of one of the letters, he expects to be in Bucharest around the 15th of September. He will wire you when as and if conditions warrant either you or Bob getting up there to work out the final details of the technical cooperation contract.

You will note that I have agreed to give them a ten percent commission on the purchase price, when as and if we receive payment for the technical cooperation contract and ten percent on the purchase price when as and if received by us for the various airplane licenses. With reference to a sales agreement, you will note that I have purposely refrained from making any commitments—because I think they have a problem in finding out how the Government wants to purchase raw materials, finished products, etc., etc. They may want to set up a Roumanian agency or they may let Blankman and Hansley personally handle the purchases, and until we know the details of the plan I thought it best not to make any commitments. However, whatever arrangement is satisfactory to the Roumanian Government would be agreeable to us, and we can then make arrangements for commissions, which should be flexible enough so that the commissions could be reduced, should price competition enter into the picture.

The following is obviously very confidential, but I thought it might prove of some value to you as an example to the Turks of how lousy their business procedure is, and how the so-called "heathen Chinese" lives up to contracts and agreements and is really progressing so much more rapidly in aviation development than the supposedly cultured Turk.

This is an extract from a letter from Jim Doolittle written from Shanghai on June 23: "Jack Jouett's original five-year plan for the development of military aviation in China has been rigidly adhered to up to the present time. Funds, ships, and personnel have been provided him and he is now right up to the minute as regards his original plan. This original plan called for the training of about 500 pilots and the purchase of between 400 and 500 airplanes during the five-year period. For your own confidential information the military powers here and now considering making aviation their first line of defense and Jack has already presented his formal proposal along these lines. This new plan calls for 42 additional primary trainers at about \$4,000 apiece, 26 additional basic trainers at \$18,000 each, 13 advance trainers at about \$30,000 (11 of these are bombers and 2 pursuit) and 3 tri-motors for ambulance and transport planes at \$40,000 each. This is a total of around \$1,180,000 gold.

"In 1934 his plans call for the purchase of six and a quarter million dollars worth of additional airplanes and in 1935 thirteen and a half million dollars are to be spent for airplanes. In 1936 something over fourteen millions more. From then on the purchases will be only enough to keep up the 1936 strength. Jack Jouett figures about 15% a year attrition, so even this amount is not to be lightly sneezed at."

Obviously the foregoing was given to me in strictest confidence by Jim, and I don't want to do anything to violate his confidence or our very friendly relations with Jack Jouett. Anyway, if I were a Turk I would feel very much ashamed of my Government's development of this important arm of national defense, as compared to the Chinese program.

This letter may run on for days and days. I am going to try to answer those portions of your many letters which have not already been taken care of by someone in the organization, and will dictate from time to time as time is available.

First, yours of July 17th, with reference to Child. Your action in this matter was, of course, absolutely correct. You hit the nail on the head when you said that I saw him at work when I was out there. That is why I know you have done the right thing. I have been wondering if he hasn't possibly tried to get in touch with Marguerite Brill. Perhaps mother has noticed a change in her son. I wonder.

Yours of July 22nd—certainly your conference with the Chief of Staff produced action, and nobody knows better than I do what you were up against to get action. These Turks certainly make promises and then forget all about them. It is hard to believe that they intentionally break their promises, but I am of the firm opinion now that I wouldn't take a promise from anyone over there, and the only language I understand is dollars. No doubt you are in the same frame of mind.

In paragraph five of your letter of the 22nd you state that a letter from the Ministry says that a decision has been reached to purchase the Kingbirds outright. This is one month and two days later, and still no payment. I am delighted to know that the attitude of everyone you have come in contact with recently has materially changed toward CW. The job is difficult enough under ideal conditions, without having to fight against people who feel that we have been wrong and that they have always been right.

The Turkey-Russia situation, just as you say, doesn't look so dumb, and the gift of the first Fledgling from Kayseri to the Shah of Persia by the Chazi is certainly a nice strategic move. I agree with you that it is a big jigsaw puzzle, but I never saw one yet that couldn't be solved. I quite thoroughly agree with your program relative to the length of your stay in Turkey as a result of Tom's cable, and also that Bob Farnsworth is thoroughly competent to keep things moving, and that you play the role of important director from New York. However, this Turkish situation is about the most important and messed up one that we have at the present time in the whole Curtiss-Wright group, and that is why our most important director from New York is there to straighten it out. There isn't any job that I know of that you can do with as much advantage to the company and yourself as this job of cleaning up that lousy Turkish situation.

As far as the demonstrator Hawk is concerned, I don't want to say now that we will or will not send a Hawk to Turkey for demonstration purposes. However, unless future business is handled in a more businesslike manner by the Turkish Government, and unless there is some margin of profit in it. I can't see how this company is justified in spending any more money or as a matter of fact taking any more Turkish business at a loss. I don't mean by that at all that we don't want Turkish business, but we do want it on a fair businesslike basis, and I think the results of your present negotiations and the conditions under which this present business is wound up will control a great deal the position we will take relative to future Turkish business. You alone can give us the answer, and I think that until the answer is received we had better leave in abeyance the matter of sending anything more to Turkey. I can't conceive of the necessity for cable decision of the sending of a demonstrator over there, and when you write us a picture of the situation and at the same time recommend a demonstrator being sent over, then we can give better judgment to our decision than we can now because our judgment is biased by the most unsatisfactory arrangements on Turkish business that we have ever had in our export experience.

In answer to your question as to how the economic furor now going on in the United States is going to affect our export prices—my guess is that prices are going to be slightly increased not only on our products but on every American product. The dollar has gone down in foreign countries, and that fact together with the new N.R.A. code which means shorter hours for present personnel and the consequent employment of more persons, can result in nothing but increased prices. Right now our raw materials have advanced in a great many instances from five to as much as fifty percent.

With reference to the dollar depreciation in connection with Bob Farnsworth pay and per diem allowance—Bob is being paid now \$300 per month or \$3,600 per year, and his per diem allowance figures \$3,650 per year, or a total of \$7,250 per year, which is considerably more than some of the officers and minor executives of the Export Company are receiving. When the dollar was high Bob and the other foreign personnel reaped the benefits and I think under present circumstances the fact that the dollar has depreciated is not sufficient reason for any increase in pay or allowance. I know you will handle this delicately with Bob. There isn't anybody in the whole outfit who doesn't appreciate the job he is doing. On the other hand, Turkey is practically Bob's home and has been for some time, and he is a lot better off to have the \$10 per day allowance and to still be considered on a travelling basis. There will be, as rapidly as possible, adjustment on the up side of pay roll, but there are still being reductions made in salaries at home, and my advice to Bob

is to sit tight—knowing that his work is appreciated and that his job is as nearly permanent with the organization as any job can be, and that he will be taken care of to the best of our ability. Bob's base pay is less than an air line pilot's, but his gross income is considerably more when you figure in his per diem allowance.

I am terribly sorry to learn that "old man sciatica" had thrown you for a temporary loss. I know how difficult it is to get appropriate sleep and exercise, and probably my caution to you to get it won't do much good, but we do want you to take good care of yourself.

Your next letter is July 28th. It is a very interesting letter as all of yours are, and I couldn't help but smile at the request that Bob run some additional tests using both tanks after he had finished the final endurance trials and the papers had been forwarded to the Ministry. You certainly can't beat those birds. I think you are absolutely right in not submitting any proposals on air lines or additional Hawk orders until this gang settles up its long overdue accounts and obligations.

I am delighted at the excellent reports you make on Hunter, and it certainly must be a relief to you, because all of the three months that I was there in addition to all the other annoying situations I had Coon and the Kayseri mess hung around my neck all the time. I am glad that you are at least spared that unpleasantness.

I can't understand how the mix-up occurred on the salaries of the new boys that went out with Hunter, as compared with Garrold's and Purdy's salaries, because Bob's cables and letters to me on the subject of additional personnel were on the basis of the same salary as Garrold's and Purdy's, which Bob stated was \$250 per month. I think you handled the matter in the only possible way. Be sure to add the additional \$34 per month for Garrold and Purdy to the Fledgling spare-parts order coming through, or to any other order that will reimburse us. You did not state in your letter when you wanted to start Garrold and Purdy on this New York account to their order for the extra \$34 per month. I have arbitrarily started it as of July 1st and hope this is satisfactory.

Everything that could possibly be of interest to the Wright Company or C. A. & M. in your letters is sent to them. I have asked them to give you the answers through Export, as obviously we can't do it here in most instances. If you don't get the answer you want, let me know and I'll follow them up.

I am thoroughly in accord with all of your statements in this letter about what we are up against in the way of competition and what we have got to do to meet it, and it has all been passed on to Ted Wright, Malt Bleecker, and Arthur Nutt, and their combined thinking ought to give you the answer.

On my way back from the west coast, I stopped at Buffalo and spent about three hours with Burdette Wright. Ted was out. We discussed how to get the information to you in view of the American Government's present very rigid attitude on the release of information on new and experimental aircraft. There is a new espionage act in the United States which has caused the Army and Navy to become all the more definite and determined in preventing information from getting out on these planes. We can't give out any information on the YO-40, the A-12, the F11-C-3, or the F11-C-1. I know how important it is to you that you have information on the results of tests on these ships so that you can quote on a Turkish plane of high performance. Our position with both the Army and Navy is such that we are not justified in pushing them any further. It is downright dangerous, and I don't think it would do any good, and it might do some harm, for you to go direct to Admiral King or anybody else.

As I said in a previous letter to you, I believe you can read through ambiguous remarks, so here goes. Jane's All the Worlds Aircraft has published some data on the YO-40. Information already published on the A-8 is pretty good, and you know what a different motor installation might do. I have already told you how much retractable undercarriage adds to airplane performance. A 14-cylinder motor for small planes of around 200 mph. can be expected to improve performance from three to six miles per hour, as compared with equivalent horsepower from a Cyclone. When you get back from this trip you will have a better idea of what you will require in the future under similar circumstances, and I think we can load up your mind and your inside vest pocket with enough dope so that the situations can be handled. They are doing everything possible in Buffalo to complete flight tests on the Demonstrator Hawk with four-barrel carburetor, but there was a hitch in the

program due to the Navy's borrowing the only four-barrel we had, and we are just receiving from Wright a replacement. On the Douglas transport the use of the four-barrel carburetor as compared to the two-barrel added about 30 horsepower per motor. Every new single-motored or bi-motored transport I have seen recently has retractible landing gear and controllible pitch propellers, which, I am told, add from three to ten miles per hour to the top speed.

Do you get it? It's almost like a code.

The subject of a Condor demonstrator for Europe might possibly be worked out, but I think the determining factors will better be known after you proceed through Europe when, as, and if. Incidentally, a letter has just come in from Sabena asking for quotation and delivery on a Condor, but they state on a trial basis. George Page is planning on spending his vacation in Europe and as long as he is going to be over there we have asked him to go see Sabena and find out just what their problems are and what their proposition is. We are obviously not interested in sending out a Condor on a trial basis, but we may find it possible to sell one to them on guaranteed performance. George Page can do an awful lot to survey their problems and tell them definitely whether or not the Condor will do what they want it to do. If we got one Condor in on Sabena or any other European air line, the necessity for a demonstrator in Europe would pass away.

With reference to your trip to Russia, when, as, and if you get out of Turkey, I suggest that before making any plans to visit Russia you await further instructions from this office. The Russian situation varies from day to day as you well know, and in our judgment there is no need of your going there at the present time. Confidentially, there is a possibility that Tom may run over there for a week or two in the near future, but anyway cut it out of your itinerary or plans, subject to dope from this office at the time you are ready to go on your trip through Europe.

I hope this long drivel brings us up to date, and pending another long trip on my part I will promise to answer your letters as soon as they are received.

Under the new Export set-up in the office here, as per the memorandum recently sent you, Morrie Caldwell is going to be responsible for the proper handling of cables and correspondence, and taking care of requests for literature, follow-up letters, etc., so if you or Bob have any ideas on what this office can do to assist you to keep customers better posted, both present and potential, or any suggestions on how this office can function better for the field personnel, shoot your belly aches and suggestions into Morrie.

My very best to you and Bob and Kiki and the rest of the gang. You know that I know better than anyone else here what you fellows are up against, and we are trying to make your jobs as easy as possible. If we are not doing it we are open to kicks and complaints. If we are doing it you don't need to say anything—results will speak for themselves.

Sincerely yours,

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EXHIBIT No. 448

[Copied from carbon copy]

WASHINGTON OFFICE, October 8, 1932.

ROBERT L. EARLE, Washington, D.C.

Mr. A. B. CARRINGTON, New York City.

Bomb sights ref: Your letter of Oct. 5th, 1932:

I do not believe that determination of whether or not horizontal bomb sights are available in either the Army or Navy will be a logical answer to your problem. If we inform our prospective customers that such are not available, what then will we tell them if they ask us at some future date for quotations on airplanes which are employed for horizontal bombing? On the other hand, if we find that such sights are available, then we will only have to seek some other answer anyway for the present instance.

It will not be possible to offer any dissertation in detail on the method employed by the Navy in dive bombing, for as we have advised the Export Co. before, the Navy considers this information as confidential and will not permit it to be passed out. The following statement, however, may serve your purposes:

"Single-seater and two-seater airplanes in use by the U.S. Army and Navy are not constructed to enable bomb sights to be used for the dropping of bombs while in horizontal flight. It is impossible to locate such a sight where a pilot or his gunner could effectively employ this instrument with the needed degree of accuracy. For this reason such sights are used only in large slower airplanes especially constructed for this type of bombing.

"Both branches of the American service have found that greater accuracy can be obtained in the placing of bombs of comparatively small size such as used with single-seater and two-seater airplanes, by the releasing of these bombs while in a dive. In the dropping of bombs in this method the pilot uses the same sight which he employs in connection with fixed guns. He simply aims the airplane itself at the target, drops his bomb or bombs while the airplane is in a dive, then pulls out and resumes normal flying. It is for this reason that airplanes constructed for the U.S. Army and Navy are built to withstand considerable diving but do not make provision for the installation of bomb sights of the type used in horizontal bombing."

The above is simply my own statement of the bombing methods employed, but I hope it will suit your purposes. Please note attached copy of a letter I have written to Owen Shannon on the above subject.

Very truly yours,

ROBERT L. EARLE.

RLE/lh-2576.

cc—Mr. Owen A. Shannon.  
Washington file: General.

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EXHIBIT No. 449

[Copy]

#77.

AMERICAN EMBASSY,  
Ankara, Turkey, January 18, 1934.

MR. BRUCE G. LEIGHTON.

DEAR BRUCE: This will acknowledge receipt of your letters of December 12th, 23rd, and 28th from Ankara. I am answering them in rotation.

LETTER OF DECEMBER 12TH

With reference to your remarks on the Hawk and Fledgling prices, Eddie Cramer, I think, has already written you on these matters, and if he has not, he will do so within a few days.

As to the agency arrangement, I am sure that we understand each other thoroughly, and I am delighted to know that Emin is cleaning up his indebtedness so readily. As far as the Sperry account is concerned, I am taking that up also with Eddie Cramer and Jack Sanderson, and we will give you an answer on that.

By now, you probably know Morrie Caldwell's itinerary. He has been sticking pretty close to K. L. M. and the Persian situation in the Hawker plant, and I just cabled him today asking him how much longer he thought he would have to stay there, and what his plans were for covering the other places we sent him over to cover, namely, Spain, Portugal, Norway, Sweden, and Finland.

With reference to your remarks about the establishment of agents who are competent to handle this aircraft business through the negotiation stage and to final conclusion alone, I think you are absolutely correct that, with practically no exception, none of the agents that are available are technically smart enough to do it, and, of course, that is one of our reasons for having you and Bob and Caldwell and everybody else travelling over there—to assist in the preliminary negotiations, and when you get up against a stiff technical problem to be able to call on an engineer. And, of course, that is what I call doing real selling, just as you undoubtedly do. You are also absolutely right about the necessity for you and Bob getting home fairly frequently in order to keep up to date with developments, and we have all been hoping for a long time that Bob would be heading for the States. However, in handling this business, it seems to be impossible to make definite plans in advance due to the very nature of the business we are doing, and the people with whom we are doing it, and we all know that you will see that Bob gets back here as soon as it is possible.

As far as the length of time it takes to close deals in Europe or, as a matter of fact, in any place in the world except America, you may rest assured

that we all appreciate it. It has so happened that I have spent a long time in this Export Co., dating back to before the merger of Curtiss and Wright, and we have worked as long as three and four years at a time on one customer before we have been able to pull through any business. So do not think that we do not all appreciate the slowness with which these people act.

I quite agree with your statement that it is best to concentrate your efforts on customers who look the most promising, always, however, keeping as close a contact with the others as is possible, either direct or by mail, and, as you know, from our policy here, which we have instituted under the able guidance of Parm Hewlett, we are trying to keep the name "Curtiss-Wright" and its products before all of the important people in each country in the world. It ought to help some, plus what you and your able assistants can do in Europe.

On the subject of dive bombing which you refer to in your letter of December 12th, and which is apparent in copies of your proposals to the Government on new business, this is a matter that is most delicate by nature. You refer specifically in your protocol to the Ministry of Defense on the Kayseri factory project, under the heading "Test Flights of the Planes", page 6, as follows: "Diving bomb tests will be included this time in the official tests." We have been nosing around in the Bureau in Washington, discreetly, and find that they hold as most strictly confidential their dive-bombing tactics and procedure, and they frown upon our even mentioning dive bombing in connection with the Hawks or any other airplane to any foreign powers. It is absolutely unwise and unethical at this time, and probably for some time to come, for us to indicate in any way that we know anything about the technique and tactics of dive bombing and to include such tests in official tests, or to have any pilot demonstrate or instruct in dive bombing, would be just about the worst thing that could be done at this time. I can see no objection to your referring to dive bombing in conversation, but you should plead absolute ignorance as to the technique employed or why or how we use dive bombing in our services here. If any Navy officials, or any of the Navy officers now located in Turkey, or who might visit there, or replace the present officers, should get hold of any proposal from us in which we refer to dive bombing, it would snap right back to Washington and I am afraid it would seriously react against our Navy relations, which are too good now here to upset in any way. I know you can appreciate this and I also know that you will take the necessary steps to remove from present negotiations any reference to dive bombing, and keep the mention of them out of any formal contracts or even proposals. I cannot stress the importance of this too much.

I realize that you are fighting against European competition that seems to have airplanes that are a little faster than ours. However, I know that you also know of all the sales arguments against the extra high speed and, particularly, how they obtain it in foreign equipment.

It is done at a definite sacrifice on the life of the engine and, probably, the airplane; it is done at a sacrifice of maneuverability and military load; and if those features in the Hawk do not offset a few kilometers' difference in speed, plus the fact that the ship will withstand power dives of high velocity and stand a punishing to which this type has been subject for years in our services at home, I do not know how you can compete.

It may be all right for Bob to put on a dive-bombing show to show the strength of the airplanes, but to refer in contract to dive bombing, or endeavor to teach dive bombing, is what I am cautioning you against doing.

While we are on the subject of speed, the situation regarding retractable landing gears looks as though it might change. That is, it looks as though we might get a release of this gear for Hawks. I am merely giving you this now as a bit of encouragement, although I cannot guarantee that we will get the release. But you may rest assured that we are doing everything possible to get it. The preliminary discussions on this subject rather indicate that the Navy might release the retractable gear, but not the metal wings, therefore, it might be a case of retractable gear with the present wooden wings; and if so, there is a question of what the terminal velocity of the ship might be with the wooden wings and retractable gear, and a lot of details like that which we are working out in Buffalo. If we do get the retractable gear with the wooden wings, you will get your high speed, but you will probably have to lower the terminal velocity in a dive over what it is now, for the ship with retractable gear and metal wings. I am not technical enough to give you all of these points in detail. You will get them further from Parm Hew-



lett, if you have not already done so by the time you receive this letter. And again I state that my hopes are not founded on anything except hope that we can get a release of the retractable gear. My own personal feeling is that we will get it and when is the question. I know that if I were sitting in your place combatting this speed mania, I would like to know, at least, that it looked a little bit favorable, and you may rest assured we will give you the go-ahead by cable the minute we get it.

Now about the airline and in confirmation of my cable to you of January 10th. As I told you in that cable, we agree in general principle with your remarks about the air lines and your preliminary proposals to the ministry. Obviously, as I state in the cable, a detailed contract will require very careful consideration in New York before it could be signed. There are so many bugs in a deal of this sort that we would want, for your own protection, as well as ours, to have the contract sent to us to study, with your comments, because in a contract of this kind, you can get your tail feathers badly burned if you do not follow such procedure.

Referring specifically again to page 9, item 2: As I said in the cable, we are agreeable to a percentage fee, but must have a minimum guarantee to cover our cost of this supervisory work. You know perfectly well that in Turkey materials can be purchased at a pretty low price as can construction and installation, or in other words, general labor can be gotten for a song; and we can visualize that a 15% fee of the actual costs involved of materials, labor installation, etc., might not anywhere near cover our supervisory expenses, particularly if the time element lags as long as it apparently is bound to lag, in this business in Turkey. That is why we specify a minimum guarantee must be given.

On page 10, item 3-B. The period of the various 25% payments after the initial cash payment of 25% covers a period of entirely too long a time. We just cannot finance our sales to the Turkish Government on that basis and if you include in your outside purchases, as referred to in this paragraph, anything not manufactured by us, it is just out of the question. I assume that you do not include items not manufactured by us, but rather refer to items purchased outside of Turkey; and that such financial terms as are necessary for items not manufactured by us, would be subject to the acceptance of the specific manufacturer, and we, of course, cannot guarantee on what terms he will accept business. More frequent payments of lesser amounts than 25%, but with the total paid for eighteen months after delivery, would certainly seem to me to be about the maximum that we could consider.

I also stated that we must be assured of our ability to discount immediately all drafts that we receive into dollars promptly in New York. It is easy enough for the Turkish Government to say that we can discount their drafts, but so far we have not been able to find anybody who would discount them; and the Turks may have in mind that you can discount them in Turkey, but there, again, comes the question of how we are going to get dollars in New York. That will have to be worked out and I feel sure it can be worked out satisfactorily. Also, what would it cost us to discount these drafts, including conversion, into dollars, etc., etc.

Referring to item 5 on page 10, I state we cannot agree to Curtiss-Wright Corporation becoming general contractors. Our participation in this connection would be supervisors of constructions and managers of operations. Your item 5 states that if the Turkish Government desires that we should act in the capacity of general contractors, etc. We cannot possibly do this in any way that I can see. We are not in the general contracting business and do not want to be. We will supply personnel under suitable arrangements, to supervise general contracting work that might require the supervision of an aviation expert because laying out hangars and flying fields is somewhat different from building a village or an office building. As general contractors, I can well visualize our employing crews of several hundred people and I do not think that any fee could be given us sufficiently large to make this interesting in any way. So, for heaven's sake, keep away from even indicating that we would be interested in becoming general contractors and that all we will do is supervise construction and manage operations by supply proper personnel.

I then referred to item 6 on this page as having the same objections as item 3-B on the same page, and item 7 and item 8 on this page, having the same objection as item 2 on page 9.

As I said at the beginning of this topic, in general principle your proposal is very interesting and goodness knows we want to do a good job for the Turkish Government, and I do not think anyone can question our endeavor to assist them. In connection with our requiring a detail study of any contract or committing proposal to them, before it is submitted or signed, if they object to the delays entailed in this procedure, you can just recall to their mind that we have spent over two years in awaiting their pleasures in acting on a lot of things that have cost us money and, of course, have cost them money, and that they cannot expect to come out of their trance suddenly and expect us to snap right back with the answer. The work you have done with the big shots in Turkey in showing them the fallacy of their ways and the needless delays that they have instituted and what it has cost them in results and money, has been a most excellent job. I know what you have been up against in selling it, but it is a job that requires, as you well know, a constant following up, because you are trying to change their entire method of doing things which has been inborn into them for centuries. However, our one hope in working out a reasonably rapid, business procedure in Turkey is the fact that they have shown the world not only a desire to progress and live and act in a modern, up-to-date manner, but that they have actually shown astounding results in this regard in the last ten years. I cannot help but feel that they must realize, as you do, that they are just on the threshold of making one of their biggest advancements, both commercially and from a military standpoint by the manner in which they get in line on this negotiation with us. We can help them more at this time—a help that will have the influence and effect that will last for a number of years—and I think they do realize it. Nevertheless, it is a fact that if they will really take us into their confidence and let us guide them, through your good offices, we can put them ahead of the rest of the parade in most of Europe and the Near East, and at a much lower cost than anybody else in the world. This brings me right to the point on page 12 in your letter where you say “in looking this proposal over don’t forget that this set-up will have a very definite influence on prospective dealings in Greece, Roumania, Bulgaria, and Persia.” My answer to that is, substantially, what I have just said. I know that it will help us in our negotiations in these other countries but, by the same token, it will show these other countries how progressive, and businesslike, and decided the Turkish Government is if they go after and conclude the plans you are discussing with them, in an efficient businesslike manner.

Now, just a bit personal. I am most sincerely sorry that you could not get up to Switzerland for the holidays, and don’t think that we all do not appreciate your foregoing not only the pleasure but the rest and change you so well earned, to stick on the job.

The postscript on your letter of the 12th in which you state that Ferdie Hulse had just come in with a letter from the Ministry saying he was fired, is hard to understand, because in my time in Turkey I found Ferdie about as hard-working and conscientious as anyone could be, and particularly anxious to do a job for the Turkish Government. I haven’t heard anything more from you on this subject since your letter of the 12th, and Ferdie has not shown up here, so I am hoping your conference with the Ministry has gotten him reinstated and ironed out his troubles. My slant on Americans, particularly those who are in Turkey in more or less what we would call minor capacities, as compared to yours and mine, have a particularly difficult row to hoe, because in doing their jobs efficiently, they are bound to create hard feeling and step on somebody’s toes, and it is an easy thing for the higher-ups to discharge these people without completely understanding the case. And then, too, when you are dealing with the class of people that you must deal with who will occupy such positions in a foreign country, you have got to realize that they have not the capacity to handle all situations diplomatically. However, I honestly feel that with two exceptions and both those have been removed, all of the American personnel that we have supplied to the Turkish Government are conscientious, capable, and devoted to the job of making a good showing for Turkey in Turkey. And if the higher-ups can only overlook some of their minor shortcomings and give them the backing and help that they must have, they will be better off in the long run.

*Letter of December 23rd.*—With this letter you enclose the English version of your letter and report to Ismet Pasha and Fevzi Pasha with copy to Zekai Bey. Needless to say, I think your letter and report are excellent. My par-

ticular attention is focused on the proposed services that you have offered without increased cost, as follows:

(a) Deliver the materials for the first airplane in the form of a completely fabricated demonstrator. First, let me ask you if that means that we cannot expect now any order for Buffalo-built Hawks? If it only means that you want a demonstrator there and this is your way of getting it, and we can well expect an order for some Buffalo-built Hawks I think we could arrange to do as you suggest. I quite thoroughly agree with your remarks on the necessity for a demonstrator and its value to you, and I think, under proper conditions, which means obviously sufficiently attractive potential business practically assured, that I can put this demonstrator idea across.

Of course, your remarks as to the criticism of the Hawk as a type, such as poor idling, inefficient gas tank, minor troubles with gas gauges, etc., are all ridiculous if taken in the aggregate, and I know you fully appreciate this. There is not an airplane built, and I do not care who builds it, which does not have its minor difficulties and those they are experiencing with the Hawks certainly are not any worse than they have experienced in the past with other manufacturers' types, or that they will experience in the future on any airplanes they buy. They are difficulties that we hasten to straighten out when we know they occur and while our competitors, both foreign and domestic, may use them in an endeavor to sell their equipment, the best argument that I can think of to counteract this is the fact that every airplane manufactured has its certain number of minor bugs. They always have had and they always will have, and Curtiss-Wright equipment does not have any more than anyone else, and from what I can gather, in this country, we have considerably less.

I can fully appreciate how a sample ship will help Chuck Hunter in his work. It will probably reduce the length of time required to do the job at Kayseri, but that, in itself, is not sufficient to warrant building up the first ship here. The airplanes can be built without a sample ship but if the Turkish Government want to speed up their production which is of vital importance to their national defense program, and a completely built ship is essential, they ought to be willing to pay for it, and if you could get them to pay for it and use it as a demonstrator before shipping it to Kayseri, it would be a grand piece of business; because while in itself the added cost of building the ship here and sending it over complete is not an item that will break us, we have learned from experience that all of this business has unforeseen things cropping up that cost a few dollars here and there, and in the aggregate, help swell an already sizeable red figure.

(b) Supply a motor man. I am rather inclined to agree with your ideas except that I do not like the permanency of your suggestion. A good motor man ought to be able to thoroughly instruct Turkish personnel on the maintenance and upkeep of the motors in, let us say, a year's time, plus what he could do with the American personnel who are bound to be in the plant and on the airline. And he should be able to leave at the end of this time, and then service contacts by Naidment or whoever else is in Europe at regular intervals should carry on the job efficiently. However, if we operate the airline, we will have to have motor experts working as chief mechanics and they should be available to service the military equipment when it becomes necessary.

I quite agree with you that we ought to have the American personnel on our pay roll so that we can control them providing the allowance you have made in your price is ample to cover them. It looks ample at the present time, but again, we do not know the details involved, so we cannot tell definitely whether they are ample or not. Time alone will tell that as we get more detailed information from you. Just as you yourself say, the longer they delay the more our costs rise and that is one of the factors that makes it difficult to tell whether allowances have been ample or not. I fully appreciate that you are not going to write any contract out there that will lose us money.

I will be interested in knowing whether United's man Gould has given you any real dirty competition.

*Letter of December 28th.*—This is your further thought on Bill Smyth's letter of December 17th, I think the matters of speed and competition I have already covered in this letter, providing we can get the release on the retractable gear, and like yourself, I do not like the idea of a super super Conqueror Hawk if we can get away with the speed on a standard Cyclone Hawk with retractable gear. And as to the demonstrator, I think I have answered that, although I will say that it will be a lot easier for me to sell the demonstrator idea to our Board if we have further indication of definite and prompt and

profitable action on the part of the Turkish Government in completing the present negotiations and in cleaning up bonds, etc., on the last order.

Referring to your P.P.S., there has been a lot of talk about the Government making it practicable to extend foreign credits. It is a policy that is getting a lot of attention at the White House at the present moment. Tom Morgan, Cheever Cowdin, Jab Smith, and I have all had sessions both here and in Washington on this subject, and will continue to follow it up. I cannot say that it looks particularly hopeful. On the other hand it has not been flatly turned down. How it will be worked out and whether it will mean that the Government will help us finance, as manufacturers, a part of our business without recourse, is still an unknown quantity. If it is with recourse, we are not interested, because we can borrow money from the banks with recourse. There are a lot of laws and rules governing the use of governmental funds at the present time, which must be changed or modified in order to permit the extension of any credit for financing foreign business with or without recourse, and it is all going to take time. All I can say is that work is being done on the subject, Washington is lending a more or less attentive ear, but it is too early to tell what the outcome will be. I will keep you posted, however, as soon as we have anything definite.

This more or less answers your three letters without going into details that require information from the factories on matters that do not involve general principles. I am working on the basis of my replying to your letters more or less on a personal basis and giving you our reactions to major suggestions that you make. Parm Hewlett and Bill Goulding take your letters and digest them and answer detailed and technical questions and follow your suggestions for the sending out of literature, etc., etc. I will be interested in knowing what your reactions to this plan are and whether you are getting complete answers to your specific queries, and in general, if everything is going all right from this end. We have what I consider an excellent set-up here now with Parm Hewlett down here from Buffalo as a permanent addition to the Export Company. He is the expert on airplanes and our liason with airplane manufacturing units. Phil Shepley is the liason with Wright, as you know, and in addition, Parm Hewlett is handling the promotional sales work and distribution of information, catalogues, etc., etc. The only way that we can be sure that our work is being done efficiently is by receiving your reactions from a long range, but in the field. We are all trying our best to do a good job and help to make your job easier, so do not hesitate to tell us if we are falling down any place and how we can be of more service.

We all send our best to you and the rest of the American personnel in Turkey and, more particularly, Helen joins me in our best to Ethel and you and Kiki and Bob. Here's hoping we will see you all real soon.

Sincerely yours,

JSA.  
MBN.

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**EXHIBIT No. 449A**

**WAC—FILE: Releases of Engines for Foreign Sale—Misc. Army.**

**Mat. Div. A. C. 304—Wright Field 5-4-33-20M**

**WAR DEPARTMENT, AIR CORPS,  
MATERIAL DIVISION, OFFICE OF THE CHIEF OF DIVISION,  
Wright Field, Dayton, Ohio, November 2, 1933.**

**AJL:lmf**

**Subject: Release of aircraft engines for domestic, commercial, and/or foreign sale.**

**To: Wright Aeronautical Corporation, Paterson, N.J.**

1. You are informed that the practice of obtaining release for a type of engine by trade name and interpreting that release as a blanket release for the particular type of engine through all the stages of its development and improvement will not meet the sanction of the Air Corps. The Material Division will release engines by Air Corps type designation only, and approval will be given only to release of specific models upon the merits of each specific case as presented to the Air Corps. Formal requests for release of current models will include a detailed list of all engine accessories.

2. In this connection you are advised that the Material Division will approve release of the R 1820-F series which bear the following Air Corps designations: R-1820-13, R-1820-17, R-1830-19, R-1830-20-21, and R-1820-23. It is desired that a formal request for the release of these engines be forwarded to the Chief of the Air Corps in order that the matter may be referred to the Bureau of Aeronautics in accordance with the existing policies.

For the Chief of the Material Division:

(Sgd.) C. W. HOWARD,

Major, Air Corps, Chief, Engineering Section.

Cy. to Inspector in Charge, Air Corps, U. S. Army.

(Pencilled notations: Comp. blower; R. 1830 13 Fl 6.4/1 5.95/1; 17 8/5 6.4/1 7/1; 19 8/5 6.4/1 7/1; 21 Fl 6.4/1 5.95/1; 23 8/5 6.4/1 5.95/1.)

Not included: 4 bbl. carb. 16/11 gears.

#### EXHIBIT No. 449B

WAC—FILE: Releases of Engines for Foreign Sale—Misc.—Army.

(Pencilled Memorandum on Yellow Paper.) Not dated—but filed between letters of 11/2/33, 10/31/33.)

C. W. Howard—Letter of Nov. 2, 1933.

Release in future to be Air Corps type designation only—requests to include detailed list of all engine accessories.

Will approve release of R-1820 F series, 13, 17, 19, 21, which include 64/1 compression and blower ratios 5.95 & 7/1.

Excluded are: 4 bbl. Carburetor 16/11 gears, 10/1 blower Hydro control (?), 1. This subject first brought up in May (?) 1933 during negotiation for approval of U.S.S.R. agreement.

2. At that time sales and deliveries had already been made of advanced Cyclone Models as follows: China, 52; U.S.S.R., 2, also license; Bolivia, 8; Udet Germany, 1 (?); Adler, 10 (?).

3. Gov't business at low ebb. Engineering program (WAC) greatly reduced early in year.

4. However, by great effort commercial sales secured totalling more than either Army or Navy total.

5. Manufacturing overhead absorbed 500,000.

6. Were all set as result to reduce Gov't prices—NRA upset plan.

7. Engineering program boosted again.

8. New procedure set up during summer following conversations at Dayton and Washington.

9. Now all set to function properly.

10. U.S.S.R. already turned down on many items.

#### EXHIBIT No. 449C

WAS—FILE: Releases of Engines for Foreign Sale—Misc.—Army.

(Pencilled memorandum on yellow paper. Not dated—but filed between letters of 11/2/33 and 10/31/33.)

Mr. GORDON.

First F3 Cyclones (8.3: Imp.) were shipped abroad as follows:

Country	Engine no.	Date shipped
Bolivia.....	21029	Dec. 7, 1932
Russia.....	21020	Feb. 9, 1933
China (Shanghai).....	17936	Feb. 18, 1933
" (Canton).....	17927	Feb. 27, 1933

(Pencilled mark here looks like—"NNL" Might be "T. M. L.") 11/9/33  
P.S. Total shipments are shown on attached report.

P.P.S. No. 4 bbl. carbs. or 16/11 gears have as yet been shipped abroad altho complete data has been given. Hispano U.S.S.R. and KIM, etc, and Car. & engines are scheduled for shipment soon.

T. M. L.

## EXHIBIT No. 449D

WAC—FILE: Releases of Engines for Foreign Sale—Misc.—Navy.  
(Penciled Notations:

"CC:

Material Division.  
Mr. Nutt.  
Mr. Taylor.  
R. L. Earle.")

DEPARTMENT OF THE NAVY,  
OFFICE OF THE SECRETARY,  
Washington (stamped dates): April 25, 1934.  
April 24, 1934.

VV/111-3(22) (340419-1)

DEAR SIR: Your letter of 16 March 1934 with enclosure has been referred to me for action. By this letter you request approval of certain changes to be incorporated in engines for foreign and domestic commercial sale.

In reply, I am pleased to inform you that, insofar as concerns military secrets, which is their sole cognizance in the matter, the War and Navy Departments have no objection to the release of the changes outlined in the enclosure to your letter in your engines for domestic and foreign commercial sale. It is desired that this release and future releases of a similar nature be restricted to engines manufactured in this country, and that separate releases be requested not more frequently than semiannually for changes to be incorporated in engines manufactured abroad under license. It shall further be understood that this release does not extend to provision for four-barreled carburetor or two-speed supercharger, upon which items the views of the Departments have been previously expressed.

Sincerely yours,

(Sgd.) H. L. ROOSEVELT,  
*Acting Secretary of the Navy.*

WRIGHT AERONAUTICAL CORPORATION,  
Paterson, N.J.

(Penciled notation: "The six-month restriction relates only to engines manufactured abroad not to those made in this country."—M. B. G.)

## EXHIBIT No. 449E

WAC—FILE: Releases of Engines for Foreign Sale—Misc.—Navy.

MAY 4, 1934.

To: Chief of the Bureau of Aeronautics, Navy Department, Washington, D.C.  
Via: Inspector of Naval Aircraft, U.S.N., at Wright Aeronautical Corporation,  
Paterson, N.J.

Subject: Release of Wright Aeronautical Engines for Export.

Reference: Letter from Office of the Secretary of the Navy VV/L11-3 (22)  
(340419-1) dated April 24, 1934.

1. Referenced letter advises that the War and Navy Departments have no objection to the release for foreign and commercial sale of engines incorporating the changes outlined in this company's letter of March 16, but states that it is the desire of the Government that this release and future releases of a similar nature be restricted to engines manufactured in this country, and that separate releases be requested not more frequently than semiannually for changes to be incorporated in engines manufactured abroad under license.

2. Attention is invited to the fact that due to the extensive flight operation of Wright engines during the past few months, a number of minor engineering changes have been made to increase the reliability of the engines or to facilitate the manufacturing and maintenance of the engines. None of these changes are so novel as to constitute new inventions but some of them are desirable to overcome the possibility of engine failure under certain flight conditions. It is believed that all of the essential improvements have been incorporated in Wright engines built as of April 15 and, therefore, it is respectfully requested that this date be taken as the starting point for the semiannual Government releases for engines to be manufactured under foreign license. Upon the

assumption that this request will receive favorable action we are attaching hereto a list of the engineering changes made by this company from March 1 to April 15, 1934. Lists of all other changes made by this company since the adoption of the new Government policy have been previously forwarded to the Government and have all been approved except as mentioned below.

3. Referenced letter advises that the Government has not released the four-barrel carburetor or the two-speed supercharger for use in engines to be exported or manufactured under foreign license. In the list of detail changes previously submitted to the Government this company mentioned a modification of the crankcase rear section to adapt it for a two-speed supercharger. This modification consists only of additional bosses cast into the crankcase rear section. The pattern which permitted the additional bosses was made to enable this company to obtain castings for experimental Government projects and the bosses can in no way be identified with a two-speed supercharger by anyone not thoroughly familiar with the supercharger developments project. It is not the intention of this company at this time to request the release of the two-speed supercharger or any of its parts either for domestic or for foreign use.

4. In connection with the release of the four-barrel Stromberg carburetor, attention is invited to the fact that this carburetor was exported before this company was advised of the Government's new policy applying to foreign releases. It contains no novel features but is merely a larger size of the obsolescent two-barrel carburetor, and most of its parts are interchangeable with the obsolescent two-barrel carburetor.

5. It is the desire of this company to fully cooperate with the Government in connection with experimental projects and all confidential projects are jealously guarded by this company. In view of the fact that the Stromberg four-barrel carburetor has now become a standard commercial article, since it is the only type of carburetor used by this company and since it was exported prior to this company's knowledge that such export would not be approved by the Government, it is respectfully requested that the decision given in referenced letter be reconsidered and that approval be given for the foreign shipment of engines equipped with four-barrel carburetor and for the manufacturing under foreign license of engines equipped with the four-barrel carburetor.

6. Change B-1312 covering provisions for gun synchronizer gears and support of "Adco" gun synchronizer has not been approved for export. This change has always been considered a confidential project by this company and will be so considered until released by the Government.

7. Change B-1224-b covers provision for oil-heated instead of exhaust-heated four-barrel carburetion. This change was made at the specific request of the Transcontinental & Western Air Express Company for engines to be installed in the Douglas transport and will be confined to engines sold in this country until released for export use by the Government.

WRIGHT AERONAUTICAL CORPORATION,  
T. M. LUCAS,  
*Manager Order and Contract Division.*

TML:SS  
CC: INA. USN at WAC  
G. W. Vaughan  
M. B. Gordon  
George Chapline  
Arthur Nutt  
P. B. Taylor  
R. L. Earle  
R. K. Brown

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The list printed below was requested by the committee and furnished by Mr. Allard on November 2, 1934. (See text, p. 855.)

FORMER NAVY, ARMY, AND RESERVE CORPS OFFICERS NOW CONNECTED WITH  
CURTISS-WRIGHT

CURTISS-WRIGHT CORPORATION

President, Thomas A. Morgan, United States Navy, 1908-12, chief electrician; major, United States Army, 1926-33, Reserve; major, United States Air Corps (S. R.), 1926-33.

Senior vice president, J. A. B. Smith, ensign, United States Navy, 1902; resigned commander, 1920.

Vice president, J. S. Allard, aviation section, Signal Corps, 1917-19; Air Service Officers' Reserve Corps, 1920-31.

Vice president, B. S. Wright, Reserve Officers' Training Corps, Aug. 27, 1917-Nov. 27, 1917; commissioned first lieutenant Coast Artillery Reserve Corps with active duty Nov. 27, 1917; commissioned captain Air Service, Feb. 18, 1919; resigned, January 1928.

Treasurer, J. A. B. Smith. (See above.)

Secretary, R. R. Reger, entered United States Army Signal Corps December 1917; discharged June 1919.

Assistant secretary and assistant treasurer, E. S. Cramer, February 1906-10, United States Navy; May 1918-July 1919, United States Army.

#### CURTISS AEROPLANE & MOTOR CO.

President, J. A. B. Smith. (See above.)

Vice president, T. P. Wright, lieutenant United States Naval Reserve, November 1918 to October 1921.

Vice president, B. S. Wright. (See above.)

Vice president, B. G. Leighton, Naval Academy July 1909-June 1913; commissioned in turn lieutenant and lieutenant commander, United States Navy; resigned United States Naval Service November 1928; appointed lieutenant commander United States Naval Reserve, 1928.

Treasurer, George S. Lapp. No service.

Secretary, R. R. Reger. (See above.)

Assistant treasurer and assistant secretary, Joseph P. Healey, first lieutenant, Infantry Reserve, February 1925.

#### WRIGHT AERONAUTICAL CORPORATION

President, Guy W. Vaughan, lieutenant commander, United States Naval Reserve, October 3, 1927.

Vice president, B. G. Leighton. (See above.)

Vice president, Arthur Nutt. No service.

Vice president and assistant general manager, M. B. Gordon, second lieutenant, aviation section, Signal Reserve Corps; enlisted, February 1918; discharged, December 1918.

Treasurer, J. J. Donahue. No service.

Secretary, R. R. Reger. (See above.)

Assistant secretary and comptroller, C. C. King. No service.

#### CURTISS WRIGHT AIRPLANE CO. (MISSOURI) (DELAWARE)

President, Ralph S. Damon, enlisted Signal Corps Reserve, February 5, 1918; commissioned in the Air Corps Reserve, December 1918; discharged, active duty, May 14, 1919; resigned Reserve commission, December 1923.

Vice president, G. J. Brandewelde, United States Army, November 1918-July 1919.

Treasurer, G. M. Ebert. No service.

Secretary, R. R. Reger. (See above.)

Assistant secretary, G. M. Ebert. (See above.)

#### CURTISS WRIGHT EXPORT CORPORATION

President, J. S. Allard. (See above.)

Vice president, W. F. Goulding, aviation section, Signal Corps, September 1917; commissioned first lieutenant; discharged, February 1919.

Vice president, W. P. Pawley. Information not available.

Vice president, B. G. Leighton. (See above.)

Treasurer, E. S. Cramer. (See above.)

Secretary, R. R. Reger. (See above.)







# MUNITIONS INDUSTRY

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## HEARINGS

BEFORE THE

SPECIAL COMMITTEE

INVESTIGATING THE MUNITIONS INDUSTRY

UNITED STATES SENATE

SEVENTY-THIRD CONGRESS

PURSUANT TO

**S. Res. 206**

A RESOLUTION TO MAKE CERTAIN INVESTIGATIONS  
CONCERNING THE MANUFACTURE AND SALE  
OF ARMS AND OTHER WAR MUNITIONS

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### PART 5

SEPTEMBER 12, 13, 14, 1934

E. I. DU PONT DE NEMOURS & CO.

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Printed for the use of the  
Special Committee Investigating the Munitions Industry



UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON: 1934

**SPECIAL COMMITTEE INVESTIGATING THE MUNITIONS INDUSTRY**

**GERALD P. NYE**, North Dakota, *Chairman*

**WALTER F. GEORGE**, Georgia

**ARTHUR H. VANDENBERG**, Michigan

**BENNETT CHAMP CLARK**, Missouri

**W. WARREN BARBOUR**, New Jersey

**HOMER T. BONE**, Washington

**JAMES P. POPE**, Idaho

**STEPHEN RAUSHENBUSH**, *Secretary*

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# INVESTIGATION OF THE MUNITIONS INDUSTRY

WEDNESDAY, SEPTEMBER 12, 1934

UNITED STATES SENATE,  
SPECIAL COMMITTEE TO INVESTIGATE  
THE MUNITIONS INDUSTRY,  
*Washington, D. C.*

The hearing was resumed at 2:15 p. m. in the caucus room, Senate Office Building, pursuant to taking of recess, Senator Gerald P. Nye, presiding.

Present: Senators Nye (chairman), George, Clark, Bone, Pope and Vandenberg.

Present also: Stephen Raushenbush, secretary.

## AFTERNOON SESSION

The CHAIRMAN. The committee will be in order. It will be recalled that during a recent day of these hearings the assistant to the Secretary of State had assured us that certain information that was requested concerning a treaty of 1858 with Bolivia and another of 1859 with Paraguay might be sent for incorporation in the record, at the point where Mr. Green's testimony left off. Such information, accompanied by a letter from the Secretary of State under date of September 11, is here offered for the record.

(The letter and memorandum above referred to are included in the record following the testimony of Joseph C. Green, given on Sept. 11, 1934, see part III, p. 628.)

The CHAIRMAN. I also offer for the record a letter by Mr. L. du Pont, president of the E. I. du Pont de Nemours & Co., presented to the committee this morning revealing the presence of those of the corporation who can speak authoritatively upon the various phases which are under investigation, which I think ought to be made a part of the record.

(The letter referred to is as follows:)

E. I. DU PONT DE NEMOURS & Co.,  
*Wilmington, Del., September 11, 1934.*

Hon. GERALD P. NYE,  
*Chairman Special Committee Investigating the Munitions Industry,  
408 Senate Office Building, Washington, D. C.*

MY DEAR SENATOR NYE: In accordance with the request contained in your letter of September 4, 1934, I shall appear tomorrow, September 12, 1934, before your committee.

As suggested in your letter I shall bring with me such officers, advisors, and consultants as may be of assistance to your committee in the presentation of such information and data as the committee desires.

More specifically, we shall be pleased to make available for your examination the following gentlemen:



Mr. P. S. du Pont, president of this company from 1915 to 1919, inclusive, and now chairman of the board. Mr. P. S. du Pont is specifically informed with regard to the operation of this company and its contacts with the U.S. Government during the war. He is especially familiar with the construction of the Old Hickory Powder Plant for the U.S. Government. Mr. du Pont's long experience with the company has given him a thorough knowledge of the advantages of peace-time operation as compared with war-time operation.

Mr. Irénée du Pont, vice President and vice chairman of the board of directors, and former president of the company from 1919 to 1926. Mr. du Pont was particularly active during the difficult period of transition following the conclusion of the war.

I succeeded Mr. Irénée du Pont and am now the president of the company. I am, of course, familiar with the current affairs of the company.

Mr. Fin Sparre, member of the board of directors and director of the development department of the company, has been actively concerned with the negotiation and operations of the agreements with Imperial Chemical Industries, Ltd., including other foreign companies, and will be present. He has intimate knowledge concerning the licenses and patents and the interchange of information specified in your letter.

Mr. J. Bayard Eliason, treasurer, and Mr. A. C. Nielson, comptroller, will be prepared to assist the committee in an examination of the war-time profits of the company.

Both Mr. A. Felix du Pont, vice president and general manager of the smokeless powder department, and myself will be prepared to testify concerning the relations of the company with the United States Government. Mr. Felix du Pont will be assisted by Mr. F. W. Bradway, assistant general manager and by Maj. K. K. V. Casey, director of sales of the smokeless-powder department.

Very truly yours,

L. DU PONT, *President.*

The CHAIRMAN. Mr. Pierre du Pont, are you president of the company, or chairman of the board?

Mr. PIERRE S. DU PONT. I am chairman of the board.

The CHAIRMAN. You were president of the company during the period of the war?

Mr. PIERRE S. DU PONT. During the war period; yes.

The CHAIRMAN. So that we shall be examining you primarily to start with, Mr. Pierre S. du Pont.

#### CORPORATE ORGANIZATION OF E. I. DU PONT DE NEMOURS & CO.

#### TESTIMONY OF PIERRE S. DU PONT

(The witness was duly sworn by the chairman.)

The CHAIRMAN. For the record, I am offering as "Exhibit No. 450", a history of and certain data concerning the E. I. du Pont de Nemours & Co. as taken from Moody's Manual of Industrials, 1933.

(The statement referred to was marked "Exhibit No. 450," and is included in the appendix on p. 1269.)

The CHAIRMAN. Also, I shall offer for the record as "Exhibit No. 451", a statement compiled from Poor's industrial volume and from other sources, as noted, concerning the directors and the directorates of E. I. du Pont de Nemours & Co. and subsidiary corporations, revealing the subsidiary companies wholly owned and those not wholly owned, but showing their percentage of ownership by the E. I. du Pont de Nemours & Co.

(The statement referred to was marked "Exhibit No. 451," and is included in the appendix on p. 1270.)



The CHAIRMAN. Senator Bone, will you proceed?

Senator BONE. Mr. du Pont, the form of this inquiry is of such a character that it will probably not be necessary to introduce exhibits. I think perhaps we might expedite the inquiry of this particular bracket of it and hurry through without the necessity of the introduction of a lot of papers if your answers will cover the questions that I shall ask on the data that I have before me.

Mr. PIERRE S. DU PONT. Before we start, Senator, may I explain that I have been out of active business for quite a number of years and am not acquainted with any of the details of the business as it stands today and naturally with regard to the past, I am probably a little hazy. But I have endeavored to post myself and I may be able to answer quite readily on some things and have reference to my associates on others. I shall try to do my best to give to you the information that you wish.

Senator BONE. I may suggest that these questions are of such a general character as affecting your business that you can give us the information very readily. This is going to be a very short inquiry.

Will you give us the full name of your present corporate organization?

Mr. PIERRE S. DU PONT. E. I. du Pont de Nemours & Co.

Senator BONE. In what State is that incorporated?

Mr. PIERRE S. DU PONT. In Delaware.

Senator BONE. Can you give us the date of the incorporation?

Mr. PIERRE S. DU PONT. It was in 1915.

Senator BONE. Let me suggest September 4, 1915, as the date of the incorporation.

Mr. PIERRE S. DU PONT. I believe that is correct.

Senator BONE. I have some of this data before me and I will use it and if I make an error, please correct me.

The record that I have before me indicates that your stock set-up consists of the following items:

Preferred or nonvoting debenture stock, \$150,000,000.

Voting debenture stock, \$10,000,000.

Voting common stock, \$80,000,000.

Your corporate structure consists altogether of \$240,000,000 of stock. Is that correct?

Mr. PIERRE S. DU PONT. That sounds correct.

Senator BONE. This is taken from your own records.

Mr. PIERRE S. DU PONT. That is authorized stock, not the issued stock.

Senator BONE. The newly organized corporation, that is the one to which we have just referred, took over all of the assets of the E. I. du Pont de Nemours Powder Co. of New Jersey?

Mr. PIERRE S. DU PONT. Right.

Senator BONE. That other organization, the E. I. du Pont de Nemours Powder Co. of New Jersey, was shown to have assets of \$90,847,883; munitions contracts of \$29,152,116; or a total of assets of \$120,000,000.

Mr. PIERRE S. DU PONT. That sounds about right.

Senator BONE. When your new corporate organization was formed, how did you allocate this stock in the new company to the stockholders of the old organization?

Mr. PIERRE S. DU PONT. That was allotted to the stockholders of the old corporation in proportion to their stockholdings.

Senator BONE. It appears on the face of this record that the new company had a capital set-up of approximately twice the size of the old corporation?

Mr. PIERRE S. DU PONT. Yes.

Senator BONE. So that for one share of stock in the old company, two shares of stock in the new organization were given in exchange; that is the way the change was effected? Is that correct?

Mr. PIERRE S. DU PONT. My brother suggests that that was a dividend paid out from the old company to the new company.

Senator BONE. Was that in the nature of a stock dividend?

Mr. PIERRE S. DU PONT. I imagine it was a liquidating dividend. I am not sure that I can differentiate.

Senator BONE. It had the practical aspect of a stock dividend. Am I correct in that?

Mr. PIERRE S. DU PONT. I think so, yes.

Mr. IRÉNÉE DU PONT. The Government took the stand that that was a sale.

Mr. PIERRE S. DU PONT. My brother on my right says that the Government took the position that that was a sale of assets, and that was brought out on a question of taxation. That decision stood, I believe.

Senator BONE. What I am trying to get at now is that the practical situation was that it amounted literally to an exchange of stock. That was the practical effect of it, was it not?

Mr. PIERRE S. DU PONT. I think so, yes. Technically, possibly not, but practically, yes.

Senator BONE. I mean in practical effect?

Mr. PIERRE S. DU PONT. Yes.

Senator BONE. Your business, I gather from this statement before me, was founded originally in 1802?

Mr. PIERRE S. DU PONT. Right.

Senator BONE. Its original purpose was to manufacture powder?

Mr. PIERRE S. DU PONT. Yes. That was the black powder, the only powder known in those days for sporting and commercial purposes; but then largely sporting and military purposes.

Senator BONE. I shall be stating some conclusions on facts, as I proceed, so that you may agree with them or disagree with them as we go along. That will save us a lot of time.

The E. I. du Pont de Nemours & Co., the present company, was organized as a holding corporation and acquired the ownership of about 100 different corporations through an exchange of their capital stocks with the preferred and common stocks of the du Pont Co.?

Mr. PIERRE S. DU PONT. That was the E. I. du Pont de Nemours Powder Co., the predecessor of the present one. The transfer was made in 1915.

Senator BONE. I was in error then. The present company took over the assets of the powder company, and when it did so it took over these other companies that had been brought into this powder company, is that right?

Mr. PIERRE S. DU PONT. But they had been merged into the powder company and they no longer existed.

Senator BONE. They had lost corporate identity, is that right?

Mr. PIERRE S. DU PONT. Yes.

Senator BONE. These older corporations were dissolved when they were taken over; this powder company was dissolved, as I understand, by a decision in the Federal courts, is that right?

Mr. PIERRE S. DU PONT. Yes.

Senator BONE. As a result of that decree of the Federal courts, which was brought, I believe, under the Sherman Act, at least two of these companies which now exist as your affiliates, were separated from the parent company, one being the Hercules Powder Co. and the other the Atlas Powder Co.?

Mr. PIERRE S. DU PONT. Yes.

Mr. IRÉNÉE DU PONT. Not affiliates, but separate corporations over which we have no control at all.

Senator BONE. Let me digress for a moment and ask what control the du Pont Co. holds over the Hercules Powder Co. and the Atlas Powder Co.?

Mr. PIERRE S. DU PONT. None whatever.

Senator BONE. Have you any stock ownership in them?

Mr. PIERRE S. DU PONT. Not the company; no.

Senator BONE. Do the individual officers of your corporation; that is, the heavy stockholders in your company, do they have an interest in those companies?

Mr. PIERRE S. DU PONT. Formerly. At the time of the dissolution, the stockholders received the stock of the Hercules and Atlas Powder companies as a dividend, the theory being that that stock would soon be dissipated and the companies would cease to have any common ownership. That has actually occurred. I believe that the large stockholders, practically all, parted with their stock, but I have no information in regard to the Hercules and Atlas. But I believe that that is the case.

Senator BONE. Do you and your brothers, Mr. du Pont, have an ownership of any size in the two powder companies that I have named, the Atlas and the Hercules?

Mr. PIERRE S. DU PONT. I think I have a very few shares of both of them. But it is a very small interest.

Senator BONE. Can you advise us?

Mr. PIERRE S. DU PONT. I could find out for you.

Senator BONE. Of the extent of the holdings in either or both of those companies by your brothers? <sup>1</sup>

Mr. IRÉNÉE DU PONT. I can answer for myself. I have no Atlas Co. stock.

Senator BONE. Mr. Chairman, I think it would be well to have all these gentlemen sworn and then they may answer questions for the record as they come up.

The CHAIRMAN. I will call on Mr. Irénée du Pont, Mr. Lamot du Pont, Mr. A. Felix du Pont, Mr. Fin Sparre, and Mr. J. Bayard Eliason to rise and be sworn.

Irénée du Pont, Lamot du Pont, A. Felix du Pont, Fin Sparre, and J. Bayard Eliason were thereupon duly sworn by the chairman.

<sup>1</sup> The holdings of the du Ponts in Atlas and Hercules Powder Co.'s stock were later submitted to the committee and appear in the appendix on p. 1397.

Senator BONE. I will repeat that question. Will you advise me, after this dissolution was effected and these companies split off from the parent company, whether you retained stock ownership of any consequence in either of these powder companies? That question goes to each of you gentlemen.

Mr. IRÉNÉE DU PONT. I can answer for myself with certainty. I have no Atlas stock whatever. I disposed of it long since. I have exactly—the shares of Hercules I believe that we got as dividends originally—if I remember correctly 13,000 shares. I can give it to you correctly by referring to a memorandum.

Senator BONE. You can supply that later, if you wish. Will each of you gentlemen indicate your answer to that question?

Mr. LAMMOT DU PONT. I have some Hercules stock and some Atlas stock.

Senator BONE. Can you advise us the extent of it?

Mr. LAMMOT DU PONT. I cannot give you the exact figures. But it is less than I held at the time of the dissolution.

Senator BONE. Will you just approximate it?

Mr. LAMMOT DU PONT. I would say it was two or three thousand shares of each.

Senator BONE. And you, Mr. Felix du Pont?

Mr. A. FELIX DU PONT. I have some Hercules and I think I have some Atlas. But it is a rather small amount. I cannot remember the amount.

Senator BONE. Would you approximate it?

Mr. A. FELIX DU PONT. I am afraid not.

Senator BONE. The record will, of course, indicate that you are not answering in categorical fashion. You are just giving your best recollection.

Mr. IRÉNÉE DU PONT. My proper amount is 12,264 shares.

Senator BONE. The record indicates that both of these companies that is to say the Hercules Powder Co. and the Atlas Powder Co. began active business January 1, 1913. In connection with an income tax statement of the du Pont Co.—I am now referring to the present du Pont Co.—the information submitted by the company indicates that the invested capital for the three years immediately preceding the outbreak of the World War was as follows:

1911: \$50,067,155.23.

Let me say parenthetically that these figures I think have been supplied to us by your auditors.

Mr. RAUSHENBUSH. They were supplied by the Bureau of Internal Revenue, Senator.

Senator BONE. By the Bureau of Internal Revenue?

Mr. RAUSHENBUSH. Taken from tax returns.

Senator BONE. In 1912 \$51,854,515.53.

In 1913 \$36,106,128.01.

Are those figures correct?

Mr. PIERRE S. DU PONT. It does not correspond with my recollection of the statement.

Senator BONE. Would you kindly look at that exhibit, which is a photostat. I think you will observe that Mr. John J. Raskob signs that return.

Mr. PIERRE S. DU PONT. I was mystified by the 1913 account of \$36,000,000. That was after the transfer of assets, was it not?

Senator BONE. I was about to suggest that that was after the transfer or the separation of the Hercules Powder and the Atlas Powder Companies from the parent company, which accounted for this loss in invested capital as shown on this record.

Who was Mr. John J. Raskob?

Mr. PIERRE S. DU PONT. I believe he was the treasurer of the company at the time.

Senator BONE. He is the one who signs this report. If there is any question about this, we can put it in the record. Otherwise, if those figures are agreed upon, it will not be necessary for us to do that. Do you desire to have it in the record?

Mr. RAUSHENBUSH. I do not.

Mr. PIERRE S. DU PONT. It is immaterial to us.

Senator BONE. Is there any question in your mind about the accuracy of the figures?

Mr. PIERRE S. DU PONT. I have no question about it.

Senator BONE. Then we will not put it in the record. The taxable income reported by your company—and when I say your company from now on I am referring to the present company—the taxable income reported by the company for the years 1911 to 1913 is as follows:

1911, \$5,182,470.30.

1912, \$6,012,632.94.

1913, \$4,642,534.68.

It is evident here at this particular showing that the separation of the two powder companies from the du Pont Powder Co. resulted in a lowering of the taxable income of the companies as recorded.

Mr. PIERRE S. DU PONT. I should like to differentiate between the taxable income and the income as stated in our annual report. It is not surprising that the figures are different. But that is a fact. They are calculated on different basis.

Senator BONE. What is that Exhibit, Mr. Raushenbush?

Mr. RAUSHENBUSH. This is Bureau of Internal Revenue Exhibit No. 2.

Senator BONE. Does that bear the signature of the company, also?

Mr. RAUSHENBUSH. Yes; it does. The point is well made there. There are different ways of computing incomes and this is the net taxable income as computed for purposes of taxation.

Senator BONE. Would you kindly examine that, Mr. du Pont?

Mr. PIERRE S. DU PONT. I am perfectly willing to accept this as the proper statement of amount for taxation purposes, yes.

Senator BONE. In that event I will not go further into the matter. Based on these figures, the returns on invested capital for the three-year war period were—and this computation was made from these figures—1911, 10.25 percent; 1912, 11.59 percent; and 1913, 12.86 percent.

Those are the computations of taxable income as against the invested capital.

Is that correct?

Mr. PIERRE S. DU PONT. If that is shown by the figures, I will accept it, surely.

Senator BONE. Can you tell us when you made your first important foreign contracts, for smokeless powder?

Mr. PIERRE S. DU PONT. The first negotiation started, as I remember right, in September of 1914 and the first contract, which was with the French Government, was closed in October of that year and the second part of the same contract in December.

Senator BONE. Of course, you are speaking from memory and you cannot be expected to give the exact dates. But the record before me indicates that October 12, 1914, was the date when the first contract was signed.

Mr. PIERRE S. DU PONT. That is substantially correct. May I add there, Mr. Felix du Pont prompts me in saying that the first actual contract signed was one with Mitsui Co. which was for some powder for Russia.

Senator BONE. We are somewhere in the correct neighborhood of the date. There may be an error of a day or two. The record indicates that other orders aggregating \$20,000,000 were received from September to December in the year 1914. That is indicated on page 9, section A of exhibit 1. Will you read that language, Mr. Raushenbush?

Mr. RAUSHENBUSH. Do you wish to identify it?

Senator BONE. I want that exhibit identified, because I shall have to refer to it briefly in passing.

Mr. RAUSHENBUSH. This is an exhibit labeled "Specific protests of E. I. du Pont de Nemours & Co. and subsidiaries against additional assessments proposed in Treasury Department letters dated October 30, 1924", and bears the stamp of E. I. du Pont de Nemours & Co., auditing department. In section A on page 12, paragraph 4, it states:

War orders in 1914 and 1915. The Du Pont Co. was probably the first American corporation to receive war orders of any magnitude, the only possible exception being the Bethlehem Steel Co. The value of the war orders received was in round figures as follows:

September to December, inclusive, 1914, \$20,000,000.

January to June, inclusive, 1915, \$108,000,000.

July to September, inclusive, 1915, \$137,000,000.

Total, September 1914 to September 1915, inclusive, \$265,000,000.

October to December 1915, inclusive, \$78,000,000.

Total, September 1914 to December 1915, inclusive, \$343,000,000.

Senator BONE. Now, Mr. du Pont, I would like to have you and your brothers take a glance at that so that you may recognize it. That is the record which your company filed, I believe, with the Bureau of Internal Revenue in connection with some tax questions.

Mr. PIERRE S. DU PONT. Yes.

Senator BONE. I merely desired to have it identified by your company because there will be one or two more references to matters in the volume itself.

Mr. PIERRE S. DU PONT. The figures sound correct to me, but I have no way of checking them. Undoubtedly if it was a signed statement of the company, the figures are correct.

Senator BONE. I understand that that is your statement filed with the Bureau of Internal Revenue in connection with a tax case that was pending.

Mr. PIERRE S. DU PONT. Yes.

Senator BONE. The year of 1915 appears to have been really the turning point in your company's business. The record indicates that during that year war contracts aggregating \$323,000,000 were

received by the company. That appears in this book which we will now identify as exhibit 1, section A, page 12. Mr. Raushenbush, will you kindly read that and show that statement to the witness?

Mr. RAUSHENBUSH. That has been read, Mr. Chairman.

Senator BONE. This exhibit 1, which we are referring to now, Mr. du Pont, is a record prepared by your company and filed in the Bureau of Internal Revenue of the United States.

Mr. PIERRE S. DU PONT. Then it is undoubtedly correct and I accept it.

Senator BONE. Well, that is a fact. I wanted to set at rest any question about that.

Mr. PIERRE S. DU PONT. My figures, drawn from the books are \$319,000,000 in 1915. This says \$323,000,000. That is an insignificant difference.

Senator BONE. Would there be any explanation on that? While you indicate this is a very slight difference, what explanation would there be for the figures that you have as against the figures of this book, that book being your own statements sworn to.

Mr. PIERRE S. DU PONT. It is possible that there was a difference in the division of contracts as to the dates when they were taken or executed, or something of that kind. But I accept this as being correct.

Senator BONE. That is to say, the exhibit 1 to which I have referred.

Mr. PIERRE S. DU PONT. Yes.

Senator BONE. Have you anything in the figures before you indicating your gross military sales on the du Pont Co. and affiliated companies for the years 1915 to 1918 inclusive?

Mr. PIERRE S. DU PONT. I have for 1915 a gross value of \$319,700,000; 1916, \$182,300,000; 1917, \$313,700,000; 1918, \$410,200,000 (corrected).

Senator BONE. What would be the total of those sales?

Mr. PIERRE S. DU PONT. I did not name 1914, which was \$19,000,000. The total would be \$1,245,000,000.

Senator BONE. That would indicate the total sales of the du Pont Co. and its affiliates?

Mr. PIERRE S. DU PONT. Of the du Pont Co. I think there were no affiliates. It was all together.

Senator BONE. Those companies which it directly controlled?

Mr. PIERRE S. DU PONT. Yes. That takes in everything.

Senator BONE. That indicates the gross business that they did in that period?

Mr. PIERRE S. DU PONT. That is the military end only. That takes no account of the commercial end. That might account for the difference there which I had not thought of until my brother mentioned it to me.

Senator BONE. I call your attention to a document which will be marked for introduction in evidence as "Exhibit No. 452" which is the annual report of the E. I. du Pont de Nemours & Co. for the year 1916.

(The document referred to was marked "Exhibit No. 452" and is on file with the committee.)

Senator BONE. You recognize this?

Mr. PIERRE S. DU PONT. Yes, I do.

Senator BONE. I direct your attention to a statement on page 3 of that report which I desire to read into the record as follows:

The reduction in prices doubtless enormously increased our volume of sales which in the year 1916 aggregated \$318,845,685, which amount is better appreciated when compared with the average sales of the years 1913 and 1914, which amounted to \$25,927,478, an increase of 1130 percent.

Senator BONE. If you have copies of your annual reports, I will refer to them as we go along and I suggest that you might have them before you.

Mr. PIERRE S. DU PONT. I know these figures are correct. That figure for 1913 and 1914 I know to be correct.

Senator BONE. The figures I am going to use now will be taken from a number of exhibits, and I think it well to have them introduced unless we can be in agreement on these amounts. During these years 1915 and 1918, inclusive, the amount of invested capital in the du Pont Co. was as follows:

In 1915, \$128,596,450.40; in 1916, \$202,346,832.64; in 1917, \$222,613,553.34; in 1918, \$199,543,168.66.

Mr. PIERRE S. DU PONT. I could not accept those figures to explain the total assets of the company. Its gross assets employed in the business exceeded those figures by quite a great deal.

Senator BONE. I am using this comparison with respect to invested capital. In order that we might clarify that, will you get exhibit 3, and refer to page 14?

Mr. RAUSHENBUSH. That is the report for 1919 to the stockholders.

Senator BONE. The reference to the invested capital in the business should be shown on page 14.

Mr. PIERRE S. DU PONT. May I explain the total assets in 1915. That included not only the stock put in by the stockholders and the surplus, but it also included \$116,000,000 of money that had been advanced by our customers, and that capital actually was in the business, used in buying materials and in erecting plants, and was a necessary part of the capital. There was no surplus corresponding to that \$116,000,000, but it was actual capital, and the actual capital invested in our company was \$258,000,000, and not the smaller sum you mentioned in 1915 to 1918. It was the larger capital, including the moneys loaned by our customers actually invested in the plants of the company. In addition to that there was written off from our books the value of the plants which were built and in actual operation, and actually necessary for producing the results in 1918. In 1918 we had as much capital invested in plants as at any other time, although we had written off those plants against the contracts as they were filled. The actual capital used in 1918 was \$308,000,000 and not the small sum which you read.

Senator BONE. Will you let me see that exhibit?

Mr. PIERRE S. DU PONT. Yes. That all comes about from having written down the plants, although they were in active use, and also having in use a large amount of capital which our customers had supplied.

Senator BONE. Will you indicate what your invested capital was in the year 1916?

Mr. PIERRE S. DU PONT. May I pass you this tabulation which I think sets it forth, and you can follow it down, if you please. That



is the gross capital involved in the business actually at work at the time the profits were made.

Senator BONE. I am not concerned now with what your assets were, but I am concerned in this inquiry in the matter of the invested capital.

Mr. PIERRE S. DU PONT. That was the invested capital.

Senator BONE. I am taking your own statement for the year 1919, your own statement to your stockholders, and I am wondering where this difference comes.

Mr. PIERRE S. DU PONT. If you will take that statement, you will see the gross assets which is the capital employed in this case is stated as you have it on that sheet.

Senator BONE. Do you offer this now to the committee for its use?

Mr. PIERRE S. DU PONT. Yes; gladly.

Senator BONE. Can you tell us from this statement then what your invested capital was?

Mr. PIERRE S. DU PONT. I do not know whether I made clear my point that the total assets of the company during these war years was active in the production of powder and producing profits to the company, that capital came from several sources; first, from the stockholders, paid into the company; second, the surplus that had been accumulated during the years; and, third, a very large amount of money which the customers had loaned to us to build plants and provide materials for their contracts.

Senator BONE. You proceeded during the period of the war just as rapidly as possible to amortize a large amount of that investment?

Mr. PIERRE S. DU PONT. Yes; but it was only amortized in the books.

Senator BONE. You wrote those plants off, a large number of them?

Mr. PIERRE S. DU PONT. Not during the war.

Senator BONE. Did you not liquidate a number of them immediately after the war?

Mr. PIERRE S. DU PONT. After the war; yes.

Senator BONE. The process of writing them down, liquidating them and getting them out of your financial picture was accomplished during the period of the war. That is to say, did you not amortize that investment which I presume you took to be a temporary capital?

Mr. PIERRE S. DU PONT. Yes.

Senator BONE. Will you now state what your invested capital was in 1917?

Mr. PIERRE S. DU PONT. \$263,393,000.

Senator BONE. And in 1918?

Mr. PIERRE S. DU PONT. \$308,846,000.

Senator POPE. Were these loans you referred to as being customers' loans later repaid?

Mr. PIERRE S. DU PONT. May I explain how that came about? When the war first started and the French Government approached us on the subject of contracts we told them we had nothing but a small plant, and in order to produce the powder we would have to erect new factories, and if we undertook the contract it would be with the understanding that the amount paid for the powder would cover the erection of these plants and enough money to secure

all or part of the raw materials. As a result of that we engaged to deliver powder to them at \$1 per pound, although the price to the United States Government, or possibly I should say to foreigners at that time was 80 cents per pound, so that we advanced the price 25 percent of our original foreign price. That was to take care of the necessary plants which we desired to erect. That French contract took up all of the capacity we had, and there was nothing left for our own Government, and we immediately started to erect new factories. That proceeded very rapidly as new contracts came in, and it was not until well on during the beginning of 1916 that we had factories sufficient for the prospective business. At that time we reduced the price from an average of about 90 cents to about 53 or 54 cents. As soon as the amortization was accomplished we immediately reduced the price.

Senator POPE. This really amounted to advance payments on materials furnished?

Mr. PIERRE S. DU PONT. Yes; it amounted to advance payments, but it was all invested in factories and raw materials which we had to supply ahead of time because of the tremendous advance in prices. All of our nitrate of soda was imported from Chile and there was great danger of embargo on that or enemy interference, so immediately when we made a contract we imported the nitrate of soda. We were so successful in that, that every pound of nitrate of soda amounting to over a million tons came into this country on time in the face of threatened accidents on the Panama Canal, in one case necessitating the bringing of the nitrate of soda across the continent in order to arrive at the plant in time.

Senator BONE. The figures before me indicate that the net taxable income of the new du Pont Co. during the four years of the war period—that is to say, 1915, 1916, 1917, and 1918—are as follows:

In 1915, 3 months, \$29,429,391.81—and if I am in error in this, will you correct me—in 1916, \$127,574,725.75; in 1917, \$78,296,541.20; in 1918, \$13,345,294. That would be spread over the 4-year period at approximately \$64,000,000 a year taxable income. 1915 and 1916 were the very high years, tapering off in 1917, and then this \$13,345,294 (corrected) in 1918.

Mr. PIERRE S. DU PONT. The total is substantially what appears on this sheet of mine.

Senator BONE. The total is \$248,645,953.32 (corrected).

Mr. RAUSHENBUSH. Senator Bone, may I interject a comment? From observation of the figures discussed by Mr. Pierre S. du Pont a moment ago, on that basis of assets the return on invested capital would be that, but on the basis of assets, or earnings on the assets they are larger by a considerable sum than those listed here.

Mr. PIERRE S. DU PONT. The total of earnings I have on this sheet is \$265,000,000 as against \$255,000,000, but that might well come about through the difference in figuring for taxation and other purposes.

Senator BONE. Some of the published statements of the company indicate somewhat larger figures than even the committee figures?

Mr. PIERRE S. DU PONT. If those were taken from the tax sheets, they are undoubtedly correct for the purpose. May I state, Mr. Senator, these earnings appearing on the sheet are after the taxes

are taken from our annual report, which would be the difference you have mentioned there.

Senator BONE. The earning statements I have called your attention to are from the files of the Internal Revenue Department.

Mr. PIERRE S. DU PONT. They are undoubtedly correct. May I suggest the complication of this change from one company to another brought up a great question as to the taxation. We figured our idea of how the taxes should be drawn, and before those reports were made, a suit was brought by one of our stockholders in connection with the taxes and resulted in a Supreme Court decision deciding how this taxation problem was to be settled, which was adverse to the stockholder and adverse to our idea. We refigured our taxes afterwards and that may be part of the reason why these figures on this sheet which were drawn from the company's annual report do not agree with the taxes as formerly drawn.

Mr. RAUSHENBUSH. Senator Bone, since this matter has come into discussion, may I point out that what you have was the invested capital taken from the Internal Revenue figures, consisting roughly of stock plus bonds, plus surplus, and you can, if you care to go into it, get the exact number of the Revenue Bureau documents where each of these capitals can be secured, and it will be found that it differs a great deal from the earnings on assets as given in the statement Mr. Pierre S. du Pont has offered to the committee. The committee exhibit figures you are discussing show undertaxation income in 1915 of \$29,429,000, and the earnings on assets under these figures are \$86,992,874. The committee figures are lower by the difference between \$86,000,000 and \$29,000,000. We are discussing two different bases, and there is no attempt to make any comparison between them. I think you will find on these revenue figures based on taxable income that the percentages that follow are correct. Is that a fair statement, Mr. du Pont?

Mr. PIERRE S. DU PONT. As far as income is concerned, I believe they will be correct, but there is quite a discrepancy, according to our belief, because these advances by customers were in the nature of bonds—that is, were returnable as a part of the capital invested in the shape of notes or bonds for financing purposes, as we could not have done the business without that capital. That point of view is not taken in figuring for taxation in your reports at all.

Senator BONE. The Government does not accept that theory as a basis for taxation.

Mr. PIERRE S. DU PONT. I am not sure that figure would be taken for taxation.

Senator BONE. Mr. du Pont, can you give the committee any idea, just briefly, as to what major uses the profits of the corporation were put? The profits arising out of the war transactions; were they distributed as dividends or invested by the company?

Mr. PIERRE S. DU PONT. Some were distributed as dividends to the stockholders and the balance invested for corporate purposes.

Senator BONE. What were those corporate purposes?

Mr. PIERRE S. DU PONT. One of chief investments was the investment in the dye industry, which had been very small in this country before the war, all dyes being made in Germany. It was the general belief that the dye business should be started in this country and

increased, in order that the importance of dyes in military affairs should be availed of.

Senator BONE. Did you acquire existing plants, or did you extend your own plants?

Mr. PIERRE S. DU PONT. We had to start new; it had nothing to do with our military plants, and we had to acquire entirely new land and build the plants, and that investment amounted to about \$50,000,000 in new properties at least, and it was a big development. I think it was about 10 years before we made any money out of it.

Senator BONE. When did you actually get launched off into this chemical work in a major way?

Mr. PIERRE S. DU PONT. Just after the war.

Senator BONE. Did you immediately acquire the German chemical patents seized by the Alien Custodian?

Mr. PIERRE S. DU PONT. No; we did not acquire them, we took licenses from the Chemical Foundation.

Senator BONE. The Chemical Foundation was the organization that took over the German patents?

Mr. PIERRE S. DU PONT. Yes, sir.

Senator BONE. Is that an independent organization, or is it affiliated with your organization?

Mr. IRÉNÉE DU PONT. It is not affiliated in any way with our organization, but we subscribed to a certain amount of the preferred stock in it when it was started as did all others in the chemical industry. We have never made anything out of it, but we considered that it is a great help to the chemical industry.

Senator BONE. I call your attention to a report of 1917, and will you direct your attention to page 2, at the top of the page. This merely amplifies what we have been discussing here, and it says:

A large part of the profits arising from the military business of recent years has been reinvested in the expansion of the company's affairs, so that today's profits must be measured in comparison to capital employed exclusive of goodwill, of \$240,000,000 as against a total of \$51,000,000 prior to 1914.

That statement is along the lines we have been discussing.

Mr. PIERRE S. DU PONT. Yes, sir.

Senator BONE. On page 5 appears some further observations by the company to its stockholders, as follows:

Announcement was recently made of the acquisition of a large interest in the General Motors Corporation and Chevrolet Motor Company.

Can you tell us the nature and extent of that acquisition?

Mr. PIERRE S. DU PONT. That acquisition, if I remember right, was originally \$47,000,000. We added to it afterwards, but that additional investment was resold in the course of a few years and the principal amount in the General Motors as our investment, remained at practically \$47,000,000.

Senator BONE. Was this investment in the General Motors and Chevrolet Motor Car Co. an investment of the du Pont de Nemours Company or an investment of your own and your brothers?

Mr. PIERRE S. DU PONT. It was entirely the company's.

Senator BONE. There was no ownership of stock in that company by you and your brothers?

Mr. PIERRE S. DU PONT. No.

Senator BONE. How does that stock which your company still retains in General Motors stand as to percentage of control?

Mr. PIERRE S. DU PONT. It is about a 25 percent interest.

Senator BONE. Of the common?

Mr. PIERRE S. DU PONT. Of the common, yes, and no preferred.

Senator BONE. What is your control in the Chevrolet?

Mr. PIERRE S. DU PONT. The Chevrolet Co. was afterwards dissolved and it was all merged into General Motors.

Senator BONE. Was it dissolved after your acquisition of the stock?

Mr. PIERRE S. DU PONT. Quite shortly afterwards; yes.

Senator BONE. What happened to your stock?

Mr. PIERRE S. DU PONT. It was converted into General Motors stock.

Senator BONE. After that conversion did your holdings in General Motors then remain at 25 percent—was that the total holding after this conversion?

Mr. PIERRE S. DU PONT. Yes.

Senator BONE. So that the total original investment in Chevrolet and General Motors is now reflected in your stock in General Motors, and that is about 25 percent of the common of General Motors—that is, about 25 percent of the total issue of common stock?

Mr. PIERRE S. DU PONT. Yes. May I explain I was a stockholder in General Motors at the time of this du Pont acquisition but my brothers I think were not. I have held that stock since then, and acquired more.

Senator BONE. Can you tell us the amount of investment that the company made in General Motors and Chevrolet?

Mr. PIERRE S. DU PONT. \$47,000,000.

Senator BONE. That is somewhere near the figure, and I assume you are speaking from memory, but I call your attention to your report of 1926, where it shows that the investment is \$48,758,253?

Mr. PIERRE S. DU PONT. That covers the additional stock we acquired and then resold it. I think the total, \$47,000,000, is substantially what we have held on to. But that has been increased by the increased value, but the shares are held on our books at their book value in General Motors.

Senator BONE. Since 1919 and the issuance of the report, have you acquired some stock in General Motors?

Mr. PIERRE S. DU PONT. Only as I explained, what we have resold, and I think there has been nothing since then. I would like to refer to an assistant, if I may. I find we have about 200,000 shares additional.

Senator BONE. What would be the normal value of that, does it have a par value or is it nonpar stock?

Mr. PIERRE S. DU PONT. I think it has been both, but I am not sure what it is now.

Senator BONE. What did the 200,000 shares cost you?

Mr. PIERRE S. DU PONT. It cost about \$24 a share; about \$4,800,000, is my recollection.

#### WAR PROFITS OF E. I. DU PONT DE NEMOURS & CO.

Senator BONE. On the picture of the capital set-up as it is revealed in the documents I have discussed here, these governmental documents filed with the Internal Revenue Department, it would appear your 1916 profits were in excess of 60 percent of your invested capital?

Mr. PIERRE S. DU PONT. I would not accept that from my point of view. They figure that out in their way of figuring capital invested.

Senator BONE. It would appear from these figures that 1915 was 22.89 percent, 1916, 63.05 percent; 1917, 35.17 percent; 1918, 6.35 percent (corrected).

Mr. PIERRE S. DU PONT. My figures should be about the same with respect to earnings. It is 37.6 for 1916 and 18.7 for 1917 and 15.3 for 1918. The 1917-18 figures reflect a great reduction in price, and the large profits of 1915 and 1916 resulted entirely from this high price charged for the powder covering amortization on the theory those plants would never be used more than 1 year and the investment would have to be amortized through that 1 year and the expectation was the war would end before the year was up. As a matter of fact the war was prolonged 4 years, so the amortization covered over four times as much as we had figured originally, and that accounts for the figures you have here for 1915 and 1916, which you have rightly attributed to those years.

Senator BONE. Going back to the 3 years preceding the war, 1911, 1912, and 1913, showing a total taxable income in those 3 years of \$15,097,000, we find that in any one of the years from 1915 to 1917 your net taxable income during that period exceeded the entire 3 years' net taxable income of the preceding period I have mentioned, 1911, 1912, and 1913.

Mr. PIERRE S. DU PONT. That is so; yes.

Senator BONE. In this document, Bureau of Internal Revenue Document No. 1, which is the protest of the du Pont Co. against additional assessments which was filed with the Bureau of Internal Revenue, section "A", page 8, the company has this to say to the Government:

As a matter of traditional pride, the du Pont Company has for generations kept itself in readiness to act as the right arm of the Government in the production of military explosives during the time of war; to do this when the United States was at war without regard to profit. \* \* \*

These matters are referred to, in part to dispel any illusions as to the effect that the generous increase in the earnings and the profits of the du Pont Company during the World War were derived in any part from profiteering at the expense of the United States Government or its people.

Now the tax protest goes on further to say:

The du Pont Company's own experience in the manufacture and sale of trinitrotoluol prior to and during the war affords another striking illustration of the same character.

Perhaps you may care to follow this. I am reading my type-written copy, but it is taken out of here [indicating report] (reading):

At the outbreak of the war in August 1914 the manufacture of TNT, in this country was practically in its infancy. The du Pont Company was, it is believed, a pioneer in the manufacture of this product, and started the erection of a small plant about 1912, gradually increasing it until at the outbreak of the war the total depreciated investment amounted to \$360,000 with a maximum capacity of 300,000 lbs. per month, of which up to that time less than 10 percent has been used.

My reason for directing your attention to this, Mr. du Pont, is because of our reference here to the amortization feature, which of course exists in any financial picture. [Continuing reading:]

During 1912, 1913, and the first seven months of 1914, the selling price was approximately 25¢ per lb. and the manufacturing costs per pound were 31½¢, 27¢, and 24¢, respectively, indicating losses of 6½¢ and 2¢ per lb., respectively, for 1912 and 1913, and a profit of less than 3¢ for the first seven months of 1914. An urgent demand for this commodity in practically unlimited quantities came with the outbreak of the war, enabling the company to operate at full capacity with a resultant lowered manufacturing cost and a greatly increased selling price. The net result was that the profit of less than 3¢ per lb. in the first seven months of 1914 was increased to 52½¢ per lb. in the last five months, so that the total profits in the short latter period were sufficient to retire the entire investment and leave a net profit equal to 100% on the investment, in addition to retaining possession of the plants for future use. The actual total net profits during the war from this original TNT plant amounted to \$6,889,500.

That plant represented depreciated investment of \$360,000. This statement of the company goes on to say:

The selling prices obviously were fixed by urgent demand and the plants enhanced enormously in physical value for the sole reason of immediate availability.

Mr. du Pont, do you still have that TNT plant?

Mr. PIERRE S. DU PONT. No; I think the large plant is entirely gone. As you know, trinitrotoluol is a highly explosive material and the original factory was built for commercial purposes.

Mr. IRÉNÉE DU PONT. Do you recall that, Mr. Swint?

Mr. SWINT. That original plant at Repaunno was destroyed by an explosion.

Mr. PIERRE S. DU PONT. I think that is a fact. Maybe one of the others can answer it, but I think that we added to that capacity during the war.

Mr. LAMMONT DU PONT. Very largely.

Mr. PIERRE S. DU PONT. It was not all the original plant which produced this war profit.

Senator BONE. Of course, this plant must have been some sizable plant, sizable in a financial way at least, to have produced total net profits during the war from the original plant, referring now to the net total of the original TNT plant, amounting to \$6,889,500.

Now I am coming to the post-war period—

Mr. PIERRE S. DU PONT. Just a moment, Senator; I think the original plant must refer to the total investment, because if we added to the plant, the profit surely related to the plants which produced it. I am not trying to fight the figures, because no matter what the figures are, the profit was very large.

I would like to explain at this time that the risk of taking those contracts was something enormous. Toluol, as a commercial article, was selling at 30 cents a gallon before the war and during the war the high was \$4.50 a gallon, and we had to buy against that rise in price, without any knowledge on our part of what the price might be eventually. We had to buy an enormous quantity, with no control of the market and no means of getting toluol in any way. The price declined in 1918 to \$1.50 and finally in the fall of 1919 to 26 cents. It went from 30 cents a gallon to \$4.50 a gallon and back again to 26 cents. You can see the enormous risk of buying against a market of that kind, in the largest quantities ever known, and that accounts very largely for the high price charged, and the profits were due to the fact that we were able to take on our orders at the lower prices and hold the materials and actually resell them later, but had

we been left with the toluol at the price we had to pay, it would have been a very certain loss.

Senator BONE. I am going to see, Mr. du Pont, if I can more particularly identify this plant and for that purpose I will take the report you filed with the Bureau of Internal Revenue. [Reading:]

At the outbreak of the war in August, 1914, the manufacture of TNT in this country was practically in its infancy. The du Pont Company was, it is believed, a pioneer in the manufacture of this product—

That is to say, TNT—

and started the erection of a small plant about 1912. \* \* \*

You will remember that.

Mr. PIERRE S. DU PONT. That was a commercial plant.

Senator BONE (continuing reading):

gradually increasing it until at the outbreak of the war the total depreciated investment amounted to \$360,000 \* \* \*.

Mr. PIERRE S. DU PONT. Yes, sir.

Senator BONE. You are identifying that plant very completely in this statement to the Government.

Mr. PIERRE S. DU PONT. Yes, sir.

Senator BONE (continuing reading):

with a maximum capacity of 300,000 lbs. per month \* \* \*.

Do you have any particular difficulty in identifying the plant or factory?

Mr. PIERRE S. DU PONT. That must have been the plant.

Senator BONE (continuing reading):

of which up to that time less than 10% has been used.

Then you go on with the recitation about increasing prices and add:

The actual total net profits during the war from this original TNT plant amounted to \$6,889,500.

Mr. PIERRE S. DU PONT. Is the capacity of that plant given?

Senator BONE. Three hundred thousand pounds.

Mr. PIERRE S. DU PONT. We sold during the war 226,000,000 pounds, which could not possibly have been produced at that plant.

Senator BONE. I imagine 300,000 pounds during a certain time.

Mr. RAUSHENBUSH. Three hundred thousand pounds per month.

Senator BONE. Three hundred thousand pounds per month.

Mr. PIERRE S. DU PONT. That is roughly 20,000,000 pounds per month which we sold. We added to it, maybe not to that plant, but the TNT plants.

Mr. LAMMOT DU PONT. May I offer a word of explanation? I think the text of that report means profits that grew out of the original venture in the TNT plant. It does not mean that that TNT plant originally constructed manufactured all the TNT during the war.

Senator BONE. I have no way of interpreting the statement except to accept the words as they appear in the report itself, indicating the depreciated value there of \$300,000 plus, with profits which of course were some times nonexistent in the early days, I take it, but which, barged into the picture when the war began and there was demand for TNT.



**MR. LAMMOT DU PONT.** Those additional profits came from additional investments beyond \$360,000 which existed at the beginning of the war.

**Senator BONE.** This report does not indicate that.

**MR. RAUSHENBUSH.** May I clarify that by pointing out the purpose of the tax protest, which was to claim at that time, in 1915, that the valuation which should be put upon the plant for tax purposes was very considerably larger than the valuation which the company originally put upon it at that time when it changed hands. If I may be allowed to summarize the whole tax protest, I will do so.

**Senator BONE.** Go ahead.

**MR. RAUSHENBUSH.** That was the purpose of it. It was not started by the company until after a case had been brought, and then the company raised the question and tried to prove all through here (which is of interest to the constructive purposes of the committee, so far as the possibility of taxing profits), it describes military contracts in hand and great emergency demand and other factors, covered in these various sections, which gave the plant at that time a value far greater than it had on the books, and this one illustration fits into a long pattern—I think I am interpreting this correctly—fits into a long pattern of proof that the expected profits were, as the phrase is used here at various times, shown to be very generous, to say the least. And, giving that significance to the whole thing, does it not seem sound on the face of it that they were talking about this one plant as a part of the case for making out that the whole investment should be valued on a different basis for tax purposes than the Bureau had up to that point done?

**MR. PIERRE S. DU PONT.** The reference there to the original plant, it does not seem to me could have been restricted to that plant, because the sales of TNT in 1918 were 3,318,000 pounds a month, or over 10 times the capacity of that plant.

**MR. IRÉNÉE DU PONT.** I think the explanation there is very clear; the amount of profits which could be applicable to that plant represented \$6,000,000 in the period in question.

**Senator BONE.** That may be the case.

**MR. IRÉNÉE DU PONT.** That would be one and one-half million dollars a year, and if it produced three and a half million, that meant something over 45 cents per pound profit.

**Senator BONE.** At the end of the war, that is to say, the post-war period, there was brought about considerable change in your business, was there not?

**MR. PIERRE S. DU PONT.** Yes, sir; a great change.

**Senator BONE.** How many war contracts were canceled?

**MR. PIERRE S. DU PONT.** I believe the canceled contracts were \$260,000,000.

**Senator BONE.** The figures I have before me indicate a cancellation of \$260,000,000 in contracts. I am going to read the figures covering your gross sales for 1919 and 1920, and if I am in error in any respect, I wish you would please correct me. In 1919 they were \$121,391,912.24, which appears in Exhibit No. 12 there in our exhibits, if you care to check it, and in case any question is raised.

In 1920 your gross sales were somewhat larger, amounting to \$129,766,522.87. That appears in exhibit 18.

Mr. PIERRE S. DU PONT. If those were taken off the tax records, I am sure they are correct.

Senator BONE. We have used the tax records wherever possible because they give us not only something we could work on but give us statements.

Mr. PIERRE S. DU PONT. Yes, sir.

Senator BONE. Let us come back again to the question of invested capital, Mr. du Pont, and the record before us shows an invested capital in 1919 of \$201,763,745.37. That is made up from your own balance sheets.

Mr. PIERRE S. DU PONT. In the same way as before?

Senator BONE. It is possible we disagree again as to the proper interpretation of those figures. Our figures indicate that in 1920 there was an invested capital in the du Pont Co. of \$215,248,364.90, probably also subject to the same suggestion we made before.

Mr. PIERRE S. DU PONT. To a very much less degree than before.

Senator BONE. Does that more nearly approach your understanding?

Mr. PIERRE S. DU PONT. That was gradually changed.

Senator BONE. In other words, there have been withdrawals from the funds which we have discussed?

Mr. PIERRE S. DU PONT. Yes, sir.

Senator BONE. Your company reported net losses in 1919 of \$2,255,359.52 (corrected). Can you tell us how you came to claim that loss?

Mr. PIERRE S. DU PONT. May I ask Mr. Walter Carpenter, our vice president, to reply to that. He had charge of the taxation matters and I would not be able to explain it in detail.

Senator BONE. Will you hold up your right hand and be sworn, Mr. Carpenter?

#### TESTIMONY OF W. S. CARPENTER, JR.

(The witness was duly sworn by Senator Bone.)

Senator BONE. What is your official connection with the du Pont Co.?

Mr. CARPENTER. I am vice president.

Senator BONE. Vice president?

Mr. CARPENTER. Yes, sir.

Senator BONE. How long have you been with them?

Mr. CARPENTER. About 24 years.

Senator BONE. What is your particular work with the company?

Mr. CARPENTER. In the finance department.

Senator BONE. You say in the finance department?

Mr. CARPENTER. Yes, sir.

Senator BONE. Do you have charge of their auditing and their books?

Mr. CARPENTER. I am chairman of the finance committee at the present time.

Senator BONE. You are fully apprised of what is in the books and you know the records of the company thoroughly?

Mr. CARPENTER. Yes, sir.

Senator BONE. You have indicated here a loss, shown by your company, I presume, in the income-tax statements to the Govern-

ment of \$2,255,359.52 (corrected) in 1919. Against what factor was the loss charged?

Mr. CARPENTER. There are a great many items which enter into the reconciliation of those tax figures with our published figures. We have all of them here.

Senator BONE. Give us the major items. We do not want to go into detail, because it is probably a lengthy statement. What were the chief items constituting that statement of loss?

Mr. CARPENTER. The principal items in connection with that seem to be the loss in value in connection with plants abandoned in 1919. Some of our plants carried over to 1918 were still in use at that time, and abandoned in 1919.

Senator BONE. Then we might suggest that that was a drastic write-down in value which was claimed and charged off as a loss to the company?

Mr. CARPENTER. Yes, sir.

Senator BONE. That property not being destroyed but being property which lost its value so far as your company is concerned?

Mr. CARPENTER. At the end of 1918 some of our war properties were sold to a company which was set up for that purpose, and the stock of that company was distributed to the stockholders of the du Pont Co.

Senator POPE. What was that company?

Mr. CARPENTER. That company was the du Pont Chemical Co. All properties were sold as to clear up the du Pont Co. and its balance sheets. Then that company was liquidated and the plants were sold and later on in connection with the final tax adjustment, the department required that we consider those properties disposed of at the price at which they were eventually disposed of by the Chemical Co., and in that way we have those elements of amortization entering into 1919.

Senator BONE. These plants that were no longer used and useful in the service of making TNT and purely military powders being shipped abroad, were they dismantled?

Mr. CARPENTER. Yes, sir; they were dismantled and sold.

Senator BONE. I believe Mr. du Pont stated in the early part of his statement that you had amortized that investment out of the original prices charged during the war?

Mr. CARPENTER. Yes, sir.

Senator BONE. Did you succeed in that?

Mr. CARPENTER. Yes.

Senator BONE. You evidently were very successful in amortizing the TNT plant, for as to the small plant, to which there were allocated earnings of over \$6,000,000, you certainly had amortized that plant completely out of the picture. That is correct, is it not?

Mr. CARPENTER. Yes, sir; when you asked the very first question, you are considering the company profits as reported to our stockholders. They are quite different from the profits which are allowed by the Government. For instance, in 1916 we might have charged off \$30,000,000 or \$40,000,000 amortization against our earnings, whereas the Government might not have allowed any of that. In fact, I think they did not allow amortization at all until 1918.

Senator BONE. But the practical side of this problem—I am not concerned with the technique of the Government or your method of

accounting or anything—but the practical thing is that the Du Pont people wrote off all the loss by the time the war contracts ended in profits. That is right?

Mr. CARPENTER. That is right.

Senator BONE. Do we understand, then, from your statement, that it is your position that under the existing revenue laws of the country, you could not have had it written off in any other way than at the end of the war?

Mr. CARPENTER. I think that was the position of the Government.

Senator BONE. That meant the charging it off again as against profits, did it not?

Mr. CARPENTER. No; you have two entirely different sets of figures. One is that of the company, which through its conservatism writes it off from the earnings of the company. They charged off large amounts for plant investment in 1915, 1916, and 1917, and when the returns were made, the Government in the figures which you have there apparently, the Government would not allow a charge off, but merely depreciation over a period, and made us withhold any amortization until 1918. I think that is the confusion in endeavoring to reconcile some of the figures you are using; you are using our taxable earnings, whereas Mr. du Pont is using our commercial earnings.

Senator BONE. As a matter of fact, the policy of the company was such—and, of course, we cannot blame you any in that—as far as possible in this business, which is recognized as being somewhat hazardous, to literally, as far as possible, amortize the whole plant in war profits, if you could, not knowing when the war was coming to an end. Is not that correct?

Mr. CARPENTER. Surely.

Senator BONE. That is what made me ask about the other matter. You showed net losses to the Government of \$2,255,359.52 in 1919 (corrected).

Mr. CARPENTER. I do not reconcile the figure. I have \$2,000,000.

Senator BONE. Will you look at our "Exhibit No. 13"?

Mr. RAUSHENBUSH. Mr. Carpenter has that.

Mr. PIERRE S. DU PONT. We cannot identify that.

Mr. RAUSHENBUSH. There is the final report of the Solicitor of Internal Revenue in that. [Handing paper to Senator Bone.]

Senator BONE. These figures, I may say, are taken from a report of the Solicitor of Internal Revenue, directed to the attention of Mr. Alexander. Is he one of your staff?

Mr. CARPENTER. I think he was in the unit.

Senator BONE. This, I take it, was brought to your attention, probably. This, I may say, is from the records of the Internal Revenue Department. Under the caption of "Net Profits", as disclosed by Bureau letter dated October 30, 1924, you are showing a loss of \$2,255,359.52. If that is not correct, will you indicate the correct figure?

Mr. CARPENTER. Yes; the correct figure I have here is \$2,275,369.

Senator BONE. Will you kindly indicate the figure of net loss which was reported to the Government for taxation purposes in 1920, for the year 1920?

Mr. CARPENTER. Yes, sir.

Senator BONE. We want to distinguish between the year the report was made and the year covered by the report. I take it this

was for the year 1919. Will you indicate what the tax situation was for the year 1920? I do not mean the report made in 1920, but for the year 1920.

Mr. CARPENTER. The income was for the final report, 1920, the taxable income was a loss of \$2,953,376.

Senator BONE. I have almost the identical item. I have \$2,951,376.68. Where would come this great discrepancy in the 1919 figure?

Mr. CARPENTER. I do not know, I am sure. The figures were made up the same way for each year.

Senator BONE. Would you say that that loss was occasioned practically in whole by the elimination of these plants which were perhaps not obsolete, but no longer useful in the business in which they were engaged?

Mr. CARPENTER. Are you talking about 1920?

Senator BONE. The thing that occasioned these showings of loss on the part of the company.

Mr. CARPENTER. As you get away from 1918 that evidence of loss in the use of or value of the old war plants becomes less and less. There are a great many other adjustments, of course.

Mr. RAUSHENBUSH. Just to come back to that TNT plant, Mr. Carpenter. Mr. Pierre S. du Pont testified a little while ago that that was originally started as a commercial plant and it says in this statement, that has been read several times now, that the total profits in the period of 5 months of 1914 were sufficient to retire the entire investments and leave a net profit equal to 100 percent on the investment.

A plant like that, a TNT plant, built for commercial purposes originally, would that be written off as a war plant?

Mr. CARPENTER. Yes. If you are talking about that particular plant, that was blown up, and of course, if a plant was a commercial plant and merely used temporarily in production of goods to be sent abroad, that was maintained and there was no write-off in connection with that. I am talking about a taxable write-off.

Senator BONE. What dividends, if any, were declared by the company in the years 1919 and 1920? What were the amounts?

Mr. PIERRE S. DU PONT. We have our statements now.

Senator BONE. Your own yearly reports which show the amount of dividends, would they not?

Mr. PIERRE S. DU PONT. In 1920, the preferred stock dividend is \$3,800,000 and the common stock is \$6,267,000 or a total of practically \$10,000,000.

Senator BONE. Will you take the figures from 1919?

Mr. PIERRE S. DU PONT. In 1919, the amount is \$14,242,578.

Senator BONE. I call your attention to your report of 1918, page 4. I should like to read a brief extract from that report.

From 1915 to 1918 the gross capital employed by the company has increased from \$83,432,000, to \$308,846,000, or 270 percent.

Did you include in that gross capital the money that you suggested was extended to the company in these war operations?

Mr. PIERRE S. DU PONT. Yes, and also the plants that were still in operation.

Senator BONE. You were carrying them on your books at 100 percent value, or were you carrying this amortization figure through your books during the war operations?

Mr. PIERRE S. DU PONT. My recollection of the amortization was this; that we started in at a very full amortization, maybe 25 or 30 cents a pound on powder produced, but as soon as the war developed sufficiently so that we were sure that we could average over a larger amount of powder, we proceeded to average and reduced the amortization to about 14 cents a pound. So that it was a composite of several changes.

Senator BONE. Did you during the war operations beginning in 1914 and 1915, when you were dubious about the course of this war, in your own accounting system begin to write these plants off?

Mr. PIERRE S. DU PONT. I understand so, until about 1916.

Senator BONE. Were they constantly depreciated and written off?

Mr. PIERRE S. DU PONT. Yes.

Senator BONE. That was reflected in the higher cost of powder made necessary by this amortization process, was it not. In other words, the higher cost of powder was made necessary, in your judgment and from your viewpoint in order to write these plants off?

Mr. PIERRE S. DU PONT. Yes.

Senator BONE. I was wondering if, as a financial operation and bookkeeping transaction you actually wrote the plants off on your books.

Mr. IRÉNÉE DU PONT. I do not think we did. I think we simply set up a reserve in 1915 and 1916 and thereafter charged off military expenditures against the amortization fund currently.

Mr. CARPENTER. The effect would be the same?

Mr. IRÉNÉE DU PONT. The effect would be the same, but the actual transaction was that we set up a reserve.

Senator BONE. You were accomplishing by that method the same thing as though you had written it off.

Mr. IRÉNÉE DU PONT. Yes.

Senator BONE. Continuing with this quotation from your report of 1918, on page 4:

In addition there has been distributed to stockholders \$140,983,000, making a total increase during the war period of \$366,397,000.

That total increase to which you referred of something over a third of a billion dollars during the war period was the result of war activities on the part of the company.

Mr. PIERRE S. DU PONT. Yes.

Senator BONE. Reading further:

The resulting gross business has amounted to \$1,049,000,000 including the cost of construction work.

On page 8 there are some further observations as follows:

The operation of the factories of this company above mentioned has resulted in production of 1,466,761,219 pounds of military explosives of all kinds furnished to the United States and the allied nations. The importance of this work is better realized from the fact that this output is estimated at 40 percent of the amount of the explosives made throughout the world for the Allies during the war.

Mr. PIERRE S. DU PONT. May I correct that statement; it is not quite accurate? That is, 40 percent of the total propellant powder used. The word propellant should appear. It is not 40 percent of all the explosives including TNT. The report is correct.

I understand that it is 40 percent of the powder used to project the projectile from the gun.

Senator BONE. I am going to read for you a statement of the dividends paid on the common stock of the du Pont Co. during the years 1916 to 1918. These seem to indicate the huge profits of your company from the war contracts that we have referred to. What was the regular dividend on your common?

Mr. PIERRE S. DU PONT. Before the war?

Senator BONE. Was it  $2\frac{1}{2}$  percent?

Mr. PIERRE S. DU PONT. I should not wonder.

Mr. IRÉNÉE DU PONT. That, of course, would vary.

Senator BONE. You had a number of special dividends, did you not?

Mr. PIERRE S. DU PONT. Special dividends—

Senator BONE. Prior to the war.

Mr. PIERRE S. DU PONT. I think that the  $1\frac{1}{2}$  percent was the regular dividend prior to the war.

Senator BONE. Apparently the records indicate that on September 30, 1917, the company paid the largest dividend in its history. That amounted to 32 percent, did it not?

Mr. PIERRE S. DU PONT. If you have the record there, I imagine that is correct.

Senator BONE. I am going to read these dates and the dividends according to the dates when they were payable.

February 29, 1916, the regular dividend of  $1\frac{1}{2}$  percent, together with a special dividend of  $22\frac{1}{2}$  percent, payable March 15, 1916.

May 31, 1916, a regular dividend of  $1\frac{1}{2}$  percent and a special dividend of  $23\frac{1}{2}$  percent, payable June 15, 1916.

A dividend voted on August 31, 1916, regular of  $1\frac{1}{2}$  percent and special of  $23\frac{1}{2}$  percent, payable September 15, 1916.

December 1, 1916, a regular dividend of  $1\frac{1}{2}$  and a special dividend of  $24\frac{1}{2}$  percent payable December 15, 1916.

February 28, 1917, a dividend of  $4\frac{1}{2}$  percent was directed to be paid and the date of payment was March 15, 1917.

On May 31, 1917 a dividend of  $4\frac{1}{2}$  percent was directed to be paid on June 15, 1917.

On June 13, 1917, there was a 1 percent Red Cross dividend payable on June 23, 1917.

What was that 1 percent dividend?

Mr. PIERRE S. DU PONT. One percent dividend in connection with which the stockholders were advised to contribute to the Red Cross. I think there was no compulsion, but it was a dividend which was offered to them suggesting that it be paid into the Red Cross.

Senator BONE. A 1-percent dividend?

Mr. PIERRE S. DU PONT. Yes.

The CHAIRMAN. That was a request?

Mr. PIERRE S. DU PONT. Or advice; yes.

Senator BONE. On August 31, 1917, a dividend of  $4\frac{1}{2}$  percent, to be payable September 15, 1917.

On November 30, 1917, a dividend of  $4\frac{1}{2}$  percent, to be payable December 15, 1917.

On November 30, 1917, a special dividend of 32 percent, to be payable December 22, 1917.

On February 28, 1918, a dividend of  $4\frac{1}{2}$  percent, payable on March 15, 1918.

On May 31, 1918, a dividend of  $4\frac{1}{2}$  percent, payable on June 15, 1918.

On August 31, 1918, a dividend of  $4\frac{1}{2}$  percent, payable September 16, 1918.

On October 30, 1918, a 1 percent United War Work Campaign dividend, payable on November 11, 1918.

What was that 1-percent dividend?

The CHAIRMAN. Was that at the time when they combined the Red Cross and the Y.M.C.A. and the other units that were at work in one drive?

Mr. IRÉNÉE DU PONT. There was a list of about eight different organizations of that kind including the Y.M.C.A.

The CHAIRMAN. It was work of that character.

Mr. IRÉNÉE DU PONT. Yes.

Senator BONE. We need not go into that now. We may pass this.

On November 30, 1918, there was a payment of  $4\frac{1}{2}$  percent, ordered payable December 16, 1918.

Now, going back to this 1-percent Red Cross dividend which was declared on June 13, 1917, was there any compulsion on the part of stockholders to turn that over to the Red Cross?

Mr. PIERRE S. DU PONT. No.

Senator BONE. There is a note somewhere in the files that the stockholders were not compelled to turn this dividend over to the Red Cross; is that correct?

Mr. PIERRE S. DU PONT. That is correct.

Senator BONE. We will now proceed with this dividend record. On December 23, 1918, a dividend was declared of 5 percent, payable in 6-percent preferred stock of the du Pont Chemical Co., and payable on December 26, 1918. Is that correct?

Mr. PIERRE S. DU PONT. That sounds right; yes, sir.

Senator BONE. In 1918 there was again a 2-percent dividend to the Red Cross.

On February 27, 1919, there was directed a dividend of  $4\frac{1}{2}$  percent, payable March 14, 1919.

On May 31, 1919, there was voted a  $4\frac{1}{2}$ -percent dividend, payable on June 14, 1919.

On August 30, 1919, there was voted a  $4\frac{1}{2}$ -percent dividend, payable September 15, 1919.

On November 29, 1919, there was voted a  $4\frac{1}{2}$ -percent dividend, payable December 15, 1919.

The records that I have show a total of dividends paid on the common stock for each year 1916 to 1919 as follows:

In 1916 there was paid 100 percent in dividends on the common.

In 1917 there was 51 percent in dividends on the common stock of the Du Pont Co.; in 1918, 26 percent; and in 1919, 18 percent.

Mr. PIERRE S. DU PONT. That is correct, according to our statements.

Senator BONE. What stock do you have in your set-up which is known as "debenture stock"? What is the nature or character of it?

Mr. PIERRE S. DU PONT. It is in the nature of a preferred stock. The contract is slightly different from the preferred stock, but that is what it is essentially.



Senator BONE. It contains something of the usual contract relationship of the company with the stockholders.

Mr. PIERRE S. DU PONT. It has no maturity.

Senator BONE. It receives a quarterly dividend of  $1\frac{1}{2}$  percent, or a total of 6 percent.

Mr. PIERRE S. DU PONT. Yes.

Senator BONE. That was paid regularly in every year from 1916 to 1919, I take it.

Mr. PIERRE S. DU PONT. Yes.

Senator BONE. This record indicates that. Now, I want to indicate some of the market quotations on the stock—

The CHAIRMAN. Senator Bone, with your consent, I would like to offer the suggestion that the average profit on the common stock, the average dividend on the common stock running from 1916 to 1919 was not quite 49 percent.

Senator BONE. That would be averaged over the 4 years.

The CHAIRMAN. The 4-year average is 49 percent on the common stock.

Senator BONE. Forty-nine percent per annum.

Mr. LAMMOT DU PONT. Forty-nine percent on the par value.

The CHAIRMAN. That is correct.

Senator BONE. What is your par, Mr. du Pont—a hundred dollars?

Mr. LAMMOT DU PONT. I do not recall.

Senator BONE. You know the par value of the stock of the company, do you not?

Mr. IRÉNÉE DU PONT. It was originally \$100 but it has been changed since. It went to no par at one time.

Mr. CARPENTER. During that period it was \$100.

The CHAIRMAN. During that 4-year period the par value was \$100.

Senator BONE. I do not know that all of this is material to the inquiry, but it is nevertheless a part of the picture.

The high quotation of the stock in 1916 was \$376.50 and the low was \$258.25.

In 1917 the high was \$285 and the low was \$221.

In 1918 the high was \$303 and the low was \$250.50.

In 1919 the high was \$380 and the low was \$259. It would appear from this that the high in 1919, after the war ended, was higher than it was during the war period. Is there any rational explanation of that?

Mr. PIERRE S. DU PONT. If that is correct, it was because the profits then were sufficiently realized to warrant a valuation of that kind.

Senator BONE. Of course, your company had had a very beautiful record of earnings over this period and naturally it kited your stock. But is there any explanation other than what we have suggested for this extremely high figure in 1919 when apparently your profits had dropped? What was the condition of your reserves?

Mr. PIERRE S. DU PONT. The balance sheets will show that. I think, as a matter of fact, the cause of that rise in the stock was that it was a continuation of an upward rise. The public perhaps overestimated the value of the stock at the time or underestimated—I do not know which. The realized profits were very much better

than those that were not realized. It is very difficult to account for market operations, Senator.

Senator BONE. I have before me your annual report for 1918 which perhaps offers some explanation of this situation. Your company, in its report to its stockholders, has this to say:

The stock of E. I. du Pont de Nemours Powder Company, the predecessor of E. I. du Pont de Nemours and Company, sold during the early months of the war at \$125 per share. The share of the debenture stock and two shares of common stock of E. I. du Pont de Nemours and Company which were exchanged for the former security are worth in today's market (December 31, 1918) \$593.00 or an increase in value of 374 percent.

That terrific enhancement in value could only have been accomplished by a very fine showing of earnings, is that correct?

Mr. PIERRE S. DU PONT. Yes, sir; surely.

Senator BONE. Extraordinary earnings. Continuing with this report:

In the meantime (1915-1918) the total dividends on the common stock of E. I. du Pont de Nemours Powder Company and on the exchange securities of E. I. du Pont de Nemours and Company have amounted to 458 percent on the par value of the original stock. It is difficult to imagine a more satisfactory financial result, especially in view of that fact that the liquidation of the balance of the military powder investment as it stands today cannot materially alter the conditions above recited.

You were being somewhat modest even in that statement, were you not, about these extraordinary earnings?

Mr. PIERRE S. DU PONT. I doubt if any other company made such a record.

Senator BONE. It is doubtful if any other company in this country ever showed a better balance sheet or a record of earnings than that.

Now, the so-called "amortization" or liquidation of these plants, the writing off of these plants, did not reflect itself in any real financial injury to your company. You had fortified yourself so that when you wrote that stuff off, it was no longer used or useful and your company and your stockholders sustained no loss.

Mr. PIERRE S. DU PONT. I would not go that far, Senator, because if the loss had not been there, the profits would have been that much greater.

Senator BONE. But you took care of the loss in the high prices charged the people that you did business with in the early part of the war. You really dealt at arm's length with the Allies before we got into the war, did you not?

Mr. PIERRE S. DU PONT. Surely, yes.

Senator BONE. In other words, it was a cold straight out business proposition of charging enough to write all of this stuff off, because of your doubt of the length of time that the war was going to continue. Of course, that was a perfectly normal thing to do. But it is what you did.

Mr. PIERRE S. DU PONT. There is no question about it. There was no question about any of the contracts between us and the Allies. But I do not want you to think, Senator, that there was anything in the nature of writing these plants off twice. Our profits were figured after writing off the plants because we could carry them as assets no longer. The net profit which I have spoken of in that annual

report is the net result after that was done. But we did not turn around then and write them off a second time for taxation purposes.

Senator BONE. I am going to read into the record a short statement of the taxes paid by the company and if you have any similar figures before you, I wish you would follow them, and if there is any difference between our figures, please call them to our attention.

The income and excess profits paid by the du Pont Co. for the years 1911 to 1920 are as follows: In 1911 the amount is \$49,569.95.

As I proceed, Mr. du Pont, if there is any question about these figures, let us refer to our exhibits here, which is your report to the Government. These figures are for the earlier years when the smaller amounts were paid.

1912, \$50,178.35; 1913, \$59,209.88; 1914 is missing—perhaps that can be supplied some other time; 1915, the figure is \$294,293.92; 1916, \$2,551,494.51 (corrected).

Mr. CARPENTER. Did I understand you to say that this would include all taxes?

Mr. RAUSHENBUSH. Income and excess-profit tax.

Mr. CARPENTER. That does not include munitions tax, which is a very large item. Whereas the income and excess-profits tax was \$2,551,000, the munitions taxes were \$13,157,000.

The CHAIRMAN. That was in addition to this.

Mr. CARPENTER. In addition to this figure that you have.

Senator BONE. Was that paid through the Bureau of Internal Revenue?

Mr. CARPENTER. Yes. That was a special munitions tax. I think it was 12½ percent.

Senator BONE. The figure I have for 1917 is \$21,925,144.50; 1918, \$1,384,163.41; in 1919, no taxes were paid; is that correct?

Mr. CARPENTER. Yes, sir.

Senator BONE. In 1920 no taxes were paid; is that correct?

Mr. CARPENTER. I think that is correct, but I will check it.

Senator BONE. In order that we may have the figures on the munitions taxes, the items that you mentioned, will you indicate what those are for the record?

Mr. CARPENTER. In 1916 the munitions tax was \$13,157,055.

Senator BONE. Was that in addition to what I have already indicated?

Mr. CARPENTER. That is correct. In 1917 the munitions tax was \$3,943,927.

Senator BONE. Why is it that? It was \$13,000,000 in 1 year and only \$3,000,000 the next year?

Mr. CARPENTER. The higher profits in 1916 and also there was a higher rate, I think. I think it was 12½ percent in 1916 and only 10 percent in 1917. Also, I think that after the United States came into the war, the munitions tax was stopped.

Senator BONE. It was stopped?

Mr. CARPENTER. I am not sure of it, but I think that accounts for the difference.

Mr. RAUSHENBUSH. Were those the only 2 years when a munitions tax was paid, or does that go back further?

Mr. CARPENTER. That is all.

Mr. RAUSHENBUSH. Those two should be added in all fairness, to the total of the taxes paid. The total, therefore, of income, excess profits, and munitions taxes for these years outside of 1914, for which we have not been able to secure any figures from the Bureau of Internal Revenue, is \$43,395,036.

Senator BONE. After those taxes were paid, the company's annual report for 1918 was issued—and I take it that was issued in 1918? Is that correct?

Mr. CARPENTER. Yes.

Senator BONE. The statement that I have just read concerning which I inquired of Mr. Pierre du Pont—that is to say, this statement showing this very flattering financial condition and the total of dividends of the company amounting to 458 percent of the par value of the stock between the years 1915 and 1918 inclusive, remains unchanged; that is to say, that is still a fact. In other words, the burden of taxes which is shown by these figures that we have quoted still enabled your company to pay 458 percent in dividends in the years 1915 to 1918 inclusive on the par value of its original stock.

Now, in your 1916 report, which came out in 1917, your company seems to have been somewhat critical of the fact that it paid out as much as it did in taxes on these profits. There were numerous adjustments, were there not, in the form of refunds, in connection with your taxes?

Mr. PIERRE S. DU PONT. In what period—at the end of what period?

Senator BONE. During the period we have been discussing.

Mr. CARPENTER. It eventually developed, about 6 or 8 years after that.

Senator BONE. Were these refunds based largely on the decreased valuation of your property?

Mr. CARPENTER. On the amortization of the property?

Senator BONE. Yes.

Mr. CARPENTER. Oh, yes.

Senator BONE. Despite the large profits that have been shown here, the income taxes imposed on the company constituted a matter that was complained of rather bitterly in your 1916 report, where you say to your stockholders:

It is regrettable that the United States Government has made our stockholders victims of excessive taxation.

Did you think it was excessive for the Government to take what it did in view of these numerous dividends that were being paid to the stockholders?

Mr. PIERRE S. DU PONT. We thought it was excessive under the law.

Senator BONE. But you do not draw that distinction in this report. You merely say that it is excessive.

Mr. IRÉNÉE DU PONT. Senator, I think I can enlighten you a little on that. During this first year, we got a munitions tax slapped on after the contracts had been made, so that we could not change them. It just came on us without warning, and it was retroactive. I came to Washington and had an interview with Senator Saulsbury and complained bitterly—he was the Senator from Delaware—saying

that it did not seem to me that a retroactive tax of that kind was proper. He smiled good humoredly and said, "Mr. du Pont, you ought to be thankful that it was not double as much. We need the money."

That is one reason that I felt a little bit upset about it.

Senator BONE. The poor old Government did need the money, didn't it?

Mr. IRÉNÉE DU PONT. I do not know. That was before we got to spending it so fast.

Senator BONE. I imagine you will agree now that we needed it, will you not?

Mr. IRÉNÉE DU PONT. We had not gotten to spending it quite so fast in those days.

Senator BONE. The tax was on your net income and not on your gross income?

Mr. IRÉNÉE DU PONT. Yes; it was on the net. It was quite a high percentage.

Senator BONE. But even so, this tax concerning which you complained rather bitterly, did not prevent your company from making a very good showing?

Mr. IRÉNÉE DU PONT. But we were singled out as a munitions company to be taxed retroactively in amount of some \$12,000,000 that year. I do not think that that was a very fair thing.

Senator BONE. Were there not other powder companies or any other companies manufacturing powder that had to pay such a tax?

Mr. IRÉNÉE DU PONT. Practically none of them had large profits except the Hercules and the Atlas companies, and they were very small as compared to ours. I undertake to guess that we paid 90 percent of the total of the munitions tax—our company did—and it was retroactive, put on after we had made our contracts.

We might have been a little rough, Senator, in that criticism, on that account. That may account for this little squib in the report.

Senator BONE. Your report says [reading]:

Under the corporation tax and ammunition tax laws, the tax levied against our company for the 1916, under these laws will aggregate an amount equal to 170 percent of our entire net earnings for the year 1912—

That is going back pretty far—

In which year we had the largest earnings in the history of the company.

That was prior to the war. But the point that I am making now is that even with this tax, the du Pont Co. showed surprisingly large earnings and were very generous with its stockholders.

Mr. IRÉNÉE DU PONT. There is no doubt about that.

Mr. LAMMOT DU PONT. You have in mind the figures that include the dividends after the year 1916.

Senator BONE. Yes. That is this dividend statement that I have read.

Mr. LAMMOT DU PONT. Of course, we do not know what those dividends were in 1916 when that report was written.

Senator BONE. I think that is all I have, Mr. Chairman.

Mr. IRÉNÉE DU PONT. May I add a little to the quotation that you read, Senator? This says that—

Under the corporation tax and ammunition-tax laws, the tax levied against our company for the year 1916 alone will result in our paying to the United

States Government an amount equal to the entire profit made on sales of military powders to the United States Government by this company and its predecessors since the inception of the industry about 20 years ago.

Senator BONE. The United States Government itself has operated some of its own powder plants, has it not?

Mr. IRÉNÉE DU PONT. Yes.

Senator BONE. In other words, it has made a lot of powder for its own use?

Mr. IRÉNÉE DU PONT. Yes, sir.

Senator BONE. You did not sell the United States Government all the powder that it used, so that your sales to the United States Government to which you are referring do not represent all of the powder that the Government was using. How much would it represent, would you say 50 percent?

Mr. IRÉNÉE DU PONT. I could not guess, but I should say something of that order, in the latter years. The Government did not manufacture powder, if I remember correctly, in the earlier years of the industry. It is something of the order of 50 percent.

Mr. A. FELIX DU PONT. You do not mean during the war?

Mr. IRÉNÉE DU PONT. This was before the Government entered the war that I am speaking of.

Senator BONE. We understand that. The Government, however, had not been buying a tremendous quantity of powder; they had been buying small amounts of powder, so that your profits, in any event, on that powder, would not be very great.

Mr. IRÉNÉE DU PONT. Substantially all the powder that we made in the years prior to the war had been sold to the United States Government and the entire profits on that, during the whole period, were wiped out by a tax in a single year during which the Government did not contribute anything to us, except protect us from invasion.

Senator BONE. Did you feel that the Government was wronging you in taking this tax?

Mr. IRÉNÉE DU PONT. If it had given notice to us in advance so that we could have protected ourselves on contracts, I do not think we would have said anything about it. But being retroactive, it did not seem fair to us and I do not think you would think it was fair, either.

Senator BONE. In the light of our experience during the war—

Mr. IRÉNÉE DU PONT. We had not had that experience at this time. This was before the United States entered the war.

Senator BONE. But in looking on it now, we are convinced ourselves, are we not, that no harm was done in levying this tax, because the amount of your profits would indicate that very clearly.

Mr. IRÉNÉE DU PONT. I would not say that no harm was done. But I do not think that we would have put it in the report, if we were writing it today.

Senator BONE. You could not feel that your stockholders were injured in the face of this dividend record, could you?

Mr. IRÉNÉE DU PONT. It came out of their pockets. But I do not think we would have written it, if we were writing the report today.

Senator BONE. Well, let us go over this again. Let us just refresh our memories on this. Here are 12 to 15 dividends in one year, 1917. There is one dividend of 32 percent. There is a stock dividend

here and several large dividends. Of course, you do not want us to feel that you think that your stockholders were hurt by what the Government did?

MR. IRÉNÉE DU PONT. Well, it did not seem to be fair at the time. If you will take that amount of taxes paid to the Government up to 1916 and divide it by our capital stock, I think that they got about 100-percent dividend on the stock, something of that order.

SENATOR BONE. In 1916 your stockholders got a 100-percent dividend on their stock; 100 percent on the par value of the stock. No stockholder of any corporation can complain of that.

MR. IRÉNÉE DU PONT. They usually do not.

SENATOR BONE. Do you think that any stockholder in this country ought to complain if during war time, when we were assured that the Republic was in danger, and during which time he gets a hundred-percent dividend on his stock—do you think he should complain if the Government levies this kind of tax?

MR. IRÉNÉE DU PONT. Senator, the country at that time was only in danger of a possible future German invasion. We were not engaged in the war.

SENATOR BONE. But if we were threatened with a German invasion, even in the face of that threat, do you think that a stockholder ought not to be satisfied—

MR. IRÉNÉE DU PONT (interposing). I think you are anticipating just a little bit, are you not, Senator?

SENATOR BONE. Everybody was anticipating. We were assured that preparedness was necessary and the whole country was getting ready for it. That is right, is it not?

MR. IRÉNÉE DU PONT. That was not right; no, sir.

SENATOR BONE. We were assured that there was a threat of a German invasion.

MR. IRÉNÉE DU PONT. Mr. Wilson gave it out that we were too proud to fight, and we were not going to fight, in those days.

SENATOR BONE. Nevertheless, we were getting ready for it, were we not?

MR. IRÉNÉE DU PONT. No, sir.

SENATOR BONE. We were not?

MR. IRÉNÉE DU PONT. No, sir.

SENATOR BONE. Then most of us do not read the daily papers with an understanding mind, because while we were told that we did not want to fight, we were preparing for it.

MR. IRÉNÉE DU PONT. No—maybe we are talking at cross purposes, Senator—but the greatest preparation that was going on in the United States was in the activity of the du Pont Co.

SENATOR BONE. You were preparing for it, then?

MR. IRÉNÉE DU PONT. By reason of our foreign orders. That enabled us to prepare, to be able to fill in the niche when we were caught.

THE CHAIRMAN. Mr. du Pont, this is 1917 you are talking about?

MR. IRÉNÉE DU PONT. 1916.

THE CHAIRMAN. Then perhaps you are talking at cross purposes.

MR. IRÉNÉE DU PONT. That is what I was afraid of.

THE CHAIRMAN. You were talking of 1916 and the Senator was talking of 1917.

Mr. IRÉNÉE DU PONT. I thought that we were discussing the year 1916.

Senator BONE. In 1917 your common stockholders received dividends of 51 percent. Everybody in this country was being told that they must give until it hurt.

Mr. IRÉNÉE DU PONT. Yes, sir.

Senator BONE. And that the Republic was in danger, that our very civilization was in danger?

Mr. IRÉNÉE DU PONT. Yes, sir.

Senator BONE. Did you believe it?

Mr. IRÉNÉE DU PONT. I believed it.

Senator BONE. You did believe it?

Mr. IRÉNÉE DU PONT. Yes, sir.

Senator BONE. Do you believe it now?

Mr. IRÉNÉE DU PONT. I do.

Senator BONE. Do you think that 51 percent of profits is a fair amount of profit for a stockholder in a private corporation in time of war?

Mr. IRÉNÉE DU PONT. Those profits were all made out of foreign contracts. The amount of taxes that we paid that year offset entirely all of the profit that we had made from the United States Government since the inception of the industry.

Senator BONE. We were helping our Allies; we went into the war in 1917.

Mr. IRÉNÉE DU PONT. Yes, sir.

Senator BONE. And our civilization was threatened; that is what the world was told, was it not?

Mr. IRÉNÉE DU PONT. Yes, sir.

Senator BONE. What I am trying to get at here by my questions is whether or not you as a business man think that a 51 percent profit to your stockholders, which is permitted by the Government in time of war, is treating stockholders unfairly?

Mr. PIERRE DU PONT. Certainly not. The only complaint registered was because this was practically a special tax on one company. Naturally, if a man is singled out and they say that he shall be the only one subject to a tax, he feels a bit sore, even if the tax may be a just one; in other words, if applied to everybody, it would be different. But this was practically a one-company affair.

But that is neither here nor there. There was no great complaint. That item in the annual report was the only thing that has been said or done about it. The stockholders naturally were not very much concerned about it. They made extremely good profits.

Senator. I am afraid you have the wrong point of view on this matter. When the du Pont Co. went into this military preparation there was no obligation to do so. I was a party to the first contract and I was extremely doubtful and reluctant whether we should do it or not, but we were ready to do it because of the assurance the Allies were perfectly willing to put up the money in advance and that was a thorough understanding. We took all of the risk of purchasing under those contracts, and if you will examine the 1918 report you will see that risk was not a small one because we made these investments without a guarantee that the profits would come



out. If the war had ended we would have been in a bad condition, because I know there was one case in which we owed \$100,000,000. We were obligated to return a hundred million dollars to the Allies who furnished the money to go ahead with our contract. We had spent that \$100,000,000 and about \$60,000,000 more in plants and furnishing money for materials, and our company would have gone broke if we had been compelled to return that money.

The CHAIRMAN. Mr. du Pont, let us assume that the war had come to an end in March 1917, before the United States entered, what would have been the result enjoyed or suffered by your company?

Mr. PIERRE S. du PONT. I never figured that out, but at that time we had very large advances which were returnable to the Allies.

Mr. IRÉNÉE DU PONT. What date was that?

The CHAIRMAN. The month before the United States entered the war?

Mr. IRÉNÉE DU PONT. I do not believe it would have been as disastrous as a year earlier. That would be my guess.

The CHAIRMAN. It would not have been what?

Mr. IRÉNÉE DU PONT. Not as bad in 1917 as it would have been in 1916—that is, the financial effect on the company would probably not have been as bad.

The CHAIRMAN. If the end had come a year earlier than March 1917?

Mr. IRÉNÉE DU PONT. It would have been worse in 1916 than 1917. That is my estimate.

The CHAIRMAN. How do you account for that?

Mr. IRÉNÉE DU PONT. Because we had not got that much profit back in. You see we had another year's operation at March 1917.

The CHAIRMAN. Through late 1916 and early 1917 were you not engaged in plans that looked to our possibly entering into the war?

Mr. IRÉNÉE DU PONT. To a certain extent we were looking at it. We were looking for possible sites in connection with the United States Government, trying to find them powder sites and plants, but I do not think we had taken any active steps.

Mr. PIERRE DU PONT. It was in the summer of 1917 that we were looking for those plants?

Mr. LAMMOT DU PONT. We made no preparations for the United States until after the United States went into the war.

Mr. IRÉNÉE DU PONT. Didn't we have someone going around looking for plant sites before that? Is Major Casey here? When we went out aiding the Government in looking for plant sites, when was that?

Major CASEY. I think it was in early 1917 we were looking for them, because of the possibility of our being involved in the war and not knowing what the outcome would be at that time. Our plants were poorly located from a strategic standpoint, subject to ocean raids and from the air. I went to Mr. Pierre du Pont and took a map and drew two circles on it and said, "If we have to do any further expansion we should put these two powder plants within these two circles, one of those being west of the Alleghenies, east of the Mississippi and south of the Ohio and the other east of the Rockies, west of the Mississippi, and south of the Missouri.

The CHAIRMAN. When did you establish your plant at Washburn, Wis.?

Mr. IRÉNÉE DU PONT. That was long before this. That was purely a dynamite plant.

The CHAIRMAN. It became a powder plant during the war?

Mr. IRÉNÉE DU PONT. We made TNT there and TNX for the Navy.

Mr. RAUSHENBUSH. In talking about the TNT plant, we will not refer to TNT for commercial purposes, but in the examination of Senator Bone it was stated when the company went into the manufacture of powder for military purposes, and Mr. Pierre du Pont has testified the company made that decision reluctantly.

Mr. PIERRE S. DU PONT. I made it reluctantly.

Mr. RAUSHENBUSH. In this Internal Revenue Exhibit No. 1, prepared by the auditing department of your company, they speak about various transactions between the company, and one particular item of \$4,644,818, which consisted, we are informed, of an agreement between the International Co. and the du Pont Powder Co., whereby the International Co. undertook not to solicit military business, in consideration of the du Pont Powder Co.'s turning over to them a certain percent of the military business that the du Pont Co. obtained. The value, I take it—and I want to be fair about it—of getting the International Co. out of the soliciting of military business was \$4,644,818. Now, I would like to ask for the date of the transaction referred to which is reported in the report dated 1924 and involved the whole tax question of what the basis should be for the transfer of the old company into the new one.

Mr. PIERRE S. DU PONT. The International Co. was a company that was absorbed into the du Pont Co. before 1913, because we owned that company at the time of the dissolution suit. That International Smokeless Powder & Chemical Co. was a corporation that was started to manufacture and sell smokeless powder and other chemicals. It was absorbed into the du Pont Co., and apparently it was kept alive up to that date, but it was in the Government's dissolution suit, at which time it was decided the du Pont Co. should retain all of the powder plants, notwithstanding they were the only military powder plants at that time.

Senator BONE. Can you advise us whether or not the Government junked its powder plants after the war?

Mr. PIERRE S. DU PONT. No; it has them yet.

Senator BONE. Has it discarded any of them?

Mr. PIERRE S. DU PONT. I believe the plant in West Virginia has been scrapped and also the plant we built at Nashville, for them.

Mr. RAUSHENBUSH. According to what you have said, that the company was involved in the dissolution suit back in 1912 and 1913, then the contract whereby the \$4,000,000 plus was paid by it to the International Co. not to solicit military business was entered into before your preparation for war purposes?

Mr. PIERRE S. DU PONT. I cannot explain that, I will have to look it up. I thought that company had been dissolved long since, because we owned it substantially in its entirety in 1913 at the time of the dissolution suit. I know it did have outstanding an issue of bonds, and possibly the company remained alive, and this had some connection with the bond issue, but that is a mere guess.

The CHAIRMAN. Just one question, Mr. du Pont. In addition to the dividends that were paid, were there any bonuses paid to the officials of the corporation?

Mr. PIERRE S. DU PONT. Yes.

The CHAIRMAN. Will you come tomorrow morning prepared to reveal what bonuses were paid during the years 1916, 1917, 1918, and 1919?

Mr. PIERRE S. DU PONT. I can give you the totals now.

The CHAIRMAN. Let us leave that until morning; then you can have it accurately and ready for presentation.

Mr. PIERRE S. DU PONT. Would you like an explanation of this International Smokeless Powder matter?

Mr. RAUSHENBUSH. Very much.

Mr. CARPENTER. I have a record of that one figure. We were unable to reconcile that \$10,000,000 loss and \$2,000,000 loss, and, if it is agreeable, I will be glad to give it to the secretary.

Senator BONE. Give that to Mr. Raushenbush.

Mr. PIERRE S. DU PONT. You would like an explanation of this International Powder matter, and while I don't think it is material, I think I can explain it.

The CHAIRMAN. This would be as good a time as any to clear it up.

Mr. PIERRE S. DU PONT. We will bring an explanation in the morning.

The CHAIRMAN. The committee will be in recess until 10 o'clock tomorrow morning, when we will resume with the same witnesses.

(Thereupon the committee recessed until 10 a.m., Thursday, Sept. 13, 1934.)



# INVESTIGATION OF MUNITIONS INDUSTRY

THURSDAY, SEPTEMBER 13, 1934

UNITED STATES SENATE,  
SPECIAL COMMITTEE TO INVESTIGATE,  
THE MUNITIONS INDUSTRY,  
*Washington, D.C.*

The hearing was resumed at 10 a. m. in the caucus room, Senate Office Building, pursuant to the taking of recess, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), George, Clark, Bone, Pope, and Vandenberg.

Present also: Stephen Raushenbush, secretary.

The CHAIRMAN. The committee will be in order.

**TESTIMONY OF PIERRE S. DU PONT, IRÉNÉE DU PONT, LAMMOT DU PONT, A. FELIX DU PONT, FIN SPARRE, J. BAYARD ELIASON, AND W. S. CARPENTER, JR.—Resumed**

The CHAIRMAN. Mr. du Pont, upon recessing last night we were contemplating the availability this morning of some tangible reports concerning the bonuses that were paid. Do I understand that bonuses were paid employees and executives as well?

Mr. PIERRE S. DU PONT. Yes.

The CHAIRMAN. What are you prepared to advise us concerning that this morning?

Mr. PIERRE S. DU PONT. Might I interject, Senator, last night I felt that there was an entirely wrong impression in regard to this whole situation, largely from the fact that it seemed that information was being brought out that had never been brought out before, and was read from the annual reports of the company, which it was not made clear were public property. All of those reports were published at the time in full in the newspapers, given out to 100,000 stockholders, and were all well known to our customers and everybody concerned. There was nothing brought out yesterday that has not been public property for 10 years or more.

We do not want the generation that has grown up in that 10 years to think that this is a revelation kept secret by the company all of these years and finally dragged out against our wishes.

Our records are open in every way to everybody that has any concern in it, and you have concern; and there is no record of the company that is not always open.

The CHAIRMAN. I think, Mr. du Pont, there has been no misimpression on the part of the committee. They have understood those reports were public property, public knowledge, but sometimes a

thing that is made public today may not have the meaning, or may not bear the import that it will 10 years from now in the light of other developments.

Mr. PIERRE S. DU PONT. That is what I am leading up to, that everything brought out yesterday related to the very large profits of the company as if it was something quite extraordinary and something reprehensible to have taken during the time of war, and nothing was said or tried to be brought out on the other side as to what we have accomplished.

We went into this war business at the solicitation of the Allies, not at our solicitation. They wanted powder, and the reason they wanted it was they could not manufacture it themselves. It required anywhere from 4 to 9 pounds of raw materials to be taken across the water to produce a pound of powder on the other side. We know what the shortage of vessels was at that time. The Allies did not want to take four times as much material over there to make the powder in the plants that they were obliged to build at a greater cost than we could build them on this side.

They came to us because we could serve them, because nobody else could serve them, and nobody else would serve them. They were glad to pay the prices, they knew what powder could be made for at their own factories, and they knew what it cost. We were obliged in making this powder for them to substitute materials, we made powder for 60 different guns used over there, guns that we had never seen before, and it was entirely done by calculations made by experts, and there is not a pound of powder that went to the Allies that failed of its purpose, and there was not a single pound of powder returned.

That was an accomplishment that nobody else on earth could have made. The Allies were glad to pay the price for it, and we saved them as much money as they paid us by our efforts.

I think it is unbecoming to have in the record anything to indicate that these prices were wrung out of the Allies, who were at our mercy. There was nothing of that kind ever contemplated, and nothing of that kind desired. They were glad to pay it, and they all thanked us at the end for what we had done.

As to the United States, the United States had no facilities for the manufacture of powder, larger than ours. We came into this war with plants capable of making 400,000,000 pounds annually in our own country. The United States could have seized these plants if they wished to, but they did not, because the Allies needed them. Our Government had nothing, they did not have a situation in which a plant could be furnished. When they came to realize the amount needed, which was in the fall after the declaration of war, in the fall of 1917, we were able to offer them two sites which we had selected as being the best in the United States and that we knew we could get.

Those two sites were taken by the Government, and I think taken gladly, but ground was not broken for either of those plants until the spring of 1918, 9 months after war was declared.

Our Government had not means of getting a pound of powder in all of that time, and no preparation for it, excepting what the du Pont Co. had made for them. We had anticipated the necessities

of the Government. Our plans were taken by the Government at the time, one factory was built by themselves, using every bit of the experience we had and the other plant we built for them at a cost of \$85,000,000, and the record in 1918 is in our annual report of what was accomplished there.

I have here a check that was written to the du Pont Engineering Co., the branch of the company in charge, for its commission for doing that work, and I would like to read into the record, with your permission, what was said of that work in the report of 1918, if I may.

The CHAIRMAN. Mr. du Pont, just what is the general nature of the report?

Mr. PIERRE S. DU PONT. It is all taken from our 1918 report, but in a very much more condensed and readable form. I do not wish to burden you with the reading of it, and if you have no objection I will offer it.

Mr. RAUSHENBUSH. If that deals with the Old Hickory Powder Plant, we would very much prefer to have the evidence on that brought out at a later time in the hearing.

The CHAIRMAN. Is that what it does deal with, Mr. du Pont?

Mr. PIERRE S. DU PONT. That is part of it, but not the entire report altogether.

The CHAIRMAN. Since a phase of this study has been in that direction, I suggest you hold that until that point is reached in the hearing.

Mr. PIERRE S. DU PONT. May I further state what the commission was for the \$85,000,000 plant erected at Old Hickory? I have a photostatic copy of the check for \$1 that was the agreed commission.

The CHAIRMAN. Now, Mr. du Pont, what of the bonuses that were paid?

Mr. PIERRE S. DU PONT. The total bonuses paid—can I read by years?

The CHAIRMAN. Yes; please do. Can you divide it as to bonuses to executives and bonuses paid to employees?

Mr. PIERRE S. DU PONT. The division I have here is the total bonuses. The officers and principal salaried men, which I think covers it, and may I read the total bonuses to give you an idea.

For the year 1914, \$171,000, or 3.43 percent of the earnings of the company.

For the year 1915, \$3,775,000 or 4.37 percent of the earnings of the company.

For the year 1916, \$6,514,000 or 7.93 percent.

For the year 1917, \$2,927,000, or 5.94 percent of the earnings of the company.

For the year 1918, \$3,170,000, or 7.36 percent of the earnings of the company.

For the year 1919, \$857,000, or 4.85 percent of the earnings of the company.

I have not that totaled, but it is about \$17,000,000 altogether.

The CHAIRMAN. That is not inclusive of the bonuses paid to the employees?

Mr. PIERRE S. DU PONT. That is everything. Now, I find that I have only sample years here that are divided. I will give you them,

if you desire, and I think the others will correspond and give you some rough idea at any rate. Will you read them, Mr. Eliason?

Mr. ELIASON. These are typical years, as we did not have time to get the information on each year. The year before the war, 1913, the published earnings were \$4,533,000 and total bonuses are \$143,000 or 3.18 percent. The bonuses paid principal men other than officers amounted to only \$15,272, or 0.34 percent.

Senator CLARK. That was the year before the war?

Mr. ELIASON. Yes; the year before the war.

In 1917 the total bonus was \$2,927,000, of which the officers' bonus was \$530,000, and the principal men, other than officers, \$184,000. The officers' bonus in 1917 amounted to 1.08 percent of the earnings, and the bonuses to principal men other than officers was thirty-seven one-hundredths of 1 percent of the earnings.

The CHAIRMAN. Now, I take it your statement is a very carefully prepared one, and so far as the Chair is concerned it is quite content to leave that subject now if you would offer the statement as an exhibit for the record.

Mr. ELIASON. We will be glad to.

(The statement referred to was marked "Exhibit No. 454", and is included in the appendix on p. 1278.)<sup>1</sup>

The CHAIRMAN. Do these years for which you have reported constitute the inauguration of the bonus system, or had that been in vogue for some time prior to this?

Mr. IRÉNÉE DU PONT. I can tell you from my own experience, I received a bonus in 1905, and know it was in vogue then, because I was very much surprised to get \$2,500.

The CHAIRMAN. Now, for the purpose of clarifying the record of yesterday I want to inquire as to the increase in capitalization from 1914 to 1915. How was that increased capital provided? I have a note here that your 1913 capital was at \$51,000,000, 1914, at \$36,000,000, or am I mistaken in that figure?

Mr. IRÉNÉE DU PONT. That was due to splitting off the Hercules and that was called attention to yesterday.

The CHAIRMAN. Then from 1914 to 1915 it was jumped to \$128,000,000.

Mr. PIERRE S. DU PONT. That was in the recapitalization of the company when the name was changed to the present company. That capitalization was earnings that had been made in previous years and also that capitalization included certain contracts on hand.

The CHAIRMAN. Your earnings then were converted into capital?

Mr. PIERRE S. DU PONT. Yes, sir.

The CHAIRMAN. No new stock or bond issues floated at that time to create capital?

Mr. PIERRE S. DU PONT. Not at that time; no. That was a sale of property from one company to another and practically is a new valuation, but there was no new money put in at that time.

If you will pardon me, Senator, before we go further, I made yesterday a statement in regard to the capital employed and in regard to the contracts, in which I said if the war had terminated that money that we had on the contracts was returnable. Now, that is not strictly true, as has been pointed out to me. And the contract

<sup>1</sup> There was no Exhibit marked "No. 453."



did not provide for that. The contract provided that if the powder was not delivered to the Allies according to contract that we could pay back the money and be relieved of any claim for damages. We then had the alternative of continuing to make the powder after the cessation of war or to pay the money back. Now, my personal feeling is, and I think others would agree with me, it would be impossible to force the Allies to take that amount of powder after the cessation of hostilities. Therefore, our obligation was the return of the money, but it was not the strict obligation of the contract.

The CHAIRMAN. I have before me the financial statement of the E. I. du Pont de Nemours Co., successors in 1914 to the E. I. du Pont de Nemours Powder Co., 1910 to 1913, compiled by the Federal Trade Commission from published sources, and which you are acquainted with. This report shows company assets from the years 1910 to and including 1927.

I am going to ask that this statement be incorporated in the record.

(The document referred to was marked "Exhibit No. 455", and is included in the appendix on p. 1280.)

The CHAIRMAN. This statement, "Exhibit No. 455", shows the total assets 1910, \$81,000,000, and then shows the following assets for the following years:

1911-----	\$83, 000, 000	1920-----	\$253, 000, 000
1912-----	86, 000, 000	1921-----	252, 000, 000
1913-----	74, 000, 000	1922-----	259, 000, 000
1914-----	83, 000, 000	1923-----	279, 000, 000
1915-----	258, 000, 000	1924-----	275, 000, 000
1916-----	217, 000, 000	1925-----	303, 000, 000
1917-----	263, 000, 000	1926-----	322, 000, 000
1918-----	308, 000, 000	1927-----	351, 000, 000
1919-----	240, 000, 000		

From this statement, Mr. du Pont, it is very evident that your assets were considerably larger after the war than they were during the war.

What is the conclusion to be drawn?

Mr. PIERRE S. DU PONT. It is increased by the profits made as set forth yesterday, of about \$260,000,000.

The CHAIRMAN. Your profits had been greater in the years following the war than they were during the war?

Mr. PIERRE S. DU PONT. Yes.

The CHAIRMAN. Your assets have grown larger during this time than during the war.

Mr. IRÉNÉE DU PONT. I think you are wrong there. The profits after the cessation of the war went down very much.

The CHAIRMAN. I am speaking now of the assets of the company. Your assets increased after the war to a point greater than that which was reached during the war.

Mr. PIERRE S. DU PONT. Yes. That was largely through the introduction of new capital. Do you have that statement, Mr. Carpenter?

Mr. CARPENTER. I do not have the full details of that, but of course we had increases in stock, we had a bond issue, and sold additional common stock and also the accumulation of earnings and the consolidation of certain other companies.

## DU PONT INVESTMENTS IN OTHER COMPANIES

The CHAIRMAN. I take it, Mr. du Pont, that after the war, starting in 1919, your problem, in addition to others, was that of finding an outlet and places for proper investment of the profits that had been won during the war?

Mr. PIERRE S. DU PONT. The large problem then was this question of the dye industry, which the war had proven absolutely necessary as a matter of preparedness of every country for its future wars, and we endeavored to go into the dye business not only as an investment, but also to supplement the assets of the United States in that respect, and \$50,000,000 was invested in that industry and is still invested in it. In addition to that we went into other things to help use the facilities, largely the men, engaged in producing things allied to our own industry. For instance, we went into the manufacture of the so-called "pyralin", which is practically the same thing as celluloid, made from nitrocellulose, which is the basis of smokeless powder also.

The CHAIRMAN. All of that we will come to later on, but we will pursue this line now.

Really it was a problem you were forced to a decision on in 1919 as to what you would invest this accumulated capital in, that had become yours during the war.

Mr. PIERRE S. DU PONT. I rather look at it the other way; it was a question of how to take care of the property left over from the war, consisting not only in physical tangible property, but also in the great number of men, experts and otherwise, who would have to leave the company's employ otherwise.

The CHAIRMAN. Very well; but in addition to dividends which were declared from earnings during the war, bonuses paid, taxes paid, you had an accumulation of profits from earnings?

Mr. PIERRE S. DU PONT. Yes, sir.

The CHAIRMAN. Certainly you were not going to want them to lie idle, but wanted the field for that capital to operate in, and you were looking for fields in which to invest it?

Mr. PIERRE S. DU PONT. We were hardly looking, but choosing them.

The CHAIRMAN. Put it that way. Now in the 1919 report to stockholders, in a paragraph starting at the bottom of page 6, this language appears:

It is opportune here to call your attention to the origin of this investment.

Meaning by that your investment in General Motors.

Your vice president, Mr. J. J. Raskob, with extraordinary foresight, interested himself as early as 1915 in the General Motors Corporation to the extent of becoming a large stockholder and director in that company, and by exercising great perseverance was able to convince the directors of your company that the very unusual step of making a huge investment in an industry largely foreign to its business was warranted by the opportunities afforded thereby.

Then the report goes on with an explanation of how effective that investment has been. I think I shall read it [reading]:

The earnings on General Motors Corporation stock for the year 1919, after setting aside a suitable amount for excess-profits tax, will be about \$37 a share, and the value of your company's investment as measured by the

present market quotations has more than doubled since its acquisition. This statement is perhaps stronger than any recommendation of Mr. Raskob's work which would be made in this report.

So that that investment was a very successful one?

Mr. PIERRE S. DU PONT. Very successful; yes. Might I at this time contrast that investment, because I think it would be interesting in the result of it. It won't take but a few minutes.

The CHAIRMAN. I would suggest that you make a note of that, and if we do not cover it in the order which is followed, then you are at liberty to call our attention to it and exercise the contrast.

Mr. du Pont, on September 8, 1927, you addressed a letter to Col. William Donovan, Department of Justice. Was that the Col. William Donovan who was an Assistant Attorney General at that time?

Mr. PIERRE S. DU PONT. I do not remember. I think that was from my brother Irénée. I have no recollection of the letter.

The CHAIRMAN. That was Mr. Irénée du Pont. Do you recollect that letter, Mr. du Pont?

Mr. IRÉNÉE DU PONT. Frankly I do not recall it at this time but it looks like it might have been written by me, judging from the signature. I do not know. If I read it through, maybe it will bring it back to me.

The CHAIRMAN. Were you having difficulties at that time in connection with determining what the law would permit you to do regarding your acquisition of interests in other companies?

Mr. IRÉNÉE DU PONT. We were under, you might say, the guidance or at least the okay of the court with respect to the monopoly on explosives under the decree of 1913. I am quite clear that I was on my guard on that phase of it. I had forgotten that General Motors might have been in it.

The CHAIRMAN. The Federal Trade Commission was interesting itself in those questions; was it not?

Mr. IRÉNÉE DU PONT. I do not know; apparently so.

The CHAIRMAN. The concluding paragraph of your letter to Mr. Donovan might serve as a reminder. In that paragraph you state:

On July 29, 1927, the du Pont Co. received a notice from the Federal Trade Commission stating that they had directed their chief economist to investigate relations, directly and indirectly, between the United States Steel Corporation, the General Motors Corporation, and the E. I. du Pont de Nemours & Co. We are sending you a copy of this letter and shall be glad to supply both you and them with any additional information pertinent to this inquiry upon request.

Mr. IRÉNÉE DU PONT. That refreshes my memory. I had forgotten the incident. Newspaper cartoons came out, one a rhinoceros and another a hippopotamus, marked "General Motors", and an elephant marked "U. S. Steel", each swallowing the other one, beginning at the rear end. I think the common public was looking on and saying, "What is going to be done when they get done swallowing each other?"

We thought United States Steel was a good investment and bought something equivalent to 1 percent of the stock of the Steel Corporation. At that time I went abroad on a trip, I believe, and when I came back I discovered what a furore happened on account of that purchase. I think this was the outgrowth of that situation. If I

wrote a long letter, somebody probably wrote it for me and I signed it, but it was entirely an incidental thing and had nothing to do with this particularly, that I could find out.

The CHAIRMAN. In this letter from you to Colonel Donovan I find this language [reading]:

As previously stated, the du Pont Co.'s investment in the General Motors common stock was an investment of capital funds and in general an obligation on the part of the du Pont's Co.'s part to assume responsibility in part for the management of the affairs of the General Motors Corporation.

Just what was the meaning of that particular language?

Mr. IRÉNÉE DU PONT. As I recall it, Durant was the head of General Motors when we made the acquisition, and he was an operating man and a salesman, a very high grade man in both those things. His ability from a financial point of view I think he recognized was not all it might be. He was very anxious to get us in, on the theory that we were clever financiers—and just what that is I do not know, but it worked out beautifully. We were put on the finance committee, and I think the handling of the financial phase of General Motors has been a wonderful thing—not that I had anything to do with it. I think John Raskob did the heavy work, but it was eminently successful and brought General Motors into the line of being one of the most properly organized companies from the point of finance in the country, and its record has demonstrated that in the years since.

The CHAIRMAN. Do you recall offhand what was paid for that stock in General Motors at the time?

Mr. IRÉNÉE DU PONT. My recollection is that we bought both Chevrolet and General Motors at about the time they were consolidated. We put in \$47,000,000, if I remember right on that. It was quoted yesterday. Our interest in that, I think, represented 23½ percent, but it was represented as about 25 percent yesterday. It was substantially 25 percent, but a little bit under that.

The CHAIRMAN. The point I am trying to raise is this: The price which you paid for the stock was this—there was a difference between the price as actually paid of \$37 per share, by reason of a dividend which was declared at about the time you bought it.

Mr. IRÉNÉE DU PONT. I think the price per share on General Motors is almost meaningless, because once it was \$100 par and then \$20 par and then something else, at different times, and price per share is absolutely meaningless.

The CHAIRMAN. Right after you did buy, Mr. du Pont, a dividend was declared on General Motors?

Mr. IRÉNÉE DU PONT. It has paid dividends right along.

The CHAIRMAN. About \$37 a share that year.

Mr. IRÉNÉE DU PONT. I do not follow what that \$37 a share is. It certainly has nothing to do with present shares of General Motors.

The CHAIRMAN. Very well.

Mr. PIERRE S. DU PONT. May I interject to clarify the situation? We have today 10,000,000 shares of General Motors and paid \$47,000,000 for substantially that investment. That would be at the rate of \$4.70 a share, but the number of shares at that time, I think, was very much smaller; but I think that will give you the picture, that today's shares cost us about \$4.70 per share.

The CHAIRMAN. In the report of 1919 to the stockholders you said that the earnings of the General Motors Corporation stock for the year 1919 would be about \$37 a share. Did Mr. Raskob advise you before the purchase of that great block of stock that there would be so sizable a dividend declared?

Mr. CARPENTER. That is not a dividend. It is an earning.

The CHAIRMAN. Very well.

Mr. PIERRE S. DU PONT. I think he advised us so far as he knew. Whether it was fairly well known at the time, I am doubtful.

The CHAIRMAN. You were aware of the fact that General Motors, as a corporation, was earning splendidly?

Mr. PIERRE S. DU PONT. I think we knew everything that was to be known at the time; yes.

The CHAIRMAN. How many corporations did you create or invest in after the war?

Mr. PIERRE S. DU PONT. I can name the principal ones which are cited in the annual report. The General Motors and Pyraline industries—

The CHAIRMAN. For the purpose of the record—just giving it roughly now—what percentage of your entire holdings in other corporations became your possessions after the war?

Mr. PIERRE S. DU PONT. I cannot answer that.

The CHAIRMAN. You were shown with investments in 30 or 40 corporations, at least according to your own statement. What part of those became your possessions after the war?

Mr. PIERRE S. DU PONT. May I ask Mr. Carpenter to answer that? I am familiar enough to explain the results.

The CHAIRMAN. All right.

Mr. CARPENTER. This gives a list of the various industries in which we are interested, if that is what you mean, entirely apart from whether or not they are separate corporations.

The CHAIRMAN. Those corporations in which you have interests or which you own?

Mr. CARPENTER. I can name those, if you choose, and let us note which ones we had at the time of the end of the war.

The CHAIRMAN. Very well; do that.

Mr. CARPENTER. This organic chemicals industry, which includes the dye industry, which was started in the later years of the war; this fabrics and finishes industry, which we had in part even at the beginning of the war; the Grasselli Chemical Co. we acquired since the war. Is this what you want?

The CHAIRMAN. Let us take this from another point of view. I offer for the record "Exhibit No. 456", that being a statement furnished by the E. I. du Pont de Nemours & Co. to the committee of its investment in other companies, other companies involving an investment by you of more than \$200,000,000. Have you that before you?

Mr. PIERRE S. DU PONT. Yes, sir.

The CHAIRMAN. Let us take the time now and will you tell us the number of those that you came into possession of during or after the war?

Mr. LAMMOT DU PONT. During or after?

The CHAIRMAN. During or after. Or will you just go through it and read the names of those that you did possess during or after the war?

Mr. PIERRE S. DU PONT. That we acquired during or after the war? The Grasselli Chemical Co., the Krebs Pigment & Color Corporation; du Pont Rayon Co.; du Pont Cellophane Co., Inc.; Perth Amboy Chemical Works; Niacet Chemicals Corporation; du Pont Viscoloid Co., which was purchased first during the war; then the Italian Celluloid Co.—I do not think I can pronounce the name; and also the Italian Coloid Co. (Societa Anonima Mazzucchelli). We have a small interest in the Italian Celluloid Co. Then the National Ammonia Co.—

The CHAIRMAN. According to your statement you are shown in possession of 100 percent.

Mr. PIERRE S. DU PONT. There are two companies. In one we had a small interest.

The CHAIRMAN. In one you have 70 percent of the stock and in the other 100 percent.

Mr. PIERRE S. DU PONT. Mr. Carpenter corrects me. I think maybe Mr. Lammot du Pont and Mr. Carpenter better answer this. It is a little too modern for me.

The CHAIRMAN. Very well.

Mr. CARPENTER. These are the ones which have been acquired during and since the war: The National Ammonia Co., Inc.; the Pacific R. & H. Chemicals Corporation; International Freightling Corporation, Inc.; the Mexican Explosive Co., du Pont Film Manufacturing Corporation, which was acquired during the war; Acetol Products, Inc., acquired after the war; Remington Arms Co., Inc.; the Peters Cartridge Co.; Remington Cutlery Works, Inc.; Bakelite Corporation—

The CHAIRMAN. How about the Remington Cash Register Co., Inc.?

Mr. CARPENTER. We did not acquire it. I do not know why that is on this statement. That was just the shell of a company which was left after they left entirely the cash-register business.

The CHAIRMAN. But this statement shows that you have 96.7 percent of the outstanding stock.

Mr. CARPENTER. I think that company had no assets at all, but was just a shell left of the former activity of the Remington Arms Co. The statement shows no investment.

Nobel Chemical Finishes, Ltd., French Duco Co., the German Duco Co., South American Explosives, and this Argentine company is brand new. There was small holdings in the German I.G. and the D.A.G., also the Scheideanstalt.

The CHAIRMAN. That is a Dutch corporation?

Mr. CARPENTER. German; and, as we pointed out, these General Motors securities were acquired at different times in 1917 and 1918.

The CHAIRMAN. Very well. Then it would be fair to say that three-quarters of these investments were acquired during or after the war by the E. I. du Pont de Nemours & Co.?

Mr. CARPENTER. In number, I should think that is certainly correct.

Mr. PIERRE DU PONT. Senator, may I ask Mr. Carpenter something? I think many of those corporations were organized by ourselves for developing our own business.

The CHAIRMAN. That is quite aside from the question.

This statement of your investments, involving \$200,000 or more in other companies—

Mr. CARPENTER. \$200,000,000?

The CHAIRMAN. In companies of over \$200,000, is that it?

Mr. RAUSHENBUSH. In which the du Pont Co. has an investment of \$200,000 or more.

The CHAIRMAN. That was my previous remark. This shows an investment in capital stock in other companies than the E. I. du Pont de Nemours & Co. totaling \$202,765,782.55.

I do not know whether the exhibit which is before you is totaled or not.

The advances by the du Pont Co. to these companies as of July 25, 1934, amount to \$65,084,295.80. The advances by the holding company as of July 31, 1934, amount to \$3,564,444.88, showing a total investment of \$164,445,641.91.

Now we have totaled these figures, your own figures, and how are we to account for the difference between that total investment that is shown and the investment in capital stock that is shown?

Mr. ELIASON. The investments shown on this statement are the investments of the Delaware Corporation, E. I. du Pont de Nemours & Co. Now you will observe, if you look at that statement, that many of those companies, such as the du Pont Rayon, du Pont Cellophane, and Grasselli are 100 percent owned by the company. Our published statement to which you refer, this published statement, is a consolidated statement in which the subsidiary companies 100 percent owned are consolidated with the parent company, and these investments in the stock of those subsidiaries naturally cancel out in making a consolidated statement. It is all shown as one consolidated statement. Does that explain it?

The CHAIRMAN. I am afraid I am not following you on that. I wonder if you have gotten the question which is in my mind. The total of investments in capital stock shown in these companies is \$202,000,000, in round figures.

Mr. ELIASON. Yes, sir.

The CHAIRMAN. Then the totals in the final column of that exhibit are only \$164,000,000 in round figures.

Mr. ELIASON. The final column there?

The CHAIRMAN. Yes, sir.

Mr. ELIASON. There is an error in the total which you have given me, Senator, because there is one item of General Motors of \$157,000,000, and there are a number up there which are large.

The CHAIRMAN. It may be that in our totals we have evaded or avoided including that General Motors total.

Mr. ELIASON. I think that is where your trouble is, perhaps, if General Motors is not included in the other column.

The CHAIRMAN. If that is the case, if we have missed the General Motors total, then the total investment would be shown to be about \$315,000,000.

Mr. LAMMOT DU PONT. Senator, that total investment column is the sum of the preceding three columns.

The CHAIRMAN. Yes, sir; it should be.

Mr. LAMMOT DU PONT. If it does not add up, the arithmetic is wrong.

The CHAIRMAN. I think perhaps the clerk who had this in hand must have missed that \$157,000,000 item which is the total investment in the General Motors Securities Co.

Mr. LAMMOT DU PONT. It does not look that simple.

Mr. PIERRE S. DU PONT. I think I will come to the rescue of the accountants, Senator. It is \$157,000,000, whereas it is \$154,000,000 on the other side, and probably was not included in here as an investment and was left out and it is somewhat separate.

I have a question which I have asked our people, and maybe I am not so dumb after all. We have, first, the capital investment of \$202,000,000, and then an account of the money advanced to the companies by the du Pont Co. The natural inference is that the sum of the two should be greater than the original investment, but some companies may have declared dividends in the meantime, and that would reduce the investment again.

The CHAIRMAN. That is your investment as of this date?

Mr. ELIASON. Yes, sir; on the books of the parent company. I might point out this: That there are subsidiaries of subsidiaries here, that is, for instance, the du Pont Co. owns a subsidiary. That subsidiary may own a subsidiary of its own 100 percent. So you see, when you add together the capital of two or three of those companies, you do not get the correct picture, because, after all, it is all ownership which belongs to the parent company, and in the consolidated statement those capital investments clear out and become property or assets and liabilities, as the case might be.

The CHAIRMAN. If the total of the first column of investment in capital stock is correctly stated as \$202,000,000, and if the advances by the du Pont Co. as of July 25 and the advances by holding company as of July 31 are to be added together to show the total investment of the E. I. du Pont de Nemours & Co. in these other companies, that total investment should be in the neighborhood of \$270,000,000.

Mr. PIERRE S. DU PONT. I would think so; yes, sir.

Mr. LAMMOT DU PONT. Senator, I do not think your arithmetic is right either. Just adding up the first column roughly, it comes to more than \$202,000,000.

The CHAIRMAN. I am inclined to believe now that the clerk who had this in hand excluded all of the General Motors figures.

Mr. LAMMOT DU PONT. That won't bring the answer either. Whoever put these blue-pencil figures on there must have had something else in mind than adding up the columns.

Mr. PIERRE S. DU PONT. I have added up the million figures, which add up to 278.

Mr. CARPENTER. Senator, I wonder if these brief figures will give you the point which you are striving at, which I do not know yet: In 1933 the total capital and surplus of the du Pont Co. was about \$500,000,000. In 1918 it was \$187,000,000. That shows a change in capital and surplus of about \$313,000,000 over that period. That money has gone into a very great variety of things; to old industries and new industries as well, but that does show the increase in the capital funds of the company compared in that way over the course of that period. Maybe that will be of some help.

The CHAIRMAN. Perhaps it is.

Mr. LAMMOT DU PONT. Are you interested to know where the increased capital came from?

The CHAIRMAN. No; I am interested now in knowing what the total investment is, in companies in which you have investment. I do



not suppose you are prepared to say off-hand what they are. You have given us this showing, this Exhibit, which we are offering, but it was not totaled.

(The statement referred to was marked "Exhibit No. 456" and is included in the appendix on p. 1282.)

Mr. CARPENTER. I am afraid that Exhibit won't help you very much. You have these figures which I have given you, showing an increase in the capital funds of the company, an increase from 1918 to 1933 of about \$313,000,000. Those funds are all employed in one form or another in the companies. The difference shows the increase, of course, over that period.

The CHAIRMAN. Very well. How were your investments carried on the books? At book or market value?

Mr. CARPENTER. They are carried on our books at their book value; generally speaking, if we acquired a small interest, for instance a stock-holding in this German I.G., we would just carry that on our books at the purchase price. If we acquired a manufacturing operating company, that would go on to our books at the value of the assets of that company, as of the time we took them over.

Now, General Motors is a striking departure from that. We acquired General Motors and paid out about \$47,000,000. From time to time we felt our position there was best represented by reflecting in that value, as shown by our books, the book value as shown on the books of the General Motors Corporation. That stands today between \$15 and \$16 a share, so that our General Motors holdings on our books today stand something around \$154,000,000, which for 10,000,000 shares is about \$15.45 a share.

The CHAIRMAN. Are we to assume, then, that what you have conveyed to us as your investments is a rather conservative statement of the investment, or have you gone and taken the high mark of the market?

Mr. CARPENTER. I think we have tried to show the correct figures. The accountants differ as to the proper way of showing an item, such as that General Motors item. We have tried to disclose what we have done and put in our best judgment.

The CHAIRMAN. So that the market value has not persuaded you necessarily to use that as a basis in determining that investment?

Mr. CARPENTER. No.

Mr. PIERRE S. DU PONT. That is quite clear in the General Motors case, Senator. We hold the General Motors stock at \$15 a share, which is the book value of the assets of the corporation. The stock on the market is twenty-eight or twenty-nine dollars.

The CHAIRMAN. I notice your investment of \$154,546,875 in the General Motors Security Co., and your statement also reveals that your voting rights in connection with that holding of stock are 94.3 percent. That means just this: that the E. I. du Pont de Nemours & Co. control 94 percent of this General Motors Securities Co. stock and votes it?

Mr. PIERRE S. DU PONT. Yes; the General Motors Securities Co. is a holding company, for all our shares in General Motors.

The CHAIRMAN. You own 100 percent of it?

Mr. PIERRE S. DU PONT. No; 94 per cent. Am I right in that?

The CHAIRMAN. The percentage of the total outstanding stock owned of the General Motors Securities Co. is 100 percent.

Mr. PIERRE S. DU PONT. The General Motors Securities Co. is marked here 84 percent ownership.

Mr. IRÉNÉE DU PONT. That is voting rights.

The CHAIRMAN. That is voting rights. You own 100 percent. Why do you not possess 100 percent voting right in that stock?

Mr. CARPENTER. The General Motors Securities Co. owns all of our holdings, all of what we call our 10,000,000 shares of General Motors stock. In addition to that we have several million shares more. That company is owned in part by the du Pont Co. and in part by the important employees in the General Motors Corporation. Originally, when the sale of that stock to the General Motors employees was made, we had a 70 percent interest in there. That has been somewhat increased, because of the fact that the holdings of the General Motors employees has been somewhat lessened; in other words, their 30 percent has been somewhat lessened by liquidation of part of their holdings.

Mr. PIERRE S. DU PONT. Do you understand that, Mr. Chairman?

The CHAIRMAN. I think I understand that.

Mr. PIERRE S. DU PONT. I am afraid I do not understand it.

The CHAIRMAN. Behind your purchase of General Motors stock was an understanding of certain employees' rights in General Motors?

Mr. PIERRE S. DU PONT. May I make this statement, Senator?

The CHAIRMAN. So that possession of 100 shares of stock would not necessarily give you right to vote the full 100 shares; is that correct?

Mr. PIERRE S. DU PONT. May I ask this question? We want to be sure that we are clear on this. My understanding is that originally we owned a certain number of General Motors shares, which were held in this General Motors Securities Co. We sold a part interest in that to the chief men in the General Motors Corporation. That reduced our voting interest, of course.

The CHAIRMAN. But you were still owning that stock?

Mr. PIERRE S. DU PONT. Is that right?

Mr. CARPENTER. We still held control of that company, yes; and always have had control of that company.

Mr. PIERRE S. DU PONT. The stock we sold, then, is General Motors Securities Co. stock?

Mr. CARPENTER. Yes, sir.

Mr. PIERRE S. DU PONT. And therefore being 94 percent owners of General Motors Securities Co., we can vote that whole block of stock, which is a larger block than we show on our books?

Mr. CARPENTER. Yes; we can.

Mr. PIERRE S. DU PONT. As we have a 6 percent greater voting right than would appear in our own stock ownership.

Senator CLARK. Was this stock to which you have been referring held by your employees or General Motors employees or employees of both companies?

Mr. PIERRE S. DU PONT. No; the General Motors employees entirely.

Senator CLARK. Some executives of General Motors simply put their money in your holding company, is that right?

Mr. PIERRE S. DU PONT. I think that is just the way of it; yes. But it came out a little different way. The General Motors Corporation wanted stock to sell to its employees in a considerable amount and it was perfectly impossible to buy that stock in the market at any reasonable figure. The du Pont Co. sold this interest.

Senator CLARK. You simply sold stock in your holding company?

Mr. PIERRE S. DU PONT. Yes.

The CHAIRMAN. In addition to these holdings by the General Motors Securities Co. of which the E. I. du Pont de Nemours & Co. owns 100 percent, your company holds shares of the General Motors Corporation to the extent of an investment of \$2,453,125.00; is that correct?

Mr. PIERRE S. DU PONT. Yes. We count the 10,000,000 share interest as our permanent holding in General Motors. These 200,000 shares were the excess over the 10,000,000 that we held and we do not feel that we are in any way obligated to hold those. The 10,000,000 shares we announce as the firm's investment and the public and the stockholders have a right to believe that that will not be thrown on the market; and as far as I know and as far as anybody else knows, it will not.

The CHAIRMAN. In that particular block of stock, you show a total voting right of 23.45 percent. What is the explanation there?

Mr. CARPENTER. That figure of 23.45 percent is the percentage of the total outstanding General Motors stock that our entire interest in General Motors bears. That is figured in this way. We have 10 million shares actually in General Motors which are held almost entirely through the General Motors Securities Co. In addition to that, we have 200,000 shares. The sum of the 10,000,000 plus the 200,000 shares makes 23.45 percent of the entire outstanding stock of General Motors, which is about 43,000,000 shares.

The CHAIRMAN. What percentage of the total of General Motors stock issued does your company and the General Motors Securities Co. control?

Mr. IRÉNÉE DU PONT. 23.45 percent.

Mr. CARPENTER. That is not correct; that is not the answer.

Mr. PIERRE S. DU PONT. That does not include the voting rights of the stock of the General Motors Securities Co. that we have sold.

Mr. IRÉNÉE DU PONT. They are not talking about the voting stock. You are talking about ownership, are you not, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. IRÉNÉE DU PONT. It was referred to yesterday as about 25 percent. I computed it last night roughly and it is about 23 $\frac{1}{2}$  percent. This seems to be practically the same figure, 23.45 percent.

The CHAIRMAN. What influence now does your company through its holdings of General Motors stock and the holdings of the General Motors Securities Co. have?

What part of the total do you control?

Mr. CARPENTER. About 28 $\frac{1}{4}$  percent.

The CHAIRMAN. Of the total issue of General Motors Corporation?

Mr. CARPENTER. That is right.

The CHAIRMAN. What are your individual personal holdings of General Motors stock? I should like each of you gentlemen to answer that. Mr. Pierre du Pont?

Mr. PIERRE S. DU PONT. I cannot state that. I think it is 150,000 shares.

The CHAIRMAN. Yours?

Mr. PIERRE S. DU PONT. Yes. I am making a good deal of a guess on that. I believe that is about it.

The CHAIRMAN. And as for the others, what are your holdings?

Mr. LAMMOT DU PONT. My holdings are approximately 30,000 shares.

Mr. IRÉNÉE DU PONT. I think about 16,000, as far as I know.

Mr. A. FELIX DU PONT. I have not that figure at all. I think it is less than 10,000 shares.

The CHAIRMAN. Assuredly you must know, you must have given consideration to the percentage of the total of General Motors Corporation stock that you controlled in your family and in your corporation?

Mr. PIERRE S. DU PONT. I have never figured it at all. I have looked at it as about a 25 percent investment, which is practically what the company owns.

The CHAIRMAN. But you have much more in addition to that?

Mr. LAMMOT DU PONT. Not a great deal.

Mr. PIERRE S. DU PONT. Just what we have said, which does not change the percentage very materially.

The CHAIRMAN. You speak of your holdings as being about 150,000 shares, Mr. Pierre du Pont?

Mr. PIERRE S. DU PONT. Yes.

The CHAIRMAN. You sold a considerable amount of General Motors stock in 1929; did you not?

Mr. PIERRE S. DU PONT. I had about 600,000 shares, I think, at one time.

The CHAIRMAN. Was that sold in the open market?

Mr. PIERRE S. DU PONT. In the open market; yes.

The CHAIRMAN. Is it true that your receipt from the sale in 1929 of General Motors stock, was in the neighborhood of \$36,000,000?

Mr. PIERRE S. DU PONT. I should say it was about that; yes.

The CHAIRMAN. Mr. Pierre du Pont, does General Motors Securities Co. control the voting stock of the General Motors Corporation?

Mr. PIERRE S. DU PONT. No. It has this 25 percent interest only. That percentage is of all the voting stock of the General Motors Corporation.

The CHAIRMAN. We all understand that it is not necessary to own 50 percent or 51 percent of stock to declare that you control; do you feel that the General Motors Securities Co. does control the General Motors Corporation?

Mr. PIERRE S. DU PONT. No; I would think quite differently. I believe the leading men in the General Motors Corporation and their following are quite as powerful, if not more powerful, than the General Motors Securities Co.

The CHAIRMAN. But you have a very powerful control not only through direct investment, but through your interlocking directorates; do you not?

Mr. PIERRE S. DU PONT. No; I would not think so. The interlocking directors are Mr. Sloan, president of the General Motors Corporation; Mr. F. D. Brown, who is vice president of the General Motors Corporation. I think they are the only two. Of course,

Mr. Irénée du Pont and Mr. Lamnot du Pont and I are directors of the General Motors Corporation.

The CHAIRMAN. I offer now for the record as "Exhibit No. 457" a list of directors of the General Motors Corporation, with a compilation prepared for the committee of the additional connections of those directors in other corporations.

(The document referred to was marked "Exhibit No. 457" and is included in the appendix on p. 1285.)

The CHAIRMAN. I would like to make the point now that the Poor's Manual for 1933 shows that in 1932 General Motors' assets were \$1,115,228,641.

Mr. du Pont, on this list of directors of the General Motors Corporation, the number totaling 33, I find the name of Sir Harry McGowan. Who is Mr. McGowan?

Mr. PIERRE S. DU PONT. He is president or chairman of the board—I do not know which—of the British Chemical Industries.

The CHAIRMAN. The Imperial Chemical Industries?

Mr. PIERRE S. DU PONT. The Imperial Chemical Industries; yes, sir.

The CHAIRMAN. I notice also the name of Arthur B. Purvis, of Montreal, Canada. Who is he?

Mr. PIERRE S. DU PONT. I think he is president of Canadian Explosives, Ltd.; Canadian Industries, Ltd.

The CHAIRMAN. The correct name is Canadian Industries, Ltd.?

Mr. PIERRE S. DU PONT. Yes.

The CHAIRMAN. Who owns Canadian Industries, Ltd.?

Mr. PIERRE S. DU PONT. It is owned jointly by the Imperial Chemical Industries and the du Pont Co.

The CHAIRMAN. Does the Canadian Industries control the Dominion Cartridge Co.?

Mr. LAMMOT DU PONT. Yes.

The CHAIRMAN. How largely? It is a complete control, is it not?

Mr. LAMMOT DU PONT. In capital, you mean?

The CHAIRMAN. Yes.

Mr. LAMMOT DU PONT. I have not that figure in mind.

Mr. CARPENTER. It owns it entirely.

Mr. LAMMOT DU PONT. It is 100 percent owned. It is a comparatively small part of the Canadian Industries, Ltd., total investment.

The CHAIRMAN. Before me is information that Canadian Industries, Ltd., had assets in 1932 of \$47,807,243. Poor's Manual for 1933 is the authority for that statement.

I notice also upon this list of directors the name of R. S. McLaughlin, of Oshawa, Ontario. Who is he?

Mr. PIERRE S. DU PONT. He is a resident of Oshawa and was formerly manager of the General Motors Canadian plant. But I believe he is retired now, although he is a director of the General Motors Corporation still.

The CHAIRMAN. I notice also the name, among the directors of General Motors Corporation, of Fritz Opel, Russelsheim, Germany. Who is he and what are his connections?

Mr. PIERRE S. DU PONT. He is the former owner of the German Opel Co., manufacturers of automobiles. But I think he is not connected with the industry except possibly as a stock owner in that company still.

Mr. LAMMOT DU PONT. Senator, you referred to a list of directors, interlocking directors?

The CHAIRMAN. Yes.

Mr. LAMMOT DU PONT. I would like to have a copy of it.

The CHAIRMAN. A copy is being supplied to you right now by Mr. Raushenbush.

I notice also among these directors the name of O. D. Young. Is that Owen D. Young?

Mr. PIERRE DU PONT. Yes.

The CHAIRMAN. Is Owen D. Young associated with you in your company or in any companies in which you are interested?

Mr. PIERRE DU PONT. No; only in the General Motors Corporation.

The CHAIRMAN. Mr. Young is a director of the Radio Corporation of America, is he not?

Mr. PIERRE DU PONT. I do not know.

The CHAIRMAN. He is also listed as a director of the National Broadcasting Co.; of R.C.A.; Photophone, Radio Keith Orpheum Corporation; R.C.A. Victor Corporation; and R.C.A. Communications, Inc.

Mr. PIERRE DU PONT. I was not aware of that. It is undoubtedly true.

The CHAIRMAN. Mr. du Pont, in last week's hearings——

Mr. LAMMOT DU PONT. Senator, may I interject for just a moment? Your secretary has just handed me a document which I presume is the one you have been referring to, which is quite antiquated. It is dated 1927.

The CHAIRMAN. This information was compiled from Moody's Manual of Investments, American and Foreign, 1934.

Mr. LAMMOT DU PONT. The secretary handed me a document dated 1927 which purports to show the interlocking directors.

Mr. RAUSHENBUSH. The document handed to Mr. Lammot du Pont was by way of explanation of interlocking directorates and is compiled by the Federal Trade Commission. The document already introduced showing the interlocking directors has not been indicated clearly on the exhibit that you have just entered, Mr. Chairman, but it is simply a matter of tracing through the names of the various people.

Mr. LAMMOT DU PONT. But the names have changed.

The CHAIRMAN. This takes the names of all the directors of General Motors Corporation and then traces the holdings and the directorates occupied by the same individuals in other corporations. I have no objection to your studying it, if it is the only copy we have here.

Mr. LAMMOT DU PONT. That old document is of no value?

The CHAIRMAN. No; not in this connection, except that it reveals what the nature of this up-to-date document is.

In last weeks' hearings, a letter was brought into evidence written by Henry R. Sutphen, vice president of the Electric Boat Co., to Basil Zaharoff and was offered as "Exhibit No. 50." It was dated November 22, 1930. I shall read a single paragraph from that letter [reading]:

I had a very interesting trip.

This is Mr. Sutphen writing, remember. [Reading:]

Messrs. Kettering and Codrington accompanying me, stopping first at the Sulzer plant in Winterthur, where they were very busy, but found a falling off of new orders. As you know, they have a company in France which builds engines for French submarine boats.

What is the meaning there? Does that mean that this Sulzer plant have a company in France, or does it mean that Messrs. Kettering and Codrington or their company, General Motors, have a plant there? Do you know?

Mr. PIERRE DU PONT. I do not know.

Mr. LAMMOT DU PONT. I do not know at all. I never heard of any of those gentlemen excepting Mr. Kettering.

The CHAIRMAN. The plain implication of the letter is that General Motors have a company in France which builds engines for submarines.

Mr. PIERRE DU PONT. That certainly is not true.

Mr. LAMMOT DU PONT. Certainly not General Motors.

The CHAIRMAN. You know that to be not true?

Mr. LAMMOT DU PONT. I am quite sure it is not. I would have heard of it if they had. What is the German plant that they visited?

The CHAIRMAN. The Sulzer plant at Winterthur.

Mr. LAMMOT DU PONT. I never heard of it.

Mr. PIERRE DU PONT. Mr. Kettering has always been greatly interested in aviation. He used to fly a great deal himself at one time. He has always followed it very much.

The CHAIRMAN. Both Kettering and Codrington, I think the testimony reveals, are officers or directors of the General Motors Corporation.

Mr. PIERRE DU PONT. Not Codrington; he is neither an officer nor a director. He may be in the employ of General Motors, I do not know.

Mr. Carpenter thinks that he is in the Winton Engine Co., which is a subsidiary of General Motors.

The CHAIRMAN. Then, if that is not true, the alternative is that a German company, the Sulzer Co., has a plant in France. Do you suppose that could be true?

Mr. PIERRE DU PONT. For all I know, it may be true.

The CHAIRMAN. Well, in the light of the testimony we have had, it would not be altogether surprising if that did develop, would it?

Mr. PIERRE DU PONT. No; I would not be surprised in the least by anything, any more.

#### INTEREST SHOWN BY DU PONTS IN LEGISLATIVE ACTIVITIES

The CHAIRMAN. Mr. du Pont, there is one more matter that I want to take up. On March 2, 1933, your company or yourself, someone for the company, received a memorandum from the legal department of the General Motors Corporation which I will offer as "Exhibit No. 458."

(The letter referred to was marked "Exhibit No. 458", and is included in the appendix on p. 1296.)

The CHAIRMAN. This letter is by Denton Jolly, of the legal department, and is addressd to the E. I. du Pont de Nemours Co., Wilmington, Del., attention Mr. W. W. Rhodes. [Reading:]

Pleased be advised that the following bill has been introduced in the California Legislature:

California Assembly joint resolution 9 memorializes and petitions Congress to enact legislation to end all patent rights for arms, ammunition, and other equipment used for war and that the same should be acquired by the Government and manufactured by governmental establishments.

How large an interest does your company take in legislative matters?

Mr. PIERRE DU PONT. You can answer that better than I can, Lammot.

Mr. LAMMOT DU PONT. We take a very large interest in legislative matters that pertain to our business.

The CHAIRMAN. Whoever received this memorandum from Mr. Jolly addressed it to Col. Aiken Simons, of the Smokeless Powder Department, which I will offer as "Exhibit No. 459."

(The memorandum referred to was marked "Exhibit No. 459", and is included in the appendix on p. 1296.)

The CHAIRMAN. That memorandum reads:

I am attaching letter received from Mr. Denton Jolly, of the legal department of the General Motors Corporation, Detroit, and have suggested to Mr. Jolly that all matters pertaining to arms, munitions, etc., be taken up with you.

I presume that this is a complimentary service they are offering us as they are constantly watching legislative bills.

Do you have a department that devotes itself to a study of legislative activities?

Mr. LAMMOT DU PONT. No.

The CHAIRMAN. Do you exercise any active influence in legislative halls by reason of lobbies?

Mr. LAMMOT DU PONT. Certainly not by lobbies; no.

The CHAIRMAN. You have representatives who do wait upon legislative committees?

Mr. LAMMOT DU PONT. When called. I think we also attempt to set before Members of Congress a correct view of situations of which we have knowledge.

The CHAIRMAN. I asked you if you had an organization looking after legislative matters. That question, of course, referred to your own company. Does the General Motors Corporation maintain a legislative service?

Mr. LAMMOT DU PONT. I think not. Perhaps I answered your question too literally, Senator. You asked if we had a department which devoted itself to that matter—following legislation?

The CHAIRMAN. Yes.

Mr. LAMMOT DU PONT. I said we have not. Our legal department, among a great many other things, does look—

The CHAIRMAN. That is left to the legal department?

Mr. LAMMOT DU PONT. They do accumulate information as to legislation that is pending.

The CHAIRMAN. Finally, Mr. du Pont, I have a letter from one Ernest B. Benger, general assistant director, to Mr. E. A. Taylor, director of the chemical department, Grasselli, Cleveland.



I will offer this letter as "Exhibit No. 460."

(The letter referred to was marked "Exhibit No. 460", and is included in the appendix on p. 1296.)

The CHAIRMAN. This letter says that a large production of war materials has been tentatively allocated to the du Pont Co. but that no prices have been fixed. The letter is dated March 5, 1934, and it is titled "War Department Inquiry for Supply of Chemicals."

The letter reads:

I talked with Maj. K. K. V. Casey about your letter of March 28 and the War Department inquiry attached. Major Casey tells me that this is a part of a general program of industrial preparedness for the war and that the War Department has been making tentative allocations of production of the various materials required in volume in time of war. Major Casey also indicated that the du Pont Co. has worked closely with the War Department in this matter and that a very large production of war materials has been tentatively allocated to the du Pont Co. I understand from him that the company's policy is to go rather far in cooperating with the War Department in this matter, both in the way of giving information and in assisting them in planning. Of course, no promises in connection with prices are made.

The major indicated that he would be interested in receiving copies of correspondence between you and the War Department on this subject.

Now, we are not wanting to go into any details regarding these plans. We are all more or less conversant with their general nature. But, as we would have every right to expect, there would be a plan looking to such an emergency as might confront us some day in the way of another war, and this letter refers to that, does it not?

Mr. LAMMOT DU PONT. Senator, would you mind reading the note at the foot of that letter?

The CHAIRMAN. That note is in the form of a stamp which appears upon a great many communications which have been taken from your files and that stamp declares just this [reading]:

Upon instructions of the War and/or Navy Department, this document is entrusted to Mr. Donald Y. Wemple, for use by United States Government agents only.

E. I. DU PONT DE NEMOURS & Co.  
By K. K. V. CASEY.

By whose authority was that stamp placed upon this particular communication?

Mr. PIERRE S. DU PONT. May I call Mr. Casey to testify?

The CHAIRMAN. Yes; if Mr. Casey is present.

### TESTIMONY OF K. K. V. CASEY

(The witness was duly sworn by the chairman.)

The CHAIRMAN. Mr. Casey, give the reporter your full name and address.

Mr. CASEY. K. K. V. Casey, Wilmington, Del.

The CHAIRMAN. What are your official connections?

Mr. CASEY. Director of sales, smokeless-powder department

The CHAIRMAN. Mr. Casey, the question has been asked, by whose authority was this stamp placed upon this communication of March 5, 1934?

Mr. CASEY. We received from the Acting Secretary of War a communication to which was attached a copy of a letter directed to

you from the same source. Under that letter we were practically given the responsibility of seeing that nothing in connection with the Government war plans was made public. It was very difficult to determine exactly what came in that category. So, in order to play the safe way on my instructions, this label was put on any communication that might come in that category.

The CHAIRMAN. Mr. Casey, is there a single thing in that letter that the entire public of America and of the world might not well know?

Mr. CASEY. Not in this particular letter, but it might—

The CHAIRMAN. Not a thing. Let us get this clear. Who was Acting Secretary?

Mr. CASEY. General MacArthur.

The CHAIRMAN. Was acting Secretary of War?

Mr. CASEY. At that time. I think Secretary Dern was on the west coast and I am not sure where the Assistant Secretary might have been at the time.

Senator VANDENBERG. What was the date of those instructions?

Mr. CASEY. August 8.

The CHAIRMAN. 1934?

Mr. CASEY. 1934.

Mr. PIERRE DU PONT. May we have that letter read, because we are acting on what we consider instructions.

The CHAIRMAN. Let it be read.

Mr. RAUSHENBUSH. This is a copy of a document written on War Department stationery, addressed to the president, du Pont de Nemours and Co., the du Pont Building, Wilmington, Del., and reads as follows:

DEAR SIR: The War Department has just learned that investigators from the Special Senate Committee Investigating the Munitions Industry are now engaged in examining the files of your company in connection with munitions production.

Your attention is invited to the fact that there are in your files secret data pertaining to War Department procurement plans for munitions in the event of a national emergency. It is desired to call your attention to the necessity of safeguarding these secret data from being made public.

A letter [copy enclosed herewith] has been forwarded, this date, to the chairman of the Senate committee informing him of the presence in your files of War Department secret data pertaining to munitions procurement and requesting his committee to take necessary steps to safeguard this information. The chairman of the Senate committee has been informed that the procurement plans in question may be made known to the committee in executive session at such time as he may desire.

A copy of this letter is being furnished to the Chairman of the Senate committee.

Very truly yours,

DOUGLAS MACARTHUR,  
Acting Secretary of War.

The document is dated August 8, 1934.

Mr. PIERRE S. DU PONT. I should like to object to any information that bears the stamp of Mr. Casey being revealed to the public. We are not the proper judge of what is private information of the War Department.

The CHAIRMAN. Mr. Casey, as to these copies of correspondence where they bear these stamps to which we have just been referring, are we to conclude that the War Department has passed upon that

before you placed the stamp upon them?

Mr. CASEY. They have not.

The CHAIRMAN. They have not necessarily.

Mr. CASEY. No; I made the interpretation, to be on the safe side. It might readily have been that some letter which for the moment might have been an innocent letter by itself, but it might have lead to something else than the first one, and before you know it, you would be over the borderline.

The CHAIRMAN. Are we to conclude you did not submit this particular letter I have read, to anyone in an official capacity in the Army before placing the stamp upon it?

Mr. CASEY. No one whatsoever.

Mr. RAUSHENBUSH. Mr. Chairman, to clarify the record on that point, somewhat later in the proceedings Colonel Slaughter of the War Department, Bureau of Intelligence called upon this committee and stated that he knew that the War Department had not authorized that stamp, and he was informed that the Navy Department had not authorized it, either.

Mr. PIERRE S. DU PONT. If the conclusion is that all of this correspondence is proper, we have no objection to its being put in, but I should like the stamp we have referred to, authorized to be placed on the letter recorded, because it may be of material interest to us later.

The CHAIRMAN. You mean if any of those that have been so stamped are offered in evidence you would like to have the record know that they were so stamped?

Mr. PIERRE S. DU PONT. Yes, sir.

The CHAIRMAN. The stamp referred to is as follows:

Upon instructions of the War and/or Navy Department, this document is entrusted to Mr. Donald Y. Wemple, for use by U.S. Government agents only.

E. I. DU PONT DE NEMOURS & Co.  
By K. K. V. CASEY.

The CHAIRMAN. In concluding the testimony of this morning, Mr. du Pont, you came through the 4 years of war with large profits which you were taking credit to yourselves as having accrued through ability and necessary services performed during the country's emergency. A part of those profits, a large part, went to the stockholders of the corporation, you paid taxes to the Federal Government, and it still left a large sum which, after the war you were investing in other companies. By reason of those investments in American industrials and industrials elsewhere your assets since the war have increased over what they were during the war.

Mr. PIERRE S. DU PONT. Exactly.

The CHAIRMAN. But your success, your increase in assets, your increase in the general business you have done is traceable very directly to the war, is it not?

Mr. PIERRE S. DU PONT. To the profits made during the war, exactly.

The CHAIRMAN. If you had not had the profits made during the war you could not have made your General Motors investment, could you?

Mr. PIERRE S. DU PONT. I am not sure we could not; we had borrowing power.

The CHAIRMAN. Certainly if you had not had that money that came to you as profits during the war you could not have made the last investments you did in the industrial field after the war.

Mr. PIERRE S. DU PONT. I think we could have. I think we had financial power to do it, exclusive of the war profits.

Mr. LAMMOT DU PONT. Senator, may I interpose here?

The CHAIRMAN. You think you had a credit you might have resorted to?

Mr. PIERRE S. DU PONT. Yes; that was of very material assistance.

The CHAIRMAN. You would not have had the money if it had not been for the war profits.

Mr. PIERRE S. DU PONT. Certainly not.

Mr. LAMMOT DU PONT. Senator, you have an entirely wrong impression of this matter, and I think Mr. P. S. du Pont has allowed you to continue with that impression.

The CHAIRMAN. Wherein can there be any misunderstanding?

Mr. LAMMOT DU PONT. For this reason, that the vast bulk of those investments occurring since the close of the war have been paid for, not with anything earned during the war, but very largely by the issue of the company's common stock. When we purchased going companies we did not always pay for them in cash, we paid for them in many cases with the company's stock, and that obviously had nothing to do with the profits made during the war and should have no connection with it.

The CHAIRMAN. Would you say that of your investment in the General Motors?

Mr. LAMMOT DU PONT. No; but you lumped together the investments of the company made during the 15 years or more since the war.

The CHAIRMAN. Now, Mr. Lammot du Pont, what was back of these issues of stock which you sold and used to raise the capital that was needed?

Mr. LAMMOT DU PONT. After it was issued the purchased property was back of it. We acquired the Grasselli Chemical Co., and we paid the former owners with a block of common stock. Those people now own the common stock, and the du Pont Co. owns the company.

The CHAIRMAN. Yes; but you own a very large percent of the stock in all those companies, and what did you purchase them with?

Mr. LAMMOT DU PONT. With common stock of the du Pont Co.

The CHAIRMAN. With earnings of the du Pont de Nemours Co.?

Mr. LAMMOT DU PONT. With new capital. It is just the same effect as though we sold a block of the common stock to the public for cash, and then took the cash and paid it to the Chemical Co. for its purchase.

The CHAIRMAN. Then you sold a part of this stock to yourselves?

Mr. LAMMOT DU PONT. No; we sold it to the former owners of the Grasselli Chemical Co. For instance, here is the Grasselli Chemical Co. composed of a large number of stockholders and the du Pont Co. buys that company and gives the owners of its stock shares of stock in the du Pont Co.

The CHAIRMAN. Here you are holding 70 percent of the stock of the Krebs Pigment & Color Co. and you own 100 percent of the stock in the Grasselli Chemical Co.

Mr. LAMMOT DU PONT. That is not the same company that we purchased the assets of, although it is almost the same name.

The CHAIRMAN. What has become of that corporation?

Mr. LAMMOT DU PONT. I do not know; it may be dissolved as far as I know.

The CHAIRMAN. You own their properties now?

Mr. LAMMOT DU PONT. We bought the properties and own them now.

The CHAIRMAN. You own 100 percent of that company?

Mr. LAMMOT DU PONT. Of the properties; yes.

The CHAIRMAN. And in paying for that company you issued your stock in the E. I. du Pont de Nemours Co.?

Mr. LAMMOT DU PONT. When we bought the stock of the Grasselli Chemical Co.; yes.

The CHAIRMAN. Then why did you say it was not the earnings of the E. I. du Pont de Nemours Co. that was invested in this company?

Mr. LAMMOT DU PONT. Because we gave them new stock.

Mr. RAUSHENBUSH. At this point it might be well to have the company place in the record a list of acquisitions made during and after the war out of the profits, and out of new stock and bond issues.<sup>1</sup>

The CHAIRMAN. I think that would be very much worth having and would clarify this whole question.

Mr. CARPENTER. It is difficult to identify any particular money put in one place and any particular money put in another place.

The CHAIRMAN. Why difficult?

Mr. CARPENTER. Because all of your cash you may have is in a bank account, and how can we say this part of the money paid for this company and this part of the money came from any other particular source, and some other money came from another source.

The CHAIRMAN. Did you pay for the General Motors stock with du Pont's stock?

Mr. CARPENTER. No.

The CHAIRMAN. How many cases like that were there?

Mr. CARPENTER. I can give you a detail of all of them.

The CHAIRMAN. Then let us have that, please.

Mr. CARPENTER. I can give it to the Secretary.

The CHAIRMAN. That is what the Secretary was suggesting we should have from you primarily.

Mr. LAMMOT DU PONT. Senator, I would like to point out that this Grasselli Chemical Co. was as large, or nearly as large as the investment in the General Motors.

The CHAIRMAN. It showed a total investment on your part of \$41,000,000.

Mr. LAMMOT DU PONT. Yes; as against \$47,000,000 in General Motors. Now, that Grasselli was paid for entirely with common stock.

Senator GEORGE. Was that paid for after or before the issue of the stock?

<sup>1</sup> The list of acquisitions made during and after the war out of profits and out of new stock and bond issues was later furnished to the committee and will be found in the appendix on p. 1398.

Mr. LAMMOT DU PONT. It was paid by stock issued for that purpose.

Senator VANDENBERG. It is new stock out of your new stock issue?

Mr. LAMMOT DU PONT. Yes.

Mr. PIERRE S. DU PONT. I wonder if I could say this, that at the end of 1915, the first year of the existence of this company, the balance sheet of the company showed a surplus of \$8,900,000 over its stock issued.

Senator GEORGE. What date is that?

Mr. PIERRE S. DU PONT. That is December 31, 1915. At the end of 1918, which was the last year of the war, that had increased to \$68,300,000 and the capital stock outstanding was the same, so that shows that all that was left of the war profits at the end of 1918 was \$60,000,000.

Senator CLARK. In other words, it shows the rest of the war profits had gone into surplus or dividends?

Mr. PIERRE S. DU PONT. The rest was declared in dividends or given elsewhere.

The CHAIRMAN. What do you mean by "given elsewhere"?

Mr. PIERRE S. DU PONT. For taxes and such. But, we say all that was left of the war profits is this increase of \$60,000,000, that is all with which we could invest in the new plant at the beginning of 1919. The rest of the investment came in sales of common stock and the proceeds of common stock invested.

Senator VANDENBERG. The Grasselli Co. was a merger rather than an investment.

Senator CLARK. You simply bought the stock of that company and paid them in common stock in the du Pont Co. Wasn't that what was done?

Mr. CARPENTER. That is what was done; that is the effect of it.

The CHAIRMAN. Were there large earnings accruing through the Grasselli Co., was that a very profitable company?

Mr. LAMMOT DU PONT. That purchase was made in 1928, and I think Mr. Pierre du Pont is not very familiar with it. It was a going concern, a profitable concern and had paid dividends before we acquired the property. After we acquired the property we, of course, owned that 100 percent and their earnings accrued to the du Pont Co.

The CHAIRMAN. The fact remains, however, that in a very large measure your war profits have entered into the creation of your holdings and your returns in large industrial holdings today?

Mr. LAMMOT DU PONT. Senator, that is absolutely incorrect.

The CHAIRMAN. Why is it incorrect?

Mr. LAMMOT DU PONT. I just stated one reason was the large purchases were largely paid for by new du Pont stock. I have here a memorandum on new issues I could submit.

The CHAIRMAN. What did you do with the war profits?

Mr. LAMMOT DU PONT. The \$60,000,000?

The CHAIRMAN. Yes.

Mr. LAMMOT DU PONT. Part of it went into new investment.

The CHAIRMAN. All right, in some part the war profits have entered into the creation of this great dominion of industry that is yours today?

Mr. LAMMOT DU PONT. In some part, but not a large part.

The CHAIRMAN. Having created the dominion, as I put it, you are now in possession of agreements and understandings that in event of another emergency you are going to have a large slice of the business the Government is going to do in the next war?

Mr. LAMMOT DU PONT. There are no such agreements in existence, Senator.

The CHAIRMAN. We will not go into that.

Mr. PIERRE S. DU PONT. Senator, apart from that, if we should have another war, if that misfortune should come on the country, we have no means of imposing on the Government. If the Government can make a deal with us to its advantage well and good.

The CHAIRMAN. All right, we will not argue about that.

How much of your work during the war was on a cost-plus basis?

Mr. PIERRE S. DU PONT. The only deal we had with the Government on the cost-plus basis was the operation of the Nashville plant, but that was not altogether cost-plus for us.

Mr. CASEY. We can give you a statement on that.

Mr. PIERRE S. DU PONT. Yes; we could give a statement of that, and it is a comparatively small amount.

The CHAIRMAN. I think we should have it.

Mr. IRÉNÉE DU PONT. Would you consider cost-plus an operation such as the Nashville plant which we built at a profit on a cost-plus basis, of \$1.

The CHAIRMAN. Was that the consideration?

Mr. IRÉNÉE DU PONT. It was more than that, because there were some bills submitted afterwards that they would not pay.

The CHAIRMAN. In that connection were any of your organization associated with the Government in the classification of those known as dollar-a-year men?

Mr. IRÉNÉE DU PONT. I think Colonel Spruance, one of our organization, was called in, but he afterwards entered the Army and resigned from our organization.

Senator CLARK. Did you say, or did I understand your statement to be, that your actual investment of the du Pont Co. in this General Motors stock was about \$40,000,000?

Mr. PIERRE S. DU PONT. It was \$47,000,000.

Senator CLARK. That was 10,000,000 shares that you owned?

Mr. PIERRE S. DU PONT. That is correct, and we afterwards had a substantial amount more of that stock after the first purchase, and that was the stock we sold to the General Motors chief employees.

Senator CLARK. But \$47,000,000 of stock being 10,000,000 shares was your permanent investment.

Mr. PIERRE S. DU PONT. That was our permanent investment; yes.

Senator CLARK. In 1918 you had on hand a surplus of roughly \$68,000,000 of which approximately \$60,000,000 had been earned during the war?

Mr. PIERRE S. DU PONT. Yes, sir; that is right.

Senator CLARK. So that of your present assets the amount properly allocable to war profits would be the \$60,000,000 you had in 1918 plus whatever has been earned on that \$60,000,000 since?

Mr. PIERRE S. DU PONT. Surely.

Senator CLARK. So that, if I understand you correctly, of your present assets you count the General Motors stock at \$157,000,000?

Mr. PIERRE S. DU PONT. Yes.

Senator CLARK. It has been testified here that is less than the market value, the book value being about \$15, and I understood you to say the market was about \$28?

Mr. PIERRE S. DU PONT. Yes.

Senator CLARK. So that of your present assets at least \$157,000,000 would be allocable to your war profits, because they represent an investment of your \$60,000,000.

Mr. PIERRE S. DU PONT. No; that is not quite right, because even though we invested some money from war profits, the war profits are not responsible for the growth of the money.

Senator CLARK. I understand, but that is allocable to the \$60,000,000.

Mr. PIERRE S. DU PONT. You might say the war profits, \$60,000,000 were used to go into the dye industry to the extent of \$50,000,000, which has not produced anything.

The CHAIRMAN. Now, that 65 or 68 million dollars; is that all of the profits from the war that entered into this business and industrial structure that you so largely control today?

Mr. PIERRE S. DU PONT. Let us be clear on that question. I understood we were dealing with the investment of profits after the war.

The CHAIRMAN. That is right.

Mr. PIERRE S. DU PONT. I said there was \$60,000,000 left. Prior to the termination of the war we had made some investments, and I think the General Motors stock was in that.

The CHAIRMAN. I think that is clear, but was that all of the profits that came to the du Pont de Nemours Co., that entered into this business structure following the war?

Mr. PIERRE S. DU PONT. All that came in following the war.

The CHAIRMAN. That is not the case, because one year you declared a hundred percent dividend, and during the period of 4 years you declared dividends of something like 200 percent, and you got some of that and your brothers got some of it, as well as the others associated with you. By any chance, was any of the dividends you collected invested in this industrial structure you created since the war?

Mr. PIERRE S. DU PONT. I just said I invested some of my surplus in General Motors stock.

The CHAIRMAN. You all did.

Mr. PIERRE S. DU PONT. I do not know what the others did; I only know my own. We did not invest collectively. What we invested was perfectly free to be re-sold; and as I testified, I re-sold a great deal of my General Motors stock. Whether the others did or not I do not know anything about it, but it has nothing to do with the company, of course.

Senator GEORGE. Mr. du Pont, I believe you have referred to the Imperial Chemical Industries, Ltd., in the course of the prior examination?

Mr. PIERRE S. DU PONT. Yes.

The CHAIRMAN. I beg pardon, Senator George, there is a matter that has come for the attention of the committee within the last half hour, being a letter from General MacArthur, which should be made a part of the record at once. This letter is dated September 13, 1934,



addressed to Hon. Gerald P. Nye, United States Senate, and reads as follows:

MY DEAR SENATOR NYE: The Washington Post in this morning's edition, reporting your committee's hearings of yesterday, quotes a letter from a Mr. W. F. Goulding with reference to my visit to Turkey in 1932 in which he says that the American Chief of Staff "apparently talked up American military equipment to the skies in discussions he had with the Turkish General Staff. \* \* \* Rather gather that your equipment and ours did not suffer from lack of praise." I wish to state that there is absolutely no foundation for the conjecture made by Mr. Goulding. I never discussed American military equipment with the Turkish General Staff or with any other Turkish authorities. Neither directly nor indirectly did I have anything whatsoever to do with any attempt to influence American sales in Turkey. Your inference, as quoted in the Post, that "It looks to me like General MacArthur was pretty much of a salesman" has no foundation of fact.

May I ask that this letter be made a part of the hearings of your committee.  
Very sincerely,

DOUGLAS MACARTHUR.

Senator CLARK. Senator George, may I ask one further question?  
Senator GEORGE. Yes.

Senator CLARK. Something was said a while ago about a letter from General Motors Co. which was referred to Colonel Simons. Who is Colonel Simons?

Mr. LAMMOT DU PONT. It is Colonel Simons, and he is a member of our smokeless powder company.

Senator CLARK. Where is he located?

Mr. PIERRE S. DU PONT. Wilmington, Del.

Senator CLARK. Is he contact man for legislative matters in Washington?

Mr. PIERRE S. DU PONT. No; that is purely relating to matters referring to smokeless powder, I think.

Senator POPE. You mean to say he did not make contacts with officials in Washington or with Members of Congress?

Mr. LAMMOT DU PONT. I think not.

Mr. A. FELIX DU PONT. Not on legislative matters.

Senator CLARK. You are sure of that?

Mr. A. FELIX DU PONT. Yes; I am sure.

#### RELATIONS WITH IMPERIAL CHEMICAL INDUSTRIES, LTD.

Senator GEORGE. Mr. du Pont, in your testimony, reference has been made to the Imperial Chemical Industries, Ltd., and I shall ask you particularly about the munitions end of the du Pont Co., and if there are any other of your associates here who have not been sworn, and whom you would like to have with you in connection with this phase of the investigation, you may call them around at this time.

Mr. PIERRE S. DU PONT. I know of none just now, but I could call upon them if it is necessary for any information.

Senator GEORGE. You may, and I make that suggestion at this time.

I believe the Imperial Chemical Industries, Ltd., is a British corporation?

Mr. PIERRE S. DU PONT. Yes.

Senator GEORGE. Its business is general in character?

Mr. PIERRE S. DU PONT. It is in the chemical industry, but I do not know whether its business is exclusively so or partly so.

Senator GEORGE. Is it somewhat like the du Pont organization, or is it confined strictly to production and distribution of chemicals?

Mr. PIERRE S. DU PONT. Yes, sir.

Mr. LAMMOT DU PONT. I do not know this certainly, but my impression is they are broadly spread through the chemical industry and some other industries, but we have no definite information on that, and I do not follow their investments or their activities.

Senator GEORGE. In this industry of yours, you have divisions, as I understand it; for instance, for the manufacture and sale and distribution of particular products?

Mr. PIERRE S. DU PONT. Yes.

Senator GEORGE. And in this field of munitions you have the division that has in hand both the production and distribution, if only one division is involved, of let us say explosives?

Mr. PIERRE S. DU PONT. Yes.

Senator GEORGE. Now, let use get out of the field of technical language. You also stated that production and distribution by you of what we may call the military explosives, distinguished from the sporting or ordinary commercial and nonmilitary classes, was in one division?

Mr. PIERRE S. DU PONT. That is correct.

Mr. LAMMOT DU PONT. I think perhaps if I give you a little statement you will get the picture of our activities. These activities are mostly divided into 10 branches, explosives, rayon, cellophane, dyestuff, heavy chemicals, organic chemicals, artificial leather, and I cannot remember the names of the other 3, but there are 10 of them. One of those is the commercial explosives department, another of the 10 is the smokeless powder department, and that department, by the way, is the smallest of the 10, and includes the smokeless sporting powder and the smokeless military powder; and the other department, the smokeless, together with the explosive, are both manufacturing for the United States Government and for the foreign governments.

Senator GEORGE. In that department as you call it, do you both manufacture and distribute your powder?

Mr. LAMMOT DU PONT. Manufacture and sell; yes.

Senator GEORGE. Now, with particular reference to the Imperial Chemical Industries, Ltd., which we may call the I.C.I., as it has been denominated, the relations between that organization and the du Pont Co. have been close and cordial over a long number of years?

Mr. LAMMOT DU PONT. Yes, sir.

Senator GEORGE. At this point I would like to put in the record the directors of the Imperial Chemical Co. as furnished to the committee, and note for the record that the chairman and managing director of the Imperial Co. is Sir Harry McGowan, and the president is the Marquis of Reading, and the other names of the directors are as follows [reading]:

The Rt. Hon. Lord Ashfield of Southwell, P.C.; Sir Christopher Clayton, C.B.E., M.P.; W. H. Coates, LL.B., B. Sc., Ph. D.; The Rt. Hon. Lord Colwyn, P.C., D. L.; The Rt. Hon. Lord Melchett; H. J. Mitchell; Sir Max Muspratt, Bart.; J. G. Nicholson; Lt. Col. G. P. Pollitt, D.S.O.; J. Rogers; E. J. Solvay; B. E. Todhunter; H. H. Wadsworth; The Rt. Hon. Lord Weir, P.C., G.C.B., D.L.

Senator GEORGE. The chairman and managing director of the Imperial is the same Harry McGowan, who is connected with the General Motors. I believe it was testified he is a director of that board also?

Mr. PIERRE S. DU PONT. Yes, sir.

Senator GEORGE. I would like to offer for the record, to be properly numbered, a statement of the list of the subsidiary companies and the investment and contractual interest in them of the Imperial, furnished under date of March 7, 1928.

(The document referred to was marked "Exhibit No. 461", and is included in the appendix on p. 1297.)

Senator GEORGE. If that list is compiled upon the basis of fact as of 1928, of course it may be subject to certain corrections and additions, but so far as certain purposes are concerned, I would like for it to be noted that the properties in which the Imperial has a direct interest or which are counted as the Imperial companies in Great Britain are 11 in number.

These companies, that is, Nobel Industries, Ltd., Brunner Mond & Co., Ltd., United Alkali Co., Ltd., and British Dyestuffs Corporation, Ltd., really entered into a merger out of which came the present I.C.I.?

Mr. PIERRE S. DU PONT. I have no knowledge of that.

Mr. LAMMOT DU PONT. I think that is correct.

Senator GEORGE. That seems to be indicated, and it is not controverted.

At the time the I.C.I. owned, or the interests back of the I.C.I. owned substantially all the stock of these four companies named. The companies in which the I.C.I. is mentioned as having an indirect interest in Great Britain number 45, and cover substantially the whole chemical field and the foreign companies outside of Great Britain in which the I.C.I. is listed as having some kind of direct interest number 55. Of course, I am not asking you gentlemen but I am simply making those statements as a part of the record.

The statements of these holdings of the I.C.I. also indicate the fair percentage of interest and the character of the interest of the I.C.I. in these companies, whether they be subsidiaries, mere investments, or otherwise.

Now may I ask if the du Pont Co.—and I am calling your company by that shortened name—has any stock interest, any shareholding interest in the I.C.I.?

Mr. LAMMOT DU PONT. No.

Senator GEORGE. May I ask if the I.C.I. has any interest in the du Pont Co. other than that which appears here from a document?

Mr. LAMMOT DU PONT. What appears here?

Senator GEORGE. A very minor interest of some 17,000 shares, which your records would indicate was acquired more by accident or inheritance than otherwise.

Mr. LAMMOT DU PONT. I did not think they had any interest in the stock. I did not think they owned any shares in the du Pont Co.

Mr. PIERRE S. DU PONT. Thirty-seven one-hundredths percent holding.

Mr. IRÉNÉE DU PONT. It does not appear on our stock list, does it?

Mr. PIERRE S. DU PONT. This is a statement in 1928, it appears.

Senator GEORGE. That does appear to be a statement in 1928.

Mr. LAMMOT DU PONT. I do not think they hold any shares now.

Senator GEORGE. Could you verify that?

Mr. LAMMOT DU PONT. Certainly.

Mr. IRÉNÉE DU PONT. It might be in somebody else's name, you know. There is nothing in our stock listing indicating that. I made inquiry about it before I left Wilmington, and that is what they told me.

Mr. LAMMOT DU PONT. That is all the information we can get, then, Senator. If their name does not appear on the stock list, we do not know whether they own anything, and they say it does not appear on the stock list.

Mr. IRÉNÉE DU PONT. I did not examine that stock list personally and it might be better to examine it.

Senator GEORGE. I will direct your attention to another document appearing here. For the present, and in 1928, a very negligible interest in du Pont was acquired by the I.C.I.

Mr. PIERRE S. DU PONT. Pardon me, Senator; I believe the I.C.I., or its predecessor corporation, did have a number of our shares at one time, and it might be of record. They had some General Motors.

Mr. IRÉNÉE DU PONT. They had a very large block of General Motors. That was the time that Sir Harry was nominated to the board.

Senator GEORGE. I will ask you about that next. The Imperial does have an interest in General Motors, and that interest I believe continues to date, so far as you know?

Mr. PIERRE S. DU PONT. I am not sure what the records show. Do you know?

Mr. LAMMOT DU PONT. I do not know, either.

Senator GEORGE. Sir Harry McGowan is still on the board of directors?

Mr. PIERRE S. DU PONT. Yes, sir; he is still on the board of directors.

Senator GEORGE. Is he active?

Mr. PIERRE S. DU PONT. I doubt if he attends any meetings.

Mr. LAMMOT DU PONT. He very rarely attends.

Senator GEORGE. But he is still a member of the board, so far as your knowledge does?

Mr. LAMMOT DU PONT. I think so.

Senator GEORGE. I believe also that the Imperial in 1928 at least was shown to have an interest in the Allied Chemical. Was your company also interested in that company?

Mr. LAMMOT DU PONT. No, sir.

Senator GEORGE. And the North American Chemical Company. Were you interested in the North American Chemical Company?

Mr. LAMMOT DU PONT. I do not think so. I do not recall ever having heard the name.

Mr. PIERRE S. DU PONT. They have a 100 percent holding in that, according to this list; do they not?

Senator GEORGE. I beg your pardon; that is true. You have also referred to the Canadian Industries, Ltd., here. That company I believe is owned by the Imperial and du Pont?

Mr. LAMMOT DU PONT. Approximately 90 percent.

Senator GEORGE. Approximately 90 percent is owned by the two companies?

Mr. LAMMOT DU PONT. Yes, sir.

Senator GEORGE. And the holding of the du Pont Co. is about 44 percent?

Mr. LAMMOT DU PONT. Yes.

Senator GEORGE. And the Imperial has substantially the same interest?

Mr. LAMMOT DU PONT. About the same, but I think not identical.

Senator GEORGE. Are there other joint companies, companies jointly owned by the Imperial and the du Pont Co.?

Mr. LAMMOT DU PONT. Yes, there are.

Senator GEORGE. I mean without going into details.

Mr. LAMMOT DU PONT. I should say there is, because I can think of only one. Mr. Carpenter has a better memory than I have and he mentions two.

Senator GEORGE. Mr. Carpenter, is one the Chilean company?

Mr. CARPENTER. Yes, sir; the Chilean Explosives Co. we both are interested in.

Senator GEORGE. Is that owned practically by the two companies named, the Imperial and the du Pont?

Mr. CARPENTER. There is a minority interest there, I think, of about 15 percent, if I remember correctly.

Senator CLARK. You mean a minority interest not owned by these two companies?

Mr. CARPENTER. That is correct. I am not sure of those figures, Senator.

Senator GEORGE. What other company have you in mind in which the two companies have a joint interest?

Mr. CARPENTER. There is a trading company in the Argentine, a very new set-up.

Senator GEORGE. Is it a producing company?

Mr. CARPENTER. I think they produce some chemicals.

Senator GEORGE. Is the Chilean company a producing company?

Mr. CARPENTER. Yes, sir.

Senator GEORGE. I believe it is engaged in producing explosives, is it not?

Mr. CARPENTER. Manufacturing dynamite.

Senator GEORGE. Manufacturing dynamite?

Mr. CARPENTER. Industrial explosives.

Senator GEORGE. Exclusively?

Mr. CARPENTER. I think exclusively.

Senator GEORGE. Do you recall to mind any other company?

Mr. CARPENTER. There is the Naylor Bros. Co., which is the name of the other company I can think of, which manufactures paints and varnishes, an English company, and the Nobel Chemical Finishes I think is the other name. They are all involved in manufacturing paint and varnishes in England.

Senator GEORGE. The du Pont Co. is interested in the Naylor Bros. Co.?

Mr. CARPENTER. We have an interest in it.

Senator GEORGE. And so has the Imperial?

Mr. CARPENTER. I.C.I.

Senator GEORGE. But I was referring specifically and particularly to those companies like the Canadian Industries, Ltd., in which the greater portion, 90 percent or some large percentage, of the stock was owned by the Imperial and the du Pont companies, where those companies own stock. I merely wished that to be indicated.

Can you say briefly when your association with the Imperial began? I must embrace in that question both the predecessor companies of the Imperial as well as the present du Pont Co. In other words, how long have you maintained a close and friendly relation in a business way with the Imperial?

Mr. PIERRE S. DU PONT. It is beyond my connection with the du Pont Co., or the connection of any one here. I have been with the du Pont Co. since 1890, and there were relations between the British Explosives at that time and the du Pont Co., but I do not know the nature of them. I was not in the administration part then, and I do not know what the relations were, but I know there was a relationship. The first agreement that I know of any kind that would be a stamp of relationship was I think in 1907.

Senator GEORGE. That particular agreement embraced what, Mr. du Pont?

Mr. PIERRE S. DU PONT. That was an agreement concerning the sale of explosives and I think—I would like to refer to a memorandum in that connection, if I may, because I do not want to have to go back to it.

Senator GEORGE. I have no purpose to go into it in detail.

Mr. PIERRE S. DU PONT. I have a memorandum of those agreements. I think there are two or three of them.

Senator GEORGE. Did the 1907 agreement cover exchange of inventions, methods of manufacture, and so forth?

Mr. PIERRE S. DU PONT. May I refer to it? I have the abstract here which will show that [referring to paper]. This is an abstract of the agreement. It is between the E. I. du Pont Powder Co., our predecessor, Nobel Dynamite Trust Co., the predecessor of I.C.I., and the Vereinigte Koln-Rottweiler Pulverfabriken, which was the German organization at that time. It was a territorial agreement on use of patents and secret processes. Under that agreement the du Pont Co. was to pay to the German and European companies collectively 36½ percent on excess manufacturing profits above 6 percent on new capital employed; and the European companies paid into the du Pont Co. 63½ percent on the profits on their new capital employed. That was outlined as a measure of patents and secret processes, but the Europeans were not to pay in excess of \$175,000 per annum and the du Pont Co. was not to pay in excess of \$300,000 per annum. The agreement was effective January 1, 1907, and to run until December 31, 1921.

After December 31, 1911, the agreement might be terminated on 12 months' notice by payment of the maximum payment due for the uncompleted years. Government objections or prohibitions shall be a valid plea for failure to disclose or reveal an invention.

An amendment was made on June 30, 1911, under which it was agreed that the ingredients of a military propellant shall not stamp that propellant as an invention unless the chemical and ballistic qualities are affected. That was, of course, a modification. The

agreement was terminated January 1, 1913, and the invention returned to the original owners.

Senator GEORGE. May I ask if that agreement did not in fact provide for exclusive and nonexclusive sales territories and, of course, did include military powders?

Mr. PIERRE S. DU PONT. I have not a memorandum on that, but my impression is that the du Pont Co. granted its rights for anything they had outside the United States, Mexico, and Central America, and that the Europeans granted us rights for the United States, Mexico, and Central America.

Senator GEORGE. Mr. du Pont, may I ask you if you know Mr. T. J. Hanley?

Mr. LAMMOT DU PONT. Yes, sir.

Senator GEORGE. What is his connection with your company?

Mr. LAMMOT DU PONT. He is connected with our legal department.

Senator GEORGE. With your legal department?

Mr. LAMMOT DU PONT. Yes, sir.

A VOICE. It is T. R. Hanley.

Mr. LAMMOT DU PONT. Maybe I had the wrong name.

Senator GEORGE. Do you also know Mr. J. K. Jenney?

Mr. LAMMOT DU PONT. Yes, sir.

Senator GEORGE. Is he connected with your legal department?

Mr. LAMMOT DU PONT. No; he is connected with our foreign-relations department.

Senator GEORGE. If I may read from a memorandum prepared by him, Mr. Jenney, to Mr. Hanley, under date of August 31, 1934, perhaps it will refresh your recollection, because I did not want to go into great detail in this matter [reading]:

This agreement was later canceled—

speaking of an agreement made in 1897 with some subsequent modification—

as the price provisions were deemed to be contrary to the Sherman law. An agreement was drawn up and signed in 1907 covering exchange of inventions and methods of manufacture. This agreement had provided for exclusive and nonexclusive sales territories, and military powders were included. It is my recollection that a provision was inserted providing that governmental objection should be an adequate reason for withholding any information, although I presume this had always been understood.

That is the memorandum from Mr. Jenney to Mr. Hanley as of August 31, 1934.

Mr. PIERRE S. DU PONT. Does that provision relate to the agreement of 1907 or the 1890 agreement, or whenever it was?

Senator GEORGE. The memorandum states that that related to the 1907 agreement.

Mr. PIERRE S. DU PONT. As I have said, there was an agreement before that, but I do not know the nature of it, and I have not been able to find out anything about it. It was referred to in the case of United States Government against the du Pont Co., but, as far as I can find, it was not spread on the record.

Senator GEORGE. This memorandum also states that the "1907 agreement was abrogated as of December 31, 1912."

Mr. PIERRE S. DU PONT. January 1, 1913, was it not?

Senator GEORGE. And a patents and secret-processes agreement was prepared, "but I think never signed due to the advent of the war."

Mr. PIERRE S. DU PONT. Yes; that was prepared in 1913 or 1914, but was never signed, but a similar agreement was signed in 1920 and dated 1919.

Senator GEORGE. That memorandum also states [reading]:

In 1919 a patents and processes agreement covering explosives, including military explosives, was negotiated (signed 1920) with Explosive Trades, Ltd. (later Nobel Industries, Ltd.). There was a provision excluding passing of information contrary to governmental objection.

This is substantially a correct statement, in a general way, and without going into detail?

Mr. PIERRE S. DU PONT. Yes, sir.

Senator GEORGE. Now, under this agreement of 1919 or 1920, Nobels were licensed under what you call your I.M.R. patents? That is in 1923?

Mr. LAMMOT DU PONT. That is correct.

(The first page of the document referred to was marked "Exhibit No. 463" and is included in the appendix on p. 1299).<sup>1</sup>

Senator GEORGE. Coming further into the postwar period—

Mr. LAMMOT DU PONT. Senator, I do not know whether it is important to you, but the fact that those I.M.R. patents were licensed under this agreement is not the whole story. Before that license was granted I believe the I.C.I. had all the information regarding those patents and processes and had used them.

Senator GEORGE. During the war period?

Mr. LAMMOT DU PONT. Correct, but the licensing was done under this agreement.

Senator GEORGE. I think that would be accepted as true, but well within the war period you entered into an agreement dated at least the 1st day of July 1928. That agreement—

Mr. PIERRE S. DU PONT. Is not that 1929? I do not know whether it is very material.

Senator GEORGE. 1928 seems to be the date. The agreement provides that [reading]:

This agreement shall take the place of and supersede the agreement made on November 10, 1926, between the parties hereto with respect to naval and military powders and explosives, and shall remain in full force and effect for a period of ten years beginning on the 1st day of July 1928.

I would like to offer for the record, to be appropriately numbered as an exhibit, copy of the agreement dated July 1, 1928, between the Imperial and du Pont Co.

(The document referred to was marked "Exhibit No. 464" and is included in the appendix on p. 1300.)

Senator GEORGE. The 1928 agreement, in the first numbered paragraph, that is, the paragraph following the "whereas" specifies the products, or at least some of the products, which were covered by this agreement. It states:

The terms and conditions of this agreement shall apply solely to the following products for naval and military purposes only, to wit:

Nitrocellulose powders—

<sup>1</sup> There was no Exhibit marked "No. 462."



I believe those are the du Pont Co.'s powders?

Mr. PIERRE S. DU PONT. Yes, sir.

Senator GEORGE (reading):

Nitroglycerine powders.

Are those the du Pont's?

Mr. PIERRE S. DU PONT. No; those are the British powders.

Senator GEORGE (reading):

Trinitrotoluol and tetryl.

Mr. PIERRE S. DU PONT. They are common to both companies.

Senator GEORGE. And "nitrocellulose for propellant powders." That is the du Pont product?

Mr. PIERRE S. DU PONT. That is the ingredient of the du Pont nitrocellulose.

Mr. LAMMOT DU PONT. That was common to both.

Senator GEORGE. That was common to both. But the nitrocellulose powder is peculiarly your own powder, is it not?

Mr. PIERRE S. DU PONT. Yes, sir.

Mr. IRÉNÉE DU PONT. Nitrocellulose itself enters into the nitroglycerine powder also.

Senator GEORGE. Yes; this agreement provided for a division of sales territory, both exclusive and nonexclusive, and provided also for the method of adjusting the sales made within the territory of these particular products.

Mr. LAMMOT DU PONT. I do not think you are quite right on that statement, Senator, that this provided for a division of territory.

Senator GEORGE. I direct your attention to the second paragraph, or perhaps I may have spoken a little broadly, which states:

From and after the date hereon all sales of the foregoing products made on behalf of either du Pont or Imperial in France, Belgium, Holland, Denmark, Sweden, Finland, Esthonia, Latvia, Lithuania, and Poland shall be under the supervision of the manager of du Pont's office, the expenses of which office shall be exclusively borne by du Pont \* \* \*.

Mr. LAMMOT DU PONT. It sold for both. There was no division of the territory between du Pont and I.C.I. on that.

Senator GEORGE. It did provide for the continuation of the Paris office?

Mr. LAMMOT DU PONT. Yes.

Senator GEORGE. As a mutual agency of the two companies?

Mr. LAMMOT DU PONT. Correct.

Senator GEORGE. It also provided for the creation of a like agency at Vienna in Austria?

Mr. LAMMOT DU PONT. Yes, sir; and that was under the direction of the I.C.I.

Senator GEORGE. That was under the direction of the I.C.I. And then the third paragraph of this agreement reads:

The aforesaid offices of du Pont and Imperial shall use their best efforts to apportion the total annual sales of the above products

covered by the agreement in accordance with the terms specified in that particular paragraph. In other words, it undertook to regulate them?

Mr. LAMMOT DU PONT. That is correct. You will observe that that distribution was in conformity with the characters of powders made by the respective companies.

Senator GEORGE. That is quite correct.

Mr. LAMMOT DU PONT. Also the territorial arrangement had a bearing on that, the territory which was assigned to the Vienna office being that which normally used an I.C.I. powder, and that which was assigned to the Paris office was that which normally used the nitrocellulose powder.

Senator GEORGE. Roughly speaking, you were attempting to preserve what you used, that is, the status quo, or at least you wanted a fair and equitable apportionment?

Mr. PIERRE S. DU PONT. I do not think that is quite right, Senator. Countries have different guns and use certain powders for those guns. Nitrocellulose powder is not interchangeable for a gun made for cordite, for the British powder. During the war we succeeded in fitting nitrocellulose powder to any gun. It had to be done and we did it. Normally some have to buy the British powder. Contrariwise, those using nitrocellulose cannot buy it from the British because they do not make it, and we do not make cordite. The wishes of the customer governs it.

Senator GEORGE. The powder must be made for the gun?

Mr. PIERRE S. DU PONT. Yes, sir.

Senator GEORGE. The agreement will speak for itself and will go in the record.

Mr. PIERRE S. DU PONT. It is the customer's choice as to the kind of powder. We made one kind and they made another.

Mr. LAMMOT DU PONT. They recognized the status quo of the customer but not the status quo of the business.

Senator GEORGE. The percentage is indicated in the agreement.

Mr. LAMMOT DU PONT. Yes, sir; in two cases to 100 percent, they being the particular products which are only made by 1 of the 2 companies.

Senator GEORGE. In the case of nitrocellulose powder, the du Pont's, it was recognized at 70 percent for that product.

Mr. LAMMOT DU PONT. Yes, sir; both the nitrocellulose and the TNT and the tetryl were divided between the two.

Senator GEORGE. Did this agreement continue down to the present year, or was it affected by a subsequent agreement?

Mr. LAMMOT DU PONT. I think that is still in effect.

Mr. A. FELIX DU PONT. That was superseded in 1932.

Senator GEORGE. The memorandum would indicate it was modified or superseded in certain important respects in 1932. Did you experience any difficulties under this agreement? Did any objection arise upon the part of your Paris office?

Mr. LAMMOT DU PONT. I think Major Casey could answer that question better.

Mr. CASEY. I did not get the question, Senator.

Senator GEORGE. I say, did the du Pont Co. experience difficulties under the 1928 agreement?

Mr. CASEY. The principal difficulty we found was one of expense. The volume of business was so small that neither company found that they were really justified in continuing their sales effort, and we

therefore considered that we perhaps should make an attempt and try it for a couple of years to see if all sales in Europe could be handled by one company for both, realizing the fact that the individual country determined the type of powder that went into it, and they would elect whose powder they would take, and in that way we might be able, without too much loss, to continue our efforts. It was really a consolidation, you might say, of sales effort to save expense in selling.

Senator GEORGE. Now, Major, do you refer to the G. W. White memorandum agreement?

Mr. CASEY. Yes.

Senator GEORGE. Which purports to have been executed or completed I believe in October 1932.

Mr. CASEY. That is right.

Senator GEORGE. It was not actually completed at that time, was it?

Mr. CASEY. I do not believe so.

Senator GEORGE. There were some subsequent amendments and interpretations at least added?

Mr. CASEY. Yes, sir.

Senator GEORGE. In this G. W. White memorandum, as we may denominate it, and in the statement of general principles, it is provided:

The party securing an order shall pay a commission to the other party for assistance rendered.

among other things.

The products are also enumerated. I believe it is true that this memorandum does not cover military powders, broadly designating powders and explosives as such, and distinguishing them from commercial or nonmilitary usages.

Mr. CASEY. This is strictly military.

Senator GEORGE. The White agreement?

Mr. CASEY. Yes, sir.

Senator GEORGE. That agreement may be entered in the record appropriately numbered as an exhibit.

(The document referred to was marked "Exhibit No. 465" and is included in the appendix on p. 1302.)

Senator GEORGE. In connection with that agreement I would also like to offer for the record a memorandum from Major Casey, as a director, to the general manager of the du Pont Co., dated April 6, 1932, which particularly states some of the inconveniences or at least objections which have been found to exist under prior agreements, among other things.

(The memorandum referred to was marked "Exhibit No. 466" and is included in the appendix on p. 1305.)

Senator GEORGE. In the G. W. White agreement of 1932 there is contained a definition of sales areas. The first is [reading]:

South America will comprise all countries in the South American Continent including Cuba, Haiti, Santo Domingo, Mexico, and Central America.

2. Europe will include all countries currently known as Europe with addition of Turkey and Persia.

3. Asia will cover all countries concurrently known as Asia except Turkey and Persia.

4. It is understood that the United States, its possessions and dependencies, as well as the British Empire, its possessions and dependencies are specifically excluded from the scope of this agreement.

Mr. LAMMOT DU PONT. You are reading from the agreement?

Senator GEORGE. I am reading from the agreement, the second page of the agreement. General subdivision D deals with organizations and reads:

Both companies wish to adopt the most efficient method of promoting sales that can be devised.

It is believed that this will be accomplished by having sales handled as much as possible by persons entirely devoted to and experienced in military sales.

Therefore, it is proposed to:

Divide the sales area as shown in section C.

Which I have just read.

Have available for each territory a salesman, assisted if necessary, entirely devoted to the sales of these products.

Then the duties of these salesmen are set out and on page 3 of this agreement there is a paragraph 6 which says:

To decide as to which company's products to offer in a certain case, bearing in mind the chances of sales, and the customer's desire for the products of one or the other company. In each territory, the salesman in charge must make this decision in view of his close knowledge of the field.

This continued a dual agency between the Imperial and the du Pont companies. I believe on that point there is substantially no change from the older agreement, although it did differ in minor particulars.

Attached to this are certain explanatory notes, and these explanatory notes indicate, or at least give the basis of the answer to the question which I asked before, that the agreement was not actually completed in October, but was completed at a later date in 1932.

A provision is made for the continuance of the Paris office and offices as under previous agreements and provision is also made for the expense of these offices.

There is a further interpretation of explanatory note 1, to the effect that I.C.I. will be the source of supply for cordite and du Pont for the particular products peculiar to it or in which it played an important part, more important than the I.C.I. I read from this explanatory note:

Bearing in mind the desire of both parties to discourage as much as possible the erection of factories, it is understood that no project of this kind will be undertaken in South America and China without prior consultation and mutual agreement depending upon circumstances.

In Europe there will also be collaboration between the parties before any factory scheme is proceeded with by either party, and it is understood that due to their various commitments in Europe no factory scheme shall be carried out without the express agreement of I.C.I.

That reference there is, of course, to the interest of the I.C.I. in subsidiary and other companies in which it had some interest.

Mr. PIERRE S. DU PONT. Senator, when you make a statement concerning that, it is your statement, not ours. I cannot say whether that is true or not. What you are reading is entirely foreign to me. Do not think that I am assenting to its being true, because I know nothing of it.

Senator GEORGE. You are not assenting to that statement?

Mr. PIERRE S. DU PONT. I do not object to it.

Senator GEORGE. I thought that was a rather obvious reason, that it appeared upon the face of the paper. May I ask if this is correct and was this observed? [Reading:]

As regards Spain, Portugal, and Czechoslovakia it is clearly understood that there is to be no sales activity without prior consent of I.C.I. so as to take into consideration their relations with the Union Espanolo de Explosives and the Czechoslovak Explosives Co.

Perhaps that statement would indicate the reason for the general understanding preceding that.

Mr. LAMMOT DU PONT. I think that is correct.

Senator GEORGE. I read from the next to the last page of this agreement the following:

The salesmen for Europe and South America should report any information and particulars of enquiries for military small arms ammunition and components to I.C.I. without being concerned directly in that business.

In order to avoid any possibility of their disturbing the general policy of either of the parties, the salesmen will consult fully with the authorized representatives of the parties in their respective territories.

That agreement has been introduced in evidence as "Exhibit No. 465."

Mr. LAMMOT DU PONT. Senator, at an appropriate time, would you care to have a statement as to the reasons and objects for this whole set-up between du Pont and I.C.I.?

Senator GEORGE. I have no objection.

Mr. LAMMOT DU PONT. When you are through with these agreements that referred to those joint efforts.

Senator GEORGE. You may do so, of course.

I offer as "Exhibit No. 467" a letter from Mr. William N. Taylor to A. C. Major, Esquire, Imperial Chemical Industries, Imperial Chemical House, Millbank, London.

(The letter referred to was marked "Exhibit No. 467" and is included in the appendix on p. 1308.)

Senator GEORGE. Mr. Taylor was in charge of the Paris office, I believe?

Mr. LAMMOT DU PONT. Yes.

Senator GEORGE. As the agent of the du Pont Co?

Mr. LAMMOT DU PONT. Yes.

Senator GEORGE. But acting, of course, in his joint capacity or as joint agent under this general arrangement and agreement with the Imperial Co.?

Mr. LAMMOT DU PONT. Yes.

Senator GEORGE. In his letter, this is to be noted [reading]:

The salesman should, without taking direct part in the sales of military cartridges, report to the manager of the Paris office of Imperial Chemical Industries any information he may obtain along these lines and assist the cartridge salesman in every way in his power.

That letter is dated November 30, 1932.

May I ask if at that time the du Pont Co. had acquired the Remington Arms? Was the Remington Arms Co. acquired subsequently?

Mr. LAMMOT DU PONT. I think it was acquired subsequently.

Senator GEORGE. At this date the Remington Arms was not owned by the du Pont Co.

Mr. LAMMOT DU PONT. No.

Senator GEORGE. This further statement appears, and I wish to have confirmation of it [reading]:

The salesman for South America will be Mr. N. E. Bates, jr. The Du Pont Co. shall pay all expenses covering his work in South America.

Mr. Bates is the salesman in the South American territory?

Mr. LAMMOT DU PONT. Yes, sir.

Senator GEORGE. He is the agent of the du Pont Co.?

Mr. LAMMOT DU PONT. Yes, sir.

Senator GEORGE. But acting, of course, in his joint capacity under this agreement?

Mr. LAMMOT DU PONT. I believe so.

Senator GEORGE. There is no question concerning the joint agency in these respective territories indicated in this agreement; the agent of both the Imperial and the du Pont companies acting in accordance with this agreement does act for both companies?

Mr. LAMMOT DU PONT. I think the agreement speaks for itself on that point.

Senator GEORGE. I meant, as a matter of fact; I am now inquiring, as a matter of fact, the agent does act as the joint agent of the two companies?

Mr. LAMMOT DU PONT. Yes, sir.

Senator GEORGE. I would now like to read and offer as an exhibit, to be numbered "Exhibit No. 468", a cablegram.

(The cablegram referred to was marked "Exhibit No. 468" and is included in the appendix on p. 1310.)

Senator GEORGE. It reads:

Send the following to Col. W. N. Taylor by telephone. Replying to your letter no. 2511 if 50/50 arrangement on all sales decided upon for Europe there is no occasion for setting up a clause providing how profits are to be determined. In the meeting with H. J. Mitchell it was agreed that we would do as we had in the past in South America. We accept each other's figures without question. Payments are called commissions, and no mention should be made of profits in agreement. Any chance setting up methods of determination of commissions extremely dangerous both of us. This agreement based on mutual confidence and should be so regarded.

The Mr. Mitchell referred to in the cablegram, H. J. Mitchell—will you please identify him?

Mr. LAMMOT DU PONT. He is an important official of Imperial Chemicals. I do not remember just what his title is.

Senator GEORGE. He is an official of Imperial and is an important executive.

Mr. LAMMOT DU PONT. Yes.

Senator GEORGE. Now may I ask if it is not a fair inference that all of the agreement between the two companies is not necessarily in writing? From this cable, is not that inference justified, that some of it may lie outside of the written memoranda or statements?

Mr. LAMMOT DU PONT. No; I do not think so.

Senator GEORGE. Do you interpret this statement in the cablegram [reading]:

There is no occasion for setting up a clause providing how profits are to be determined. In the meeting with H. J. Mitchell it was agreed that we would do as we had in the past in South America. We accept each other's figures without question. Payments are called commissions \* \* \*.

Mr. LAMMOT DU PONT. That sort of agreement is subject to change without any notice. If it was written in the agreement, it would not be subject to that change.

Senator GEORGE. No inference whatever is to be taken from my question that it was anything but a legitimate arrangement as between the companies, so far as that goes. But your relationship with the Imperial Co. has been very long and as you have testified it has been a close business relationship.

Mr. LAMMOT DU PONT. Yes, sir.

Senator GEORGE. There is a very close understanding between the two organizations, the two companies?

Mr. LAMMOT DU PONT. Yes.

Senator GEORGE. I ask that there be made a part of the record, as "Exhibit No. 469"—which, before being marked, I should like to exhibit to Mr. du Pont, because I am not sure whether it would come within the class of communications which Mr. du Pont had in mind as being of such a confidential nature as not to be made public. There is something in this document that does indicate that there is something private and confidential about it.

Mr. PIERRE S. DU PONT. I have no objections, of course, to the committee having it, but if it is confidential I would ask that it be not spread in the public record.

Mr. LAMMOT DU PONT. This is a letter from one of our own men to one of our own departments and I do not think there is anything confidential with respect to a third party.

Senator GEORGE. I do not think so and I was not offering it on any point that I think you had in mind.

Mr. LAMMOT DU PONT. Unless the text of the letter so states, which I doubt.

Senator GEORGE. I do not think there is anything disclosed in it, but inasmuch as it is marked in the fashion in which it is, "private and confidential", I thought I would direct your attention to it. Then if there is no objection to it, that letter will be received as "Exhibit No. 469."

(The letter referred to was marked "Exhibit No. 469" and is included in the appendix on p. 1310.)

Senator GEORGE. I direct attention at this time merely to the recitation in this letter, the reference in the letter to a report covering the operations of the Imperial and the du Pont Co. in military explosives in China. That refers, of course, to the territorial agreement as contained in the agreement of October or November or December 1932.

Mr. LAMMOT DU PONT. It refers to the joint selling arrangement.

Senator GEORGE. Yes; of 1932.

I would like to offer for the record a letter addressed to Major Casey, dated January 12, 1933, by William N. Taylor of the Paris office, both of whom are agents for the du Pont Co. according to the testimony.

(The letter referred to was marked "Exhibit No. 470" and is included in the appendix on p. 1313.)

Senator GEORGE. If there be any confidential information in that letter—

Mr. LAMMOT DU PONT. I do not think there is anything confidential in that, unless it is so stated in the text.

Senator GEORGE. I do not recall any reference to anything confidential in that letter. This letter is offered merely for the purpose of showing the course of dealing under the agreement about which there really has arisen no controversy, anyway.

Mr. PIERRE S. DU PONT. There is no objection.

Senator GEORGE. The letter which I now ask to be inserted in the record as "Exhibit No. 471" is a letter dated the 4th of July 1933 to Mr. G. W. White, signed by Mr. J. Laing.

(The letter referred to was marked "Exhibit No. 471" and is included in the appendix on p. 1316.)

Senator GEORGE. The general purpose of putting that letter in the record is precisely stated with reference to the foregoing letter and I presume there is no objection to that.

Mr. LAMMOT DU PONT. There is no objection to it.

Senator GEORGE. If there is anything in it that appears confidential, I would be glad if you would direct my attention to it.

A subsequent letter of September 25, 1933, to Mr. N. E. Bates, Jr., from Mr. Casey is offered as "Exhibit No. 472."

(The letter referred to was marked "Exhibit No. 472" and is included in the appendix on p. 1316.)

Senator GEORGE. Special reference is made here to the acquisition of the Remington Arms and with the acquisition of the Remington Arms by the du Pont, which may have some bearing on the relationship with the Imperial Co.

I would like to say, speaking for myself and I am sure for the committee, that it is not the purpose of the committee to spread any confidential information on the record here that would be harmful; nor is there an assumption that the du Pont business in munitions is other than that of any other manufacturer of character and standing.

The committee's obligation is, of course, to inquire into the subjects committed to us for the purpose of making such recommendations to the Congress as we may feel impelled to make.

Mr. PIERRE S. DU PONT. I am satisfied of that, Senator.

Senator GEORGE. On the basis of facts.

Mr. PIERRE S. DU PONT. We are in a very delicate position, Senator, in this respect; we have dealings with the Departments here in Washington and with Europeans with whom we have connections, because of their obligations to their governments, which make all these matters very delicate.

Senator GEORGE. Mr. du Pont, speaking for myself again, I appreciate that fact and certainly the object of the investigation would not be to strain the relations between your company or any other American producer or distributor, and his government or with other companies abroad.

Mr. PIERRE S. DU PONT. Certainly; I appreciate that.

Senator GEORGE. Now may I direct your particular attention to the agreement between the two companies, that is the Imperial Co. and the du Pont Co., dated January 1, 1926, which I will offer as "Exhibit No. 473."

(The agreement referred to was marked "Exhibit No. 473" and is included in the appendix on p. 1317.)



Senator GEORGE. Also this agreement relates particularly, according to the memorandum which I have before me, to patents and secret processes. And in connection with that agreement, I should like to offer the agreement between the two companies as of the 1st day of July 1929 relating also to patents and processes.

(The agreement referred to was marked "Exhibit No. 474" and is included in the appendix on p. 1322.)

Senator GEORGE. These agreements are lengthy and the committee would like to have them in the record, if there is no objection.

Mr. PIERRE S. DU PONT. May I note that this agreement does not relate to military powders.

Senator GEORGE. Mr. du Pont, I would be very glad if you did, because that is a very pertinent matter of the inquiry.

Mr. PIERRE S. DU PONT. It covers all explosives other than military powders.

Senator GEORGE. Are you reading from the agreement of January 1, 1926?

Mr. PIERRE S. DU PONT. 1929 agreement.

Senator GEORGE. May I ask that the clerk to the committee read both clauses that deal with the products that are covered by these patents and processes?

Mr. RAUSHENBUSH. On page 5 of the Exhibit marked "No. 474", being an agreement of the 1st of July 1929 [reading]:

### III. PRODUCTS

The exchange of information provided in section I, and the rights to acquire licenses granted in section II, shall apply to all inventions relating to the following products and industries, subject to the exceptions set forth below:

(a) Explosives, other than military powders.

(b) Compounds of cellulose and its derivatives, including nitrocellulose compounds such as plastics and film, but excluding rayon, cellophane, explosives, and products covered under subparagraph (c) below; provided, however, that the activities of Societa Italia Celluloid and Societa Anomina Mazzucchelli (in which Du Pont has substantial stock interests), in this industry within the exclusive license territory of I.C.I., will continue until such time as may be mutually agreed upon between the parties hereto.

Mr. LAMMOT DU PONT. That shows that military powders were excluded.

Senator GEORGE. Acids are covered, I believe, in this agreement. You will note paragraph (f) on page 5 says [reading]:

Acids, both organic and inorganic, for both the heavy-chemical industry and special industries.

Then on the next page, page 6, mention is made of synthetic ammonia and fertilizers. Those are covered in subparagraphs (i) and (j). Now, in reference to the earlier agreement, that of January 1, 1926, the language pertinent to this particular point is as follows [reading]:

\* \* \* for the manufacture, production, transportation, handling, selling, or use of one or more of the following products, viz: black powder in all varieties, smokeless propellants for sporting purposes, disruptive explosives of all kinds for industrial purposes, detonators, electric detonators, safety fuses, powder fuses, detonating fuses, electric igniters, and generally all devices for initial detonation or ignition, the components which form the ignition and propellant charges of sporting ammunition, and the ingredient and component parts of the above insofar as they are applicable to explosives, and \* \* \*.

By terms, of course, these two agreements dealing with the patents and secret processes undertake to refer not to military products.

Mr. LAMMOT DU PONT. I believe so.

Senator GEORGE. I believe that is a fair statement that on the face of these contracts you are attempting to exclude the military product.

I may ask you, as practical men, however, if many of these products are not for practical purposes and under conditions easily converted into military uses?

Mr. LAMMOT DU PONT. Some of them are, but not the ones that are important commercially.

Senator GEORGE. The transition from the nonmilitary to the military use of them, however, is both swift and easy; is it not?

Mr. LAMMOT DU PONT. In some cases it is. But those cases are items of minor importance in commercial business.

Mr. PIERRE S. DU PONT. Is it not true, however—correct me if I am wrong in this—that the prime ingredients of military propellants are the same as used in sporting powders and in some disruptive explosives? For instance, gun cotton and nitroglycerin are both used in military propellants and are used very largely in sporting powders. So that the fundamentals bear direct relation to both branches of the industry, military and industrial.

Mr. IRÉNÉE DU PONT. Senator, I think your point is well taken and I think its weight is greater than has been stressed.

Industrial manufacture in the chemical industry will tie into the production in a large way and economically, of military explosives. I think that information of this kind may cheapen the costs and make available more military supplies by reason of having it.

I have been in on the research end a great deal more than I have on the selling end, in the du Pont Co. I am just a little bit enthusiastic about research. I think that the great advantage to this country of having the private manufacturers of munitions is very largely the fact that progress in that and the ability to produce can be made much greater by a great chemical organization.

I think that has been recognized by a number of the previous administrations and recognized too, by this administration.

I do not know that it would be in order here, but I would like to read you a clause from one of the codes, the Chemical Industry Code, which I think is quite pertinent to this affair. It is article II of the Code of Fair Competition for the Chemical Manufacturing Industry, which has the approval of President Roosevelt.

At this point I would like to read article IX of the Code of Fair Competition for the Chemical Industry which has the approval of President Roosevelt, if I may.

The CHAIRMAN. You may proceed.

Mr. IRÉNÉE DU PONT. This article of the code reads:

In all activities under this code, the peculiar relation of the chemical industry to national defense, national health, national industry, and national agriculture must be constantly borne in mind by its employers, stockholders, directors, executives, and employees. The present products of this industry should be regarded as only by-products; its main product and purpose the extension of chemical knowledge in the public interest.

That hits the nail right on the head. Progress has been made in the chemical industry at a most prodigious rate in the last seven years. Thirty years ago a chemical engineer was almost un-

known, and when I went with the company 30 years ago I was one of the best equipped chemical engineers, having a college education and the whole thing has grown up since that time, and the whole progress made in the chemical industry meshes in with everything, including military preparedness, and that should be borne in mind in any findings you gentlemen may make as a result of these hearings.

Now, these agreements on patents and secret processes are an endeavor to obtain from abroad whatever progress they make in invention, and underlying this, their application to the industry, and I have been very keen on that relationship of obtaining information from abroad, although we spent enormous sums on research here. The aggregate spent over there must be very great also.

Mr. RAUSHENBUSH. Mr. Chairman, since the chemical code has been mentioned, may we have that code now inserted in the record as a part of the record.

The CHAIRMAN. I think that code should be included in the record and it is so ordered.

(The code referred to was marked "Exhibit No. 527" and is included in the appendix on p. 1389.)

Mr. CASEY. Our endeavor there was specifically to exempt military propellant and explosives information from any interchange of information, realizing that ordinary black saltpeter powder or any black powder becomes military material in time of war, and black powder is the same today as it was 200 years ago.

Senator GEORGE. It can be used for military purposes, though?

Mr. CASEY. Yes; but this was to avoid any interchange of information on military purposes.

The CHAIRMAN. If it is agreeable to Senator George, the committee will be at recess at this time until 2:15 p.m.

(Thereupon the committee took a recess until 2:15 p.m. this day.)

#### AFTER RECESS

(The committee reconvened pursuant to the taking of recess, at 2:15 p.m.)

The CHAIRMAN. The committee will be in order.

Mr. LAMMOT DU PONT. Senator, at the time we broke up this morning the question of these agreements with these other companies was being discussed, and you probably got a rather confused idea of some point, and I want to clear up your mind on that. The man who actually negotiated those agreements, and who is connected with our experimental department, would give you a brief statement so that we will have a clear statement of what they are all about if you would permit us to have him do that. So, may I have Dr. Sparre, who is thoroughly familiar with these agreements, explain them to you?

The CHAIRMAN. Just before that is undertaken, we had considerable controversy this morning concerning the totals that entered into the investment of the E. I. du Pont de Nemours Co. in other companies. That has been very carefully checked, and the column "Investment in capital stock" totals as announced this morning, \$202,765,782.55 is correct. The total of advances of the du Pont Co. as of July 25 is \$59,115,414.48, if the items within parentheses in that column are excluded, and totals \$65,084,295.80, if all items are in-

cluded. The total of advances of holding company as of July 31 is \$3,564,444.88, and the total investments, again including figures of advances stated in parentheses is \$364,445,641.91, and if those items are excluded the total is \$365,445,641.91.

You may proceed now, Mr. du Pont.

Mr. LAMMOT DU PONT. We would like to have Dr. Fin Sparre make a statement at this time.

Dr. SPARRE. I have been employed by the du Pont Co. for 31 years, and the agreement of July 1, 1929, which now governs the relationship as to patents and processes between the du Pont Co. and the Imperial Industries, I negotiated in that year. The purpose of that agreement is to enable the two companies to acquire from each other for a consideration, suitable licenses for patents and processes in the chemical industry, which they may be able to use to advantage in their business.

In order to have a correct understanding of that agreement it is necessary to review previous agreements. There are important differences, yet there is considerable similarity. The agreement of 1907, which is as far back as it is necessary to go, was between the British company and a German company, the Vereinigte Koln-Rottweiler Pulverfabriken, and the du Pont Co. That agreement included military explosives.

Senator CLARK. That is the agreement of 1907?

Dr. SPARRE. Yes. The patents and processes, or rather information in regard to patents and processes, are exchanged between the parties in order to enable the companies to determine which patents and processes they could use in their business and would like to acquire.

The du Pont Co. obtained both from the British and from the German company very valuable information in regard to the manufacture of TNT. That was before the war, or in other words I should judge about 1909 or 1910, something of that sort. That had not been manufactured by the du Pont Co. before, but that information enabled us to manufacture that important explosive of suitable quality and at proper cost. The du Pont Co. also obtained from the German company very important information about the stabilization of military smokeless powder, which they obtained through the addition of some diphenylamine.

Senator BONE. When was that information obtained?

Dr. SPARRE. I should say 1908 or 1909. Up to that time the matter of stability of smokeless powder was a question of great anxiety on the part of the United States Government and all other governments. The difficulty is that you cannot demonstrate whether you have stabilized a powder except by many years of service. Now, the Germans could place at our disposal valuable experience over a great many years, of which we took advantage, and introduced diphenylamine into smokeless powder for the United States Government. All of that information and experience we placed at the disposal of the United States Government without cost.

On a visit in 1909 I believe, to the German factories, I observed there the manufacture of a new type of smokeless powder which is usually known as "surface-coated powder." The purpose of that is to satisfy the urge for great ballistic properties, especially in the higher velocity of small arms ammunition.

That is accomplished by that type of powder, which makes it possible to obtain this higher velocity without excessive pressure and without other disadvantages.

On my return to the United States I directed experimental work along the same lines to be undertaken by ourselves, and after several years' work we developed the powder which fulfilled our requirements, as well as the requirements of the United States Government, to which powder we gave the name I.M.R., and which, essentially in the same form, has become one of the standard powders of the United States Government. Complete information in regard to that powder has been given to the United States Government without cost.

On our side we had very little to give to either the British or to the Germans.

The British use nitroglycerin powder, and our information was of no value to them. The Germans use a similar type of powder, but we have very little of interest to give them. Our development had been to a large extent along mechanical lines, such, for instance, as the physical form of powder leading to multiple perforation of the powder grains. That was not accepted by the Germans, and I do not know that they used any information we gave them. The result of that relationship on the military explosives was that we obtained most valuable information from both the British and the Germans and it was conveyed to the United States Government without cost and of which the Government has made extensive use for many years and still uses it. On the other hand, I think our company gave very little of value under this contract to the German and British companies.

In regard to sporting powder, we purchased the business in America and information as to manufacture of the well-known sporting powder, Ballistite, and for that we paid cash.

With regard to the commercial explosives, I think the most important information in that connection is with regard to safety explosives for coal mines. During the same years I am here discussing, there had been a great number of very disastrous explosions in coal mines in this country leading to a loss of thousands of lives for the reason of the coal mines becoming filled with dangerous gases, due to the type of explosives used, the high temperature igniting the gases. The same problem had been met in Europe many years before, because their coal mines were already of great depth and the gaseous condition had been with them for some time. We obtained from the British companies very valuable information about everything they had obtained in that time, and many other things we obtained from experience and information about one of their explosives, monobel, which we made up in similar form.

From the German company we obtained even more valuable information, because they had developed the most complete set of testing conditions and testing apparatus to show the degree of danger and the relative safety of explosives. We purchased from them this apparatus which could not be acquired anywhere else, and with the use of that apparatus as well as their experience, especially their knowledge and information which they gave us about the manufacture of their safety explosives, the so-called "Carbonites", we developed some explosives of quite similar types.

That was a most valuable contribution to this country; it saved thousands of lives and by which we were able to serve our customers. That was paid for by the du Pont Co. in cash, and no charge to anybody except insofar as the cost had to be absorbed in the cost of the explosives.

With regard to what we contributed to the British and German companies, the situation was peculiar in this sense, that the market for explosives in this country was so much larger so that a great deal of the du Pont efforts had been given to the development of safe manufacturing methods, applicable to very large scale operations. We were relatively new as a chemical concern, and our research was not to any extent along chemical lines, but we did develop a great many mechanical improvements.

However, the British and German markets are very small as compared to the American standard, and they either would not or could not use the machines and manufacturing methods which we have developed. We had, for instance, a dynamite packing machine, which, as I remember right, was a machine by which one man could in one day pack as much dynamite in its containers as something like 60 girls or thereabouts can do in the European countries. In other words, we would expose one operator to the danger whereas in the European factories they would expose 50 or 60 to that danger. For instance, if we had an explosion, we might possibly kill one man while if they had an explosion they might possibly kill 50 or 60.

But, for government reasons or other reasons they used very little of our information.

The result was we had comparatively little to convey to the European companies, and therefore during this early relationship up to the beginning of the war we obtained a great deal of valuable information for which we paid large sums of money in cash, but we had comparatively little to give, or rather to sell to our associated companies. Perhaps I should not say associate, but say, to our friends.

The war, of course, upset everything, their patents were forgotten, everybody was too busy doing other things. When the war was over, as has been explained here, the du Pont Co. launched into a large expansion in order to get into the chemical industry in a large way, in which it has been ever since then.

One of our reasons for success was the employment of a larger force of professionally educated chemical engineers and the liberality of the management in placing large sums of money available for development.

Senator BONE. That was a sort of a brain trust you were organizing?

Dr. SPARRE. Well, they were college-educated men.

Senator BONE. That is what we refer to as a brain trust.

Dr. SPARRE. We have to have, Senator, a trained chemist to handle chemicals and to do research work.

Senator BONE. It is a very good idea to have trained men in all walks of life.

Dr. SPARRE. Yes, sir; these college men were working in laboratories; we did not put them in other positions.

The liberality of the management could be measured in dollars in this way, that the du Pont Co. has spent as much as \$5,000,000 yearly upon research.

Now, the result can be measured in two ways. One is that until around 1925 the du Pont Co. was paying large sums of money in cash to the European companies for patents and processes we had acquired. Since sometime in the 1920's—I have forgotten the year—I do not think we have paid anything to the British or German companies. On the other hand in 1925, I think it was, we sold our manufacturing patents and processes for the well known Duco to the British company. They organized a new company, the Nobel Chemical Finishes, to handle their business and it has been very profitable to them and also to us because we got a large interest in that company for our contribution of patents and processes.

That is the first time, I believe, the du Pont Co. was on the receiving end as far as money is concerned for patents and processes.

In 1930 or thereabouts we made another settlement with regard to a number of patents and processes. The money involved was comparatively small, but the du Pont Co. again received money and paid out nothing. That was the second time in the history that the du Pont Co. received money and had nothing to pay.

That was the result of the management's liberality in research in our company, in developing chemical processes.

You understand, Senator, that the importance of these chemical developments is not merely in developing a new product like Duco which may yield direct profits but it is improving what already is being done.

I can give you a typical example. You take nitroglycerin, when in the old days 100 pounds of glycerin would give 200 pounds of nitroglycerin, with a great deal of research the yield of nitroglycerin was brought up to about 230 pounds and the advance of 30 pounds of nitroglycerin represents profits. A manufacturer who in these days could make only 200 pounds of nitroglycerin would not make any profit on that basis, and the profit is in the saving. It is important in bringing up the yields which means conservation. We would call it saving, and the Treasury Department would call it profit. That is only one of the ways we can show you what the research department can do, and that is just as important as the development of new products.

There is a third factor, and that is the cost which has been mentioned as before here. If we spend \$5,000,000 a year in research, half of that is what you might call waste. I am sure over half of research leads to negative results, which leads to nothing except possibly some little education to the young chemist. I am sure we are spending several millions a year with no result whatever, unless you count the educational value. In this patent and process arrangement which we have with the British company, it is obvious that we are saving large sums of money annually telling each other of the result of the experiments, and where one company has learned in a certain type of experiment, there is a negative result, the other company is saved that work, and therefore I think the actual money payments between the two companies

is not necessarily the biggest factor. I think the advantage of research may be even more important.

Now, there are important differences between the agreement of 1929, which now governs our relationship, and the old agreements. The first difference of course is that previously we had an agreement with the German company as well as the British. Our agreement under which we now work is only with the Imperial Industries, and the German company is not included.

The second important difference is that military explosives are entirely excluded.

The third difference is that the old agreements covered practically speaking only explosives and the present agreement covers practically speaking all of the chemical industries with a couple of exceptions in which we are engaged.

In other words the agreement covers industries of maybe five times the value of the agreement which we used to have.

Another difference is that on account of the much greater importance of the du Pont Co. and the development work we have done, the exclusive territories which we have, and in which we can operate under the present processes, is very much larger than was the case under the old agreement.

There is still another difference which is of some importance and that is on the advice of counsel we were told that the old agreements with our somewhat imperfect knowledge of some of the newest statutes might be open to objection from a legal point of view. We therefore have corrected that in the agreement of 1929.

In the older agreements, for instance, there would be licenses granted for all processes and patents at the commencement or on the execution of the agreement. Under the agreement of 1929 no licenses are given until after receipt of information about the subject and when one of the companies signifies its desire to operate under such a patent and process, then for a consideration licenses may be given. If no license is requested or granted, then there is no change in the ownership or operation of the patents and processes.

I have differentiated in my remarks about military explosives and commercial explosives. There is, of course, not a very sharp line there, but there are certain distinctive differences that can be drawn. Certainly commercial explosives dynamite should need no explanation, it is an explosive used in everyday life, and its war use is no more than that of its peace use. TNT, which is an explosive of shattering effect, is practically of no importance for commercial purposes except to a minor extent which need not be mentioned while on the other hand it is a very important military explosive. As far as smokeless powder is concerned there is quite a difference between the two types, and yet there must be some overlapping as far as small arms are concerned. But, to the men who are familiar with the art it is not difficult to draw the line between the two. There is a similarity, of course, in the raw materials such as cotton, nitric acid, and sulphuric acid, which are the same, and a man skilled in the art of manufacturing one would not have a great deal of difficulty about manufacturing the other, but the specification, the compositions, and the formula are totally different.

I have tried to make my speech rather short, but I will be happy to answer any questions.



Senator GEORGE. Doctor, it is a fact, however, that the conversion of many of these nonmilitary products and military products, as well, into military powders and explosives is quite an easy process, is it not?

Dr. SPARRE. No; by no means easy. It is for this reason that the mechanical apparatus which is used for the manufacture of cannon powder, for instance, is totally different from the manufacture of sporting powder.

Senator GEORGE. I was not speaking of that particular illustration. Take, for instance, your gases and acids. You can use them for war purposes, of course.

Dr. SPARRE. Acids, of course, are the same. Those raw materials are the same; yes.

Senator GEORGE. And chlorine can be used, of course, for war purposes?

Dr. SPARRE. Yes, but not used in the manufacture of explosives.

Senator GEORGE. No, but it is used for war purposes, is it not, doctor?

Dr. SPARRE. Yes, but it is not produced in the same plants.

Senator GEORGE. Then, of course, admittedly even so-called "small arms" do use what may be called the sporting powders or the nonmilitary powders?

Dr. SPARRE. Yes.

Senator GEORGE. And becomes a military munition, a munition of warfare, when conditions demand it, and does play some part in every system of national defense, does it not?

Dr. SPARRE. Sporting powders. Senator?

Senator GEORGE. The small arms.

Dr. SPARRE. I do not believe so. You might have in mind, possibly, pistol powder or rifle powder.

Senator GEORGE. Yes.

Dr. SPARRE. To some extent.

Senator GEORGE. It is not ordinarily classed as a military powder, is it?

Dr. SPARRE. No.

Senator GEORGE. But, nevertheless, it can be used for military purposes. That is the point I was getting at. You have given us the information about the advantages of these agreements for the interchange of patents and secret processes to the du Pont Co., and while the du Pont Co. may not have had so many valuable patents and secret processes to give to the British Government, confining this inquiry now to that, nevertheless the thing is reciprocal, of course. Whatever the du Pont Co. did have that the Imperial desired, why it could acquire it under these same patent agreements?

Dr. SPARRE. Under the earlier agreement.

Senator GEORGE. Yes, broadly speaking, I say, and for a long time prior to the World War, and down to a period after the World War, to about 1925, these agreements in actual practice at least for the interchange of patents and secret processes were applied alike to the military and to the nonmilitary products?

Dr. SPARRE. Yes, sir.

Senator GEORGE. About January 1925 or some time in 1925, when the first agreement which we have been discussing here was made, and subsequently in 1929 an effort was made by the du Pont and

Imperial companies to separate their grants and agreements to grant licenses for patents and secret processes and so forth, and to confine the interchange of patents, both exclusive and nonexclusive uses, to the nonmilitary or what we may broadly refer to as the peace-time products or products used primarily in peace times and primarily for peaceful purposes. Is not that true?

Dr. SPARRE. That is right.

Senator GEORGE. Now, Doctor, we would not want to confuse still another phase, an important phase of activity of the two companies, that is, of the Imperial, with its world-wide, far-flung selling and distributing agencies, with both producing, distributing, and selling agencies, and du Pont's. Their agreement with respect to the product itself has generally, and up to now does, cover both the military as well as the nonmilitary products. I am not speaking of the inventions now and the processes but of the sales agreement.

Dr. SPARRE. Sales only.

Senator GEORGE. Sales only. It does of course cover both the military and nonmilitary?

Dr. SPARRE. Yes, sir.

Senator GEORGE. Explosives and powders, all types of powders, etcetera, used for military purposes?

Dr. SPARRE. Yes, sir.

Senator GEORGE. One relates of course to the product and sale of that product and the other, these two latter agreements which you have explained, relate to the exchange of patents and patent rights and processes.

Dr. SPARRE. That is right.

Mr. LAMMOT DU PONT. Senator, would it not be interesting to you to hear a similar statement from Major Casey as to this joint-agency agreement which we had up before lunch?

Senator GEORGE. Mr. du Pont, we would be glad to cover that. I am almost through and maybe some of the other Senators may have a little questioning.

Mr. LAMMOT DU PONT. I thought Dr. Sparre's statement was very illuminating, and I thought Major Casey's statement would be equally illuminating.

Senator GEORGE. There are some questions on this and he will have an opportunity later.

Senator BONE. Doctor Sparre, there have been repeated statements in your testimony and in the record as to patents and processes. Will you tell the committee how you protect yourself on your patents as they are developed, on these processes as they are developed? Let me go a step further and ask you when they are developed if they are protected by patents from the Patent Office of the United States.

Dr. SPARRE. We always protect ourselves as soon as practicable by application for patents.

Senator BONE. I naturally presumed that your company, with its world-wide experience, would be advised of the necessity of protecting its patents elsewhere as well.

Dr. SPARRE. That is right.

Senator BONE. Where there are recording statutes which permit the recording of patents.

Dr. SPARRE. You are right, Senator, but we have one year under the international convention, so that we do not have to file applications right away.

Senator BONE. That field or avenue of protection is offered by treaty arrangements between this Government and other governments?

Dr. SPARRE. That is right.

Senator BONE. So that the right exists through treaty as well as through filing in the different countries and you take advantage of these in handling your products?

Dr. SPARRE. That is right.

Senator BONE. That is to say, as soon as a process or combination of elements is found which serves your purpose, and proves to be something new and useful, you take steps to protect yourself and your company by filing a patent?

Dr. SPARRE. That is right.

Senator BONE. Claiming a patent right?

Dr. SPARRE. That is right.

Senator BONE. You stated a moment ago in your statement that during the war these patents were forgotten. What did you mean by that?

Dr. SPARRE. Certain patents were suspended.

Senator BONE. What do you mean by "suspended"?

Dr. SPARRE. For instance, it was impossible for American companies or American inventors to apply for patents in a large number of countries.

Senator BONE. I understand that, but is that what you meant when you said they were forgotten? Did you mean that you did not make any effort to file them?

Dr. SPARRE. We did in this country. In this country we could file patents.

Senator BONE. You could have filed them in France, could you not?

Dr. SPARRE. In certain countries.

Senator BONE. And in the Allied countries during the war you could, could you not?

Dr. SPARRE. They urged the manufacture of explosives, and while we would file applications for patents and would take out patents, our chief effort during the war was to manufacture the quantities required. Furthermore, there was a great deal of exchange of information at the request of the United States Government.

Senator BONE. Of course when you allocated territory under one of these agreements, which of course is dividing the territory of the world for sales purposes under patents—

Dr. SPARRE. Oh, you are absolutely wrong there, Senator. There was no allocation of territory at all. If you will read the agreement, Senator, you will see that what it says is that each of the companies is given the opportunity to examine information placed before it in order to determine whether or not it desires to acquire, for a consideration, a license to operate under certain patents and processes offered. If the company does not take that license, then there is no change in the situation. It has no effect on sales at all.

Senator BONE. Perhaps you misunderstood my question. Do we understand, or are we to understand that if you make a sales arrangement with some organization covering a certain territory, that you would go in there and sell also, or would you permit them to have the exclusive right to sell in that territory under your patents?

Dr. SPARRE. That is right. For instance, when we sold the license for Duco patents and processes to England, then of course the British Duco Co. was given the license, and the du Pont Co. obtained as consideration for such license a large interest in the company, in the British company, Nobel Finishes. That was an outright sale.

Senator BONE. Did that extend to them the exclusive privilege of selling in that territory without competition from you?

Dr. SPARRE. That is right.

Senator BONE. That is what I am getting at. I do not know whether I made my question plain.

Dr. SPARRE. They have the right on account of the license under the patents. In other words, the statutes, as regards patents and processes, are very definite.

Senator BONE. The statutes may be different——

Dr. SPARRE. I say very definite.

Senator BONE. Very definite?

Dr. SPARRE. In other words, if a man acquires a separate license under a patent, he has acquired property and his government guarantees him that nobody can infringe on that property. He is operating under government protection.

Senator BONE. In other words, he acquires a property right in that patent?

Dr. SPARRE. That is right.

Senator BONE. As long as nations protect property rights, he is protected under it, if he paid valuable considerations for it?

Dr. SPARRE. That is the universal patent law.

Senator BONE. We all know that.

Senator CLARK. Of course as to patents you took out before the war, you have no protection from a hostile country during the war?

Dr. SPARRE. That is what I had reference to.

Senator CLARK. If you had patents in Germany and the United States Government got into war with Germany, they had no effect?

Dr. SPARRE. That is right.

Senator CLARK. And the United States did the same thing?

Dr. SPARRE. Yes, sir.

Senator CLARK. And every country therefore was put in possession of the processes of the company that were known in the other country?

Dr. SPARRE. That is right.

Senator BONE. Doctor, the very thing we have been discussing, this very protection of property rights, places at the disposition, if need be, of every foreign power every single patent filed in their patent office. Is not that right?

Dr. SPARRE. Yes, sir.

Senator BONE. We had evidence by a witness that the German submarine which sunk the *Lusitania* during the war was built under American patents. That was done pursuant to the common practice of filing patents in foreign countries, including Germany among other countries.

Dr. SPARRE. Senator, I do not think you express that correctly. You must consider that a patent is a contract between the Government and the inventor.

Senator BONE. I am not losing sight of the fact that the patent is filed in a foreign country, open to inspection.

Dr. SPARRE. That is not the point at all.

Senator BONE. That is the point I am making.

Dr. SPARRE. I do not think it has any importance so far as patents are concerned.

Mr. IRÉNÉE DU PONT. It seems to me you are talking at cross-purposes, Senator.

Senator BONE. I hope I am making it plain because I am endeavoring to do so. If I were a German draftsman or chemist, I could go to the German National Patent Office, where your patents on powder are filed, examine such patent, and know exactly how that patent was made.

Dr. SPARRE. You are mistaken there, Senator.

Senator BONE. Then you correct me. I am trying to get some light on this.

Dr. SPARRE. In the first place, a patent is really a contract between the government and the inventor who makes that contract.

Senator BONE. You are assuming that I am assuming that the man can use that patent. I am not at all. I am asking you if I may go there, as a German, for instance, and look at that record and know what that thing is made of?

Dr. SPARRE. That is not the point I was going to make.

Senator BONE. That is the point I am going to bring out. I think we can understand each other correctly. I am going to ask the question again so that you can get it. If the du Pont Powder Co. files a patent or a process for making certain types of explosives in the German Patent Office, your company is protected in the use of that patent in Germany. Is not that correct?

Dr. SPARRE. You are absolutely mistaken, Senator. If you will permit me, I will tell you where you are mistaken.

Senator BONE. Let us take it a step at a time.

Dr. SPARRE. The contract between the United States Government and an American inventor is that if the inventor will disclose the invention to the public, then the United States Government will give the inventor a 17-year monopoly. Therefore, in order to obtain this 17-year monopoly, the American inventor is compelled by the Government to make a full and complete disclosure of his invention. The moment that patent is issued by the Government, that becomes published all over and it becomes public knowledge in Germany.

Senator BONE. That is right.

Dr. SPARRE. Even if there is no patent applied for in Germany.

Senator BONE. That is right. I quite agree with that.

Dr. SPARRE. The United States Government is the one which publishes that, not for the benefit of the Germans.

Senator BONE. That is right. That had been made clear in all the hearings. Perhaps the question was unnecessary and it is so much surplusage to say that it would be known in Germany, because the Germans could come over here and look at it.

Dr. SPARRE. He does not have to come over here.

Senator BONE. Of course he does not have to come over here, but anybody can look at it. Once a patent is issued it becomes public knowledge to the world, as far as knowledge of it is concerned!

Dr. SPARRE. That is right.

Senator BONE. It is not necessary to go outside this country to know it, because the whole world knows it the moment you file it.

Dr. SPARRE. Not the moment you file it, but the moment it is issued.

Senator BONE. The moment it is issued and becomes public property.

The CHAIRMAN. Thank you, Doctor.

Mr. IRÉNÉE DU PONT. Senator, am I to understand that you are objecting to patenting things?

Senator BONE. Not at all. I am seeking to get some information.

Mr. IRÉNÉE DU PONT. I do not see where it comes in.

Senator BONE. The patent laws have been on the statute books for many years and I do not know of any challenge to them. When we talk about secret processes and hiding things, we might as well try to hide the Capitol from some one going down Pennsylvania Avenue; and that applies to patents in the Patent Office.

Mr. IRÉNÉE DU PONT. That is not the distinction. The point which we make is that everybody learns of a subject when it is patented but that is taken into consideration before we arrive at a conclusion to patent it, whether it would be wiser to keep it a secret process. A great deal of information which might be kept as a secret process might not get to the Patent Office at all.

Senator BONE. That is true.

Mr. IRÉNÉE DU PONT. I take it your argument refers to the advisability of making known a secret in general. That is taken into consideration before we apply for a patent.

Senator GEORGE. Referring to the Canadian Industries, Ltd., I offer for the record, to be appropriately numbered as an exhibit, the contract between the Imperial Chemical Industries, Ltd., the E. I. du Pont de Nemours & Co., and Canadian Industries, Ltd.

(The document referred to was marked "Exhibit No. 475" and is included in the appendix on p. 1331.)

Senator GEORGE. Among other things, the contract provides for the furnishing upon request and the granting of [reading]—

the exclusive right to practice any and all inventions now or during the term of this agreement owned or controlled by I.C.I., and to make, use, and sell any and all products embodying such inventions, within the Dominions of Canada and Newfoundland; subject, however,

to certain exceptions.

A similar provision is inserted with respect to the du Pont Co.

The safeguarding provision is there, however, that grants by the Imperial shall confer no right on du Pont, and grants by du Pont shall confer no right upon Imperial to practice said inventions, or to make, use, or sell the products embodying the same.

The Canadian Industries, Ltd., is the Canadian producing and selling company, as I understand it, in which 90 percent of the stock is owned, in substantially equal proportions by the Imperial and the du Pont Co. Is that not right?

Mr. LAMMOT DU PONT. Yes, sir.

Senator GEORGE. As illustrating the manner in which the joint sales agency operates on products, to which reference has already been made, I offer for the record a report which seems to be addressed to Maj. Casey by William N. Taylor of the Paris office, and particularly call attention to that portion of it which is marked, and ask that it be inserted in the record and appropriately numbered as an exhibit.

(The document referred to was marked "Exhibit No. 476" and is included in the appendix on p. 1335.)

Mr. LAMMOT DU PONT. Would this be an appropriate time for Major Casey to make a statement regarding the joint offices?

Senator GEORGE. I think we will get to that in just a moment, Mr. du Pont.

Mr. LAMMOT DU PONT. Very well.

#### ATTITUDE OF DU PONT TOWARD EMBARGOES AND LEGISLATION REGARDING EMBARGOES

Senator GEORGE. Also as bearing upon the same question of joint agency within territories described in the 1932 agreement between the Imperial and du Pont companies, I offer a copy of a letter from Mr. N. E. Bates, Jr., the South American agent of du Pont, but the joint agent of both the du Pont and the Imperial companies, addressed to Imperial Chemical Industries, Ltd., under date of June 11, 1934, and draw particular attention to the paragraph of the letter which refers to the embargo or the restriction of sales by American munition makers to certain South American countries, Paraguay in this case.

(The letter referred to was marked "Exhibit No. 477" and is included in the appendix on p. 1337.)

Senator GEORGE. That letter states in part as follows:

Although the inquiry distinctly states—

referring to an inquiry for prices upon military powders and explosives—

Although the inquiry distinctly states that prices are wanted c.i.f. Montevideo, we suspect that the material is for Paraguay and since we wish to cooperate with our Government in observing the embargo, we deemed it best not to quote.

A subsequent report by Mr. Bates for the South American agency confirms the same statement and discloses that the joint agency asks that the Imperial quote directly on this material.

The cablegram here to the Imperial asks that it make quotations upon this war material, this munitions, because of the embargo and because of the desire of one of the principals represented by the joint agent to meet the obligations of the Government and avoid any breach of the embargo. That is also in the record.

(The table referred to was marked "Exhibit No. 478" and is included in the appendix on p. 1338.)

Senator BONE. It might be pertinent to inquire if the agent in this case, living strictly up to the obligation which would be due to his American principal, nevertheless finds himself in an embarrassing position of having the spirit defeat the very purpose of the

embargo by having the other principal actually quote terms upon the war material, military explosives, for one of the countries which the United States desired to exclude shipments from, so far as this country is concerned.

Mr. LAMMOT DU PONT. That is the usual embarrassment, Senator, of anyone who acts as an agent for two people.

Senator GEORGE. That is the usual embarrassment, and, of course, we are familiar with the fact that many joint agents are found, particularly in European practices, and in South American practices, for that matter, but it is an embarrassment that is, I think, disclosed by this particular transaction. While the agent is living strictly up to the requirements—

Mr. PIERRE S. DU PONT. Senator, on that very question as to the intent of an embargo, if the intent is to prevent the United States from interfering with the affairs of other countries—it is immaterial whether the British will quote the South American countries or not.

Senator GEORGE. That is what I mean, Mr. du Pont.

Mr. PIERRE S. DU PONT. But if the endeavor is to interfere with foreign nations, to prevent them getting supplies which they could get from other people, the point of view is quite as you have put it, I think.

Senator GEORGE. I submit for the record, as the last exhibit which I desire to offer, a letter from Sir Harry McGowan to Mr. Lammot du Pont, I presume, because it is addressed "My Dear Lammot", showing the continued, long-continued and close relations between the Imperial and the du Pont Co., and also making specific reference to recent developments in the United States.

The letter referred to was marked "Exhibit No. 479" and is as follows:

#### EXHIBIT No. 479

[Copy: Mr. W. R. Swint]

IMPERIAL CHEMICAL HOUSE,  
London, S.W. 1, 29th May 1933.

MY DEAR LAMMOT: I have been following with interest and no little satisfaction the improvement in industrial conditions obtaining in the States as a result of the policy introduced by your new President. The improved stock markets and the favorable developments in both business and political fields must encourage in you all that confidence which has, not unnaturally, been lacking during past years.

Particularly am I interested in the press announcements of prospective legislative action, which should give incentive to international industry and, notably, the suggestions of lower tariffs and modifications of the Sherman antitrust laws. In these I can see hope for real progression and, as an early outcome, improved commodity prices and regained prosperity.

The growing realization of the necessity to modify that accumulation of trade restrictions and barriers which the countries of the world have built up—Gt. Britain included—either on the pleas of self-preservation or in a mistaken endeavor to mitigate the effects of the depression on themselves, should eventually bring about altered trading conditions and freedom from restrictions both in Europe and in the States, where public utterances and announcements indicate a readiness to take the initiative. Whatever the changes may be, and however they may affect our individual concerns, on one thing you may rely, they will not be allowed to disturb the harmony of the relations between our two concerns, which have so long and so well withstood the passage of time and its many fiscal variations, and I have warned my people that no fiscal alterations in the U.S.A. must be allowed to affect the interpretation to be placed on our patents and processes agreement and the working out of the cooperation for



which that agreement provides. I feel sure you will approve of what I have done. With a large organization such as we have, I find it is a good thing to issue such warnings from time to time—one went out at the time of the Ottawa conference—so that everything possible is done to ensure that no prospective political or legislative action on the part of governments is permitted to influence between Du Pont and I.C.I.

I hope to be able to visit New York again towards the end of the year, by which time further progress in economic stabilization may have been made. We shall then have an opportunity of talking over the whole position to determine whether any developments call for any alteration in the written document covering the relationship of our companies. I am sure no change will be needed to the spirit in which our respective staffs regard the association.

With kind regards,

Yours sincerely,

(s) H. McGOWAN.

Senator GEORGE. I will quote that part of the letter which, in the opinion of the committee, should be included in the record. [Reading:]

The growing realization of the necessity to modify that accumulation of trade restrictions and barriers which the countries of the world have built up—Gt. Britain included—either on the pleas of self-preservation or in a mistaken endeavor to mitigate the effects of the depression on themselves—

referring to general economic depression—

should eventually bring about altered trading conditions and freedom from restrictions both in Europe and in the States, where public utterances and announcements indicate a readiness to take the initiative.

The further reference in the letter is to the relaxation of all trade restrictions, such as the antitrust laws, Sherman antitrust laws, and other trade restrictions, and further reference which has simply a bearing upon the cordial and close relationship of the two companies.

[Reading:]

I feel sure you will approve of what I have done.

That is a letter to the agents and representatives of the Imperial.

With a large organization such as we have, I find it is a good thing to issue such warnings from time to time—one went out at the time of the Ottawa Conference—

That conference, we assume, relates to the so-called "Empire trade agreement" between the various members of the British commonwealths. [Continuing reading:]

So that everything possible is done to ensure that no prospective political or legislative action on the part of the Governments is permitted to influence relations between du Pont and I.C.I.

Then this last sentence [reading]:

I am sure no change will be needed to the spirit in which our respective staffs regard the association—

referring to some possible additional agreements that might be found advisable to reduce to writing.

Senator VANDENBERG. Mr. Chairman, I would like to get just a little bit more information about the situation in the Argentine with respect to the apparent nullification of the embargo. Here is another letter from Mr. N. E. Bates, Jr., signed for the du Pont Co. and dated June 11, 1934, and addressed to the Imperial Chemical Industries. I will read one paragraph:

We replied to the above cablegram—

the cablegram being an inquiry apparently from Paraguay—asking you—

that is, the I.C.I.—

to inform Ferriera—

evidently the spokesman for Paraguay—

that we could not quote because of the embargo on munitions and military explosives promulgated by President Roosevelt on Paraguay and Bolivia. Since there is no embargo obtaining in England, we telegraphed I.C.I., London, to quote to you direct, so that you in turn may quote Ferriera—

which I assume means Paraguay.

Is Mr. Bates or the du Pont Co. under any contractual obligation to notify I.C.I. of an inquiry of that character?

Mr. LAMMOT DU PONT. I think Mr. Bates is, because he was one of those joint agents.

Senator VANDENBERG. But Mr. Bates signs this letter with the E. I. du Pont de Nemours & Co.'s signature. Is your company under any obligation to do that?

Mr. LAMMOT DU PONT. I think not. He signed that letter with one of his official titles.

Senator VANDENBERG. Does not that put your company in a very equivocal position, to be faithfully observing the embargo so far as its own shipments are concerned and yet immediately communicating with I.C.I. so that it can achieve the same net results?

Mr. LAMMOT DU PONT. That, as I said before, is the embarrassment of any joint agent. He must follow the rules of one of his principals and also follow the rules of the other principal.

Senator VANDENBERG. But this communication is signed by your company, Mr. du Pont.

Mr. LAMMOT DU PONT. That is a very difficult proposition to determine, as to how Mr. Bates should have signed that letter. He was writing to one principal. The act he disclosed was the act of the agent of another principal. Do you get the point?

Senator VANDENBERG. I do; and at the same time the exhibit indicates a pious observance of the embargo as a patriotic American upon one hand and then an immediate nullification of that piety on the other hand.

Mr. LAMMOT DU PONT. But he did not nullify the thought of the embargo, as an American agent.

Senator VANDENBERG. He nullifies the effect of the embargo.

Mr. LAMMOT DU PONT. But not as an American agent.

Mr. CASEY. Senator Vandenberg, at the time that Bates took that action, he suspected, he was not sure. Therefore, he really felt he was leaning over backward to observe the provisions of the embargo, because he suspected it might not be intended for Montevideo. Now, he did not trace it down, because that would have taken time and he was not in a position to do so. He was in this country. But he merely suspected that it might have been intended for Montevideo, although there was no restriction about shipping to Montevideo.

Mr. RAUSHENBUSH. Senator Vandenberg, the document you quote from was June 11. I have a report of Mr. Bates of July 9, fully

a month after that, with a copy sent to the Imperial Chemical Industries, Ltd., in which, under a head of Paraguay he says:

"Our agent asked for prices on 200 kilograms picric acid, 2,000 kilograms TNT, 80 kilograms ballistite. I.C.I. London quoted direct to I.C.I. Buenos Aires."

That is a month later.

Senator BONE. Mr. Lammot du Pont, who is McGowan? What relation does he occupy to the Imperial Chemical Industries in London?

Mr. LAMMOT DU PONT. I understand he is chairman of the Imperial Chemical Industries.

Senator GEORGE. Chairman and managing director. That has been put in the record, Senator.

Senator BONE. Can you advise us whether or not since this letter was written in May 1933 there has been any legislative action either in Great Britain or in this country that influenced the relations of the du Pont Co. with the I.C.I.?

Mr. LAMMOT DU PONT. Not that I know of.

Senator BONE. Do you know what Mr. McGowan meant in using this language?

\* \* \* I find it is a good thing to issue such warnings from time to time \* \* \*

What sort of warnings did he have in mind? Did he have warnings to legislative bodies?

Mr. LAMMOT DU PONT. Well, I do not know what was in Sir Harry's mind.

Senator BONE. You know him fairly well. How would you interpret that statement; warnings to whom?

Mr. LAMMOT DU PONT. To his employees.

Senator BONE. I know; but he is referring to some legislative action. Whom would he warn, the legislators?

Mr. LAMMOT DU PONT. No; he would warn his employees not to get too excited about any legislation that might be passed.

Senator BONE. He says here:

\* \* \* one went out at the time of the Ottawa Conference \* \* \*

What sort of warning was that?

Mr. LAMMOT DU PONT. I presume that was a warning to employees not to get excited about anything that they might do at the conference.

Senator BONE. He continues in his letter:

\* \* \* so that everything possible is done to insure that no prospective political or legislative action on the part of governments is permitted to influence relations between du Pont and I.C.I.

I was just wondering about this. It would not do any good to issue a warning to employees. They would not have any influence on the Ottawa Conference or the Washington Government, for instance.

Mr. LAMMOT DU PONT. It would have an influence on what the employees might do. I think that was whom he intended to warn.

Senator BONE. What do you think the employees could do to influence legislation —

Mr. LAMMOT DU PONT. Nothing.

Senator BONE. Or to prevent legislation?

Mr. LAMMOT DU PONT. Nothing.

Senator BONE. Or encourage legislation?

Mr. LAMMOT DU PONT. Nothing. He was warning them as to the effect of legislation.

Senator BONE. That does not seem to be the implication of the letter.

Mr. LAMMOT DU PONT. That was the way I read it. Of course, as I say, I do not know what was in Sir Harry's mind when he dictated the letter.

Senator, I would like to inquire whether the committee has read my reply to that letter of Sir Harry's.

Senator BONE. I am not aware.

Mr. LAMMOT DU PONT. They have a copy of it.

Senator BONE. Mr. McGowan seemed to be very anxious that the antitrust laws should be modified or eliminated. Can you tell us why he would be anxious to have that done? So that they could form a trust or monopoly?

Mr. LAMMOT DU PONT. I do not think that he was so anxious that it should be done.

Senator BONE. He says in this letter:

The growing realization of the necessity to modify that accumulation of trade restrictions and barriers \* \* \*

The CHAIRMAN. Senator Bone, I suggest that you read the entire letter from the beginning.

Senator BONE. The letter has been read.

The CHAIRMAN. I understand, but maybe we could gather a better impression of what the purport of it is, if it was all read at one time.

Senator BONE. He also says in this letter:

Whatever the changes may be, and however they may affect our individual concerns, on one thing you may rely, \* \* \*

I believe Mr. Raushenbush has read this letter?

Mr. LAMMOT DU PONT. Senator Nye, would it be appropriate to ask that the reply to that letter of Sir Harry's be put into the record?

The CHAIRMAN. Certainly, it may be entered into the record if you wish. Do we have a copy of it, Mr. Raushenbush?

Mr. RAUSHENBUSH. I have not got it here. We probably can get it.

The CHAIRMAN. Will you please make a note that we do get it and insert that reply at this point in the record?

Senator BONE. I think the reply might well be inserted right after this colloquy.

Mr. LAMMOT DU PONT. We can read it in right now, if you wish.

The CHAIRMAN. The letter was not read. If you want to insert your reply in the record, well and good. We are behind our schedule now, and let us proceed with the examination. Senator Vandenberg, had you finished?

(The reply of Lammot du Pont to Sir Harry McGowan, dated June 17, 1933, was marked "Exhibit No. 480." A letter from Lammot du Pont to heads of departments and presidents of subsidiary companies in reference to same subject was marked "Exhibit No. 480A." Both exhibits follow:)

## EXHIBIT No. 480

I. C. I. General 1-19-33

Copy: Foreign Relations Dept.

Mr. George W. White.

JUNE 17 1933.

Sir HARRY MCGOWAN,  
*Imperial Chemical House, Millbank, Westminster,  
London, S. W. 1, England.*

DEAR SIR HARRY: Your letter of May 29th, commenting on the improvement in the industrial conditions in this country, and referring to the prospective changes in international relations, was duly received.

I am much interested in what you say and heartily approve your attitude toward our patents and processes agreement and the relations between the two companies. I feel the same; namely, that our relations have been so happy and have produced such satisfactory results that we should let nothing in the way of international agreements interfere in any way with the progress we have made, or may make in future. If any legislation or international agreements are brought about which affect these I. C. I.—du Pont relations, I am sure we will be able to adjust ourselves so as to get the continued benefit of our agreement.

It is difficult to say how much of our improved business activity has been due to governmental action either prospective or accomplished. We have certainly had a wonderful improvement in business, but when I look at our chart showing the course of our sales from 1929 up until to date, it is perfectly apparent to me that something happened about a year ago which changed the trend materially. Since July 1932, every month, after allowing for the normal seasonal variations, has shown either an improvement or holding steady as to volume of business, except February and March 1933, when our volume suffered a terrific slump, due, of course, to the financial situation which ended in our "bank holiday." Since the bank holiday, the improvement has been very much more rapid, so that I think the public, generally attribute the improvement in business to something which the Administration has done.

I am enthusiastic about many of Mr. Roosevelt's policies, but cannot go along with him as to others, but I think the facts and figures show that the putting into effect of his policies was not what made business "turn the corner."

Yours sincerely,

LAMMOT DU PONT, *President.*

LduP/MD

## EXHIBIT No. 480 A

I.C.I. General 1-19-33

Copy

WENDELL R. SWINT,

*Wilmington, Delaware, June 17, 1933.*

To: Heads of departments and presidents of subsidiary companies.

From: L. Du Pont, president.

I have received recently a letter from Sir Harry McGowan, chairman of Imperial Chemical Industries, in which he refers to the changes in national policies and in international relations, both accomplished and prospective, I would like to call to your attention a quotation from his letter:

"Whatever the changes may be, and however they may affect our individual concerns, on one thing you may rely, they will not be allowed to disturb the harmony of the relations between our two concerns, which have so long and so well withstood the passage of time and its many fiscal variations, and I have warned my people that no fiscal variation in the U. S. A. must be allowed to affect the interpretation to be placed on our Patents and Processes Agreement, and the working out of the cooperation for which that agreement provides."

I have replied to Sir Harry that I highly approve his sentiments, and ask that you do all in your power to further this principle of friendly cooperation under the Patents and Processes Agreement between I. C. I. and du Pont.

L. DU PONT, *President.*

LduP/MD

Senator VANDENBERG. I am not yet quite clear about this embargo matter. A month after that other communication was sent by Mr. Bates to I.C.I., namely on July 9, 1934, again signing the name of the du Pont Co., Mr. Bates says:

Prices asked by Ferreira, who is our agent in Paraguay, but he happened to be in Buenos Aires whence he cabled the inquiry, were quoted direct by I.C.I. London to I.C.I. Buenos Aires for the reason that it was our desire to aid our Government in maintaining the embargo declared against Bolivia and Paraguay. Although the inquiry came from Buenos Aires, we imagined ultimate destination of the merchandise would be Paraguay. Hence our refusal to quote.

In other words, there was a very definite anxiety to observe the American embargo, so far as any shipments from America were concerned; is that correct?

Mr. LAMMOT DU PONT. That is evident.

Senator VANDENBERG. That is evident; yes. But I fail to see how it reflects any desire to aid our Government in maintaining the embargo, except as you consult the letter rather than the spirit of the situation if immediately a way is pointed out to Paraguay to evade the embargo. It does not seem to me that that action is in good faith an effort to aid our Government in maintaining an embargo. Is it?

Mr. LAMMOT DU PONT. It is not an effort to aid the American embargo, but it is a sincere effort to carry out his contractual obligations with his principal I.C.I.

Senator VANDENBERG. That is his personal obligation; that is not the obligation of your company?

Mr. LAMMOT DU PONT. Certainly not.

Senator VANDENBERG. Your company's name is appended to all of the exhibits and I draw the conclusion then, that this is improperly signed?

Mr. LAMMOT DU PONT. Senator, when he addressed I.C.I., he did not sign himself as the du Pont agent. He signed himself as the I.C.I. agent, I presume.

Senator VANDENBERG. No, I beg your pardon, he signs himself "For E. I. du Pont de Nemours and Co., N. E. Bates, Jr." That is the fact in both instances.

Mr. LAMMOT DU PONT. Perhaps he made an error. I should not think he would do that.

Senator VANDENBERG. Your company is not interested—let me put this affirmatively—your company is interested in good faith efforts to maintain embargoes when the President declares them?

Mr. LAMMOT DU PONT. I said so before. We are.

Senator VANDENBERG. And you would not countenance any back-door evasion of the embargo in the name of your company?

Mr. LAMMOT DU PONT. No.

Mr. PIERRE S. DU PONT. Senator, may I ask whether your conception of an embargo is that our agents are obliged to interfere with a friendly nation receiving supplies from abroad?

Senator VANDENBERG. I do not think it is a question of interference with a friendly nation. I think it is a question of an American citizen using his information to defeat a provision of an American public policy.

Mr. LAMMOT DU PONT. He did not do that, Senator. The American public policy was not to stop munitions going from Great Britain to either belligerent.

Senator VANDENBERG. Was not the purpose of the American embargo to stop munitions going to Bolivia and Paraguay?

Mr. LAMMOT DU PONT. American munitions.

Senator VANDENBERG. Why? For the purpose of penalizing American munitions makers or for the purpose of encouraging peace?

Mr. LAMMOT DU PONT. I hardly think the American Government intended to interfere with Great Britain.

Senator VANDENBERG. But the American Government, so far as it could, wanted to stop the shipment of munitions into Paraguay and Bolivia, did it not?

Mr. LAMMOT DU PONT. Wanted to stop American shipments.

Senator VANDENBERG. That is all it could stop, surely—that is, American shipments.

Mr. LAMMOT DU PONT. Yes.

Senator VANDENBERG. The reason it wanted to stop them was not to penalize American manufacturers. It was to keep such munitions as the American Government controlled out of that belligerent zone, was it not?

Mr. LAMMOT DU PONT. Well, I would suspect that that was the reason; I do not know.

Senator VANDENBERG. Obviously. Yet, Mr. Bates, writing in the name of your company scrupulously observes that prescription; but while he does that with his right hand, his left hand is notifying the I.C.I. that some munitions orders are awaiting in Bolivia and Paraguay.

Mr. LAMMOT DU PONT. I see your point, and it was due to his double capacity.

Senator VANDENBERG. Do you not think that that is a very dubious sort of an arrangement?

Mr. LAMMOT DU PONT. It turned out to be dubious. But, of course, that arrangement was made long before the embargo.

Mr. PIERRE S. DU PONT. Surely you do not take the position that the intent of the embargo was to interfere with these countries obtaining munitions?

Senator VANDENBERG. Yes; insofar as we could control the situation. Of course, we could not control the situation beyond our own borders. I take the position that the very fine loyalty which your company exercises in respect to embargoes—and I mean that sincerely—is blemished by the appearance of the signature of your company upon a notification to I.C.I. as a means of avoiding the American purpose.

Mr. PIERRE S. DU PONT. The American purpose, so far as we have any conception of it was to see that America did not permit one side of a contest to receive munitions against the other side. But it was not to interfere with their rights to declare and pursue their war, surely. We have no rights there; at least I hope our Government is not going that far.

Senator VANDENBERG. Certainly, we are not going that far. But the obvious desire of the President, when he promulgates an embargo, is to immunize that area against war materials. He cannot have any other purpose.

Mr. PIERRE S. DU PONT. I sincerely hope he has not that purpose.

Senator VANDENBERG. I think that is precisely his purpose, insofar as it lies within his legitimate power. I am simply inquiring whether it does not become highly equivocal for an American citizen, to put your company in a position of very faithfully observing the American embargo and yet pointing out a way to achieve the same net result so far as the potential purchaser is concerned?

Mr. PIERRE S. DU PONT. If the purpose of the embargo is the one you represent, I hope that we will be instructed that no American citizen should in any way assist either of the belligerents in obtaining supplies from anywhere.

Senator VANDENBERG. Well, I think that was his obligation.

Mr. IRÉNÉE DU PONT. It seems to me, if this letter had been signed I.C.I., N. E. Bates, you would have taken no exception to it. Here is a man who, in his dual capacity, probably signs 99 percent of his letters this way. I do not see how this can be taken as a reflection on the du Pont Co. Here is a joint agent. In this case he is an agent of the I.C.I. and is writing to his principal. He happens to sign our name over his signature. Certainly it is not the desire of anybody in Wilmington, Del., that this letter be written. It never came here. I never saw it until this minute. It is pretty hard for a man who signs a great many letters to be perfectly sure that he is never making an error in just how he signs his name.

In other words, I think if this letter had been written and signed "I.C.I.," you would not have criticized it.

Senator VANDENBERG. I think that if this letter had been signed "I.C.I." and had made no reference to the American embargo—

Mr. IRÉNÉE DU PONT. He would have had to mention the American embargo. He would have written his principal and said "The Americans will not quote on this; here is your opportunity." He would have done that, and you would have taken no exception to it.

Senator VANDENBERG. I would have had no objection, except that I think Mr. Bates, as an American citizen, ought not to be taking upon himself this dual relationship in respect of matters of public policy.

Mr. IRÉNÉE DU PONT. If he had not been there, they would have had another agent at higher expense, who would have done the same thing.

Senator VANDENBERG. That is not our business. Patriotism is not a matter of pay rolls. I object to the fact that he is insisting upon his desire to aid our Government in maintaining an embargo against Bolivia and Paraguay and at the same time is proceeding to operate as indicated. If he had signed the letter "I.C.I." I concede that the situation would be far different.

I agree with you, sir; that your company is not to be castigated for the improper use of its signature by an agent 5,000 miles away.

Senator CLARK. May I direct attention to the fact that the context of this letter as well as the signature would indicate that he was writing as an agent of the du Pont Co. In addition to being signed "For E. I. du Pont de Nemours & Co.," the letter contains this language:

We replied to the above cablegram as per copy attached asking you to inform Ferreira that we could not quote because of the embargo on munitions and military explosives promulgated by President Roosevelt on Paraguay and



Bolivia. Since there is no embargo obtaining in England, we telegraphed I.C.I. London to quote to you direct so that you in turn may quote Ferreira.

The use of the term "we" and the fact that the language is used, "we could not quote because of the embargo", clearly indicates that the letter was written in his capacity as an agent of du Pont.

Mr. IRÉNÉE DU PONT. Your point is very well taken, Senator. There is no question that this man was a little bit muddled because of his relationship in serving two masters.

Senator CLARK. That may be. But that goes back to the point made by Senator Vandenberg of the impropriety of such an arrangement.

Mr. IRÉNÉE DU PONT. He may have been overzealous in working for the company.

Senator GEORGE. To say the least, he was not quite frank when he says in one breath that he wished as an American to observe the embargo, and at the same time he asks Imperial Chemical Industries to make quotations on these materials. In other words, he was not dealing quite frankly in the situation.

Mr. IRÉNÉE DU PONT. I think you are quite right. If he had as much brains as you have he would not have retained a copy of the letter at all.

Mr. CASEY. Senator Vandenberg, after all is not the answer that unless all nations agree to an embargo, the main object of the embargo is not accomplished?

Senator VANDENBERG. I entirely agree; that is perfectly true. But if the world is full of Mr. Bateses who care more about the letter than the spirit of agreements, that is undoubtedly true.

Senator BONE. Might it not be considered another case of the voice of Jacob but the hand of Esau?

Mr. IRÉNÉE DU PONT. I am not up on that part of the Bible. You will have to go a little further.

Senator BONE. I do not know that the committee can qualify as biblical scholars. I do not even know that I have the quotation right.

I am going to ask one more question. This does not apply to your company at all; I want you to understand that, in making your answer. We have had a lot of testimony in this hearing thus far indicating very clearly that munitions—not powder of your type particularly—but munitions of war have been shipped into South America and then transshipped into belligerent territory. That is quite possible, is it not? In other words, it would be quite possible to ship munitions of war of any kind into a South American country and from there transship them into a belligerent territory?

Mr. LAMMOT DU PONT. I should see no reason why it could not be done. I have not been there. I suppose it could be done.

Senator BONE. As a practical thing—this matter does not apply to your company—but as far as the practical application of it is concerned, that would be possible?

Mr. LAMMOT DU PONT. I presume so.

Mr. IRÉNÉE DU PONT. Bootlegging is a well-known art.

Senator BONE. That is right. It might have been a sort of international bootlegging transaction.

Mr. RAUSHENBUSH. May I ask this question? Who pays Mr. Bates' salary?

Mr. LAMMOT DU PONT. The du Pont Co. does.

Mr. RAUSHENBUSH. The du Pont Co. pays Mr. Bates' salary?

Mr. LAMMOT DU PONT. Yes.

Mr. RAUSHENBUSH. I would like to ask one more question. I did not quite understand earlier in the testimony about the commission arrangement between I.C.I. and du Pont. Does du Pont get any kind of commission from the business which the agent whose full salary you pay, Mr. Bates, gets in South America and turns over to I.C.I.? Does du Pont get any commission on that?

Mr. LAMMOT DU PONT. I think the contract will determine that definitely. My impression is that du Pont does get a commission.

Mr. RAUSHENBUSH. The du Pont Co. would have gotten a commission, then, or did get a commission, if this business went through to Paraguay?

Mr. LAMMOT DU PONT. I presume so.

Mr. RAUSHENBUSH. If that is the case, I want to ask you a question about a letter that was addressed to President Roosevelt and signed by the president of the company on June 6, 1934, in which there is a guarded statement [reading]:

In view of the great amount of publicity recently given to the conflict in the Grand Chaco and of congressional action just taken relative to sales of arms and munitions of war to the countries engaged in this conflict, it is perhaps well to give here a statement of sales made by the Remington Co. to Bolivia from the time du Pont acquired its interest in Remington to date. These sales have amounted to 20,700,000 rounds of rifle cartridges with a sales value of \$373,100. During this same period Remington has made no sales to Paraguay. The du Pont Co. has made no sales of propellant powder or military explosives, or other munitions, to either Bolivia or Paraguay for a number of years.

In view of the testimony just brought out, that is not quite the fullest statement that would cover the situation, is it?

Mr. IRÉNÉE DU PONT. What is the date of this letter?

Mr. RAUSHENBUSH. June 6, 1934. The letter is before Mr. du Pont now.

Mr. IRÉNÉE DU PONT. What is the date of Mr. Bates' letter?

Mr. RAUSHENBUSH. There are several of those. The first of them began on July 7, I think—

Senator GEORGE. There is a cablegram dated June 7, 1934, and a letter of the same date.

Senator VANDENBERG. The first one I read was June 11, and the second one was July 9.

Mr. RAUSHENBUSH. We have here a cablegram, which is "Exhibit No. 478", dated June 7, 1934, which says [reading]:

Advise Ferreira cannot quote owing to embargo. I.C.I. London will quote direct to you.

My only question was, that this was not quite as full and frank a statement to the President of a country on such a situation, as could have been made.

Mr. LAMMOT DU PONT. I think it was as full as could be placed in a letter of that kind, Mr. Raushenbush. There were a number of other things that that letter does not touch upon that of necessity had to be left out. It could not cover the whole history of the company.

Mr. RAUSHENBUSH. This may be just a personal interpretation, but it seemed to me that you were trying—I do not want to read words into your mind—but you were trying to give the impression that the company was not really interested in the Bolivia-Paraguayan situation at a time when you had an agent down there who was actively interested, perhaps not as much for American companies as for the British company in that case.

Mr. LAMMOT DU PONT. No, sir; I think you have misinterpreted the letter. We were trying to give the impression that we were living up to the embargo.

Mr. RAUSHENBUSH. You were trying to give the impression that you were living up to the embargo?

Mr. LAMMOT DU PONT. Yes; and I think we did live up to it, as far as we were able to.

Mr. RAUSHENBUSH. And yet you pay the salary of the man in full, do you not?

Mr. LAMMOT DU PONT. Yes.

Mr. RAUSHENBUSH. I.C.I. does not pay it?

Mr. LAMMOT DU PONT. No. There are other agents that I.C.I. pays in full whom we do not pay.

Mr. RAUSHENBUSH. You are not referring to Mr. Taylor in Paris?

Mr. LAMMOT DU PONT. No.

Mr. RAUSHENBUSH. That is a 50-50 arrangement?

Mr. LAMMOT DU PONT. Yes.

Senator VANDENBERG. May I ask any of these gentlemen whether they have ever had the experience of declining an order because of State Department policy and a faithful desire to cooperate and then have discovered that some paraphrase of the order was filled from other sources in the United States, notably from second-hand stocks? Have you ever had any information about the sale of second-hand stocks in the United States upon orders which you had declined to fill because of State Department policy?

Mr. LAMMOT DU PONT. I do not know of any such case, Senator. But this military business is a very small part of our total business. I do not pay very much attention to it individually. May I ask Major Casey to answer that?

Senator VANDENBERG. Yes.

Mr. CASEY. Perhaps I can answer it in this way, Senator: I cannot give you any illustration of where another American manufacturer has supplied material against an embargo where we know about it, for the reason that we do not supply finished rounds of ammunition. We only supply a component. I can give you, though, an illustration of how we handled one particular case. I would prefer not to mention the name of the country. But it was a case which was a rather delicate one, within the last year we will say, in which an order was sent to us. It was to be a c.i.f. order; that is, I mean, delivered in the country. We promptly took it up with the Military and Naval Intelligence. There was no embargo, no way of having an embargo. It was unnecessary to take it up with the State Department, because if there were an embargo, then they would act. This was a question whether there was a desire or not; the people we spoke to said, "Do everything you can to delay that." So we re-

fused to quote c.i.f. They said, "Do not bring us into it." Now, if you feel I should not bring this out, I will keep quiet.

Senator VANDENBERG. No, go ahead, because I wanted to ask you about it. I know what you are talking about.

Mr. CASEY. They came back and said they could make their own transportation arrangements from New York. We said "We will not quote New York. If you want this material you have got to take it at our plant." We so delayed the thing that we were successful in preventing their getting the material, without involving anybody.

Senator VANDENBERG. Were you advised in that connection that equivalent material was or could be obtained from an island in the Hudson River?

Mr. CASEY. Were we advised?

Senator VANDENBERG. Yes, sir.

Mr. CASEY. No; I do not think the material could have been obtained from an island in the Hudson River. They did not have the material. I know the island you refer to.

Senator VANDENBERG. Do the operators upon that island, as far as you know, have any foreign trade?

Mr. CASEY. That I could not tell you. They have been in business for a great many years and I imagine they still continue to do a certain amount of foreign trade when they have material available that suits.

Senator VANDENBERG. You do not know whether in the particular instance we are discussing your refusal to deal was followed by a willingness to deal on the part of anybody else?

Mr. CASEY. I did not hear of anything. The fact of the matter was the material they were after was material that we at that time were the only ones in the country that could supply it. So we felt reasonably sure, if we cooperated with the request that we got, it would serve the very purpose they were after.

Senator VANDENBERG. You evidently did cooperate, and I was wondering if the price you paid was to see the business go into this particular outfit from a bootleg source?

Mr. CASEY. Whether what?

Senator VANDENBERG. Whether the price paid was to see whether the order was filled from an American bootleg source?

Mr. CASEY. How could they do it, they didn't have the materials and they would have to come to us for the materials. If we had any suspicion at all we would not furnish it. We would not sell to any concern in this country unless we knew the ultimate destination of the material.

Senator VANDENBERG. That does not reflect on your company at all, but it is a compliment to your company. I am trying to discover whether after you lived up to your purpose of cooperating with the Government you have ever found the Government circumventing that by shipments from other sources in the United States?

Mr. CASEY. We have heard of it in an indirect way that sometimes that material got through, but who it came from or how, I could not tell you.

Senator VANDENBERG. Are there sources in the United States which are not considered to be, let us say, standard sources?

Mr. CASEY. I presume there is a certain amount of scrap material around in this country which some people might be able to pick up, but where it is I do not know.

Senator VANDENBERG. It is your impression that there is a certain amount of that traffic out of the United States.

Mr. CASEY. I think there is, but I have no way of being sure in making that statement.

The CHAIRMAN. Senator Pope, you may proceed.

Senator POPE. Mr. du Pont, following this designation of your attitude in 1934 with reference to the embargo act, what would you say was the attitude of your company as to previous bills or resolutions introduced in Congress providing for embargoes on war materials?

Mr. PIERRE DU PONT. I was not aware there were any such. I have not been very active in that department of the business, and I do not know of any.

Mr. LAMMOT DU PONT. Senator, I do not know of any.

Senator POPE. You were not aware of any such resolutions introduced in Congress, the Fish resolution, for instance, in 1932?

Mr. LAMMOT DU PONT. I do not recall it.

Senator POPE. Mr. Casey, how about you?

Mr. CASEY. What was it?

Senator POPE. The Fish resolution, No. 282.

Mr. CASEY. Wasn't the Fish resolution in connection with the endeavor to establish a world-wide embargo in which all of the countries would participate?

Senator POPE. Yes; exactly.

Mr. CASEY. Yes; I have heard of that.

Senator POPE. What was your attitude, if you had an attitude towards the enactment of such a measure as that?

Mr. CASEY. If all countries agree, we would have no objection.

Senator POPE. You would have no objection?

Mr. CASEY. If all countries agreed, but if other countries are allowed to ship, then we think it is discrimination.

Senator POPE. Let me ask you again exactly the position with your company of Mr. Aiken Simons?

Mr. CASEY. He is an assistant of mine.

Senator POPE. What are his duties?

Mr. CASEY. His duties are primarily to relieve me of a lot of things I cannot take care of.

Senator POPE. Now, what are some of those things you cannot take care of?

Mr. CASEY. There are some of these things that come very close to that letter of General MacArthur.

Senator POPE. I will ask you, Mr. Casey, whether or not it is the duty or business of Mr. Simons to contact officials in the War Department with reference to legislative matters?

Mr. CASEY. Absolutely not. We take no part whatever in legislative matters.

Senator POPE. You are sure of that?

Mr. CASEY. I am talking for my department.

Senator POPE. What about the other departments?

Mr. CASEY. I cannot speak for them.

Senator POPE. Were you about to say something, Mr. Felix du Pont?

Mr. A. FELIX DU PONT. No, sir.

Senator POPE. I refer you to a memorandum signed by Mr. Aiken Simons under date of January 17, 1933, Wilmington, Del., and dated Washington, D.C., January 16, 1933, it having these two dates on it, and I will read the first paragraph of that memorandum as follows:

The principal object of this visit was to discuss with the War Department officials a bill now pending in the United States Senate authorizing the President to declare at his discretion an embargo on the shipment of munitions to foreign countries. The details of this visit are covered in a separate memorandum.

Did you ever see this memorandum?

Mr. CASEY. This one, yes.

Senator POPE. Were you familiar with its contents?

Mr. CASEY. Yes.

Senator POPE. What would you say as to that first paragraph I have read discussing the visit of Mr. Simons to the War Department to discuss this matter of an embargo?

Mr. CASEY. It was perfectly natural we should discuss with the War Department to find out what their attitude was as affecting the national defense.

Senator POPE. Then I misunderstood you a minute ago when you said Mr. Simons and no one else of your department discussed with the War Department officials legislation of this kind?

Mr. CASEY. Anything attempting to influence legislation is what I meant.

Senator POPE. You did not understand this embargo was passed.

Mr. CASEY. We asked them what was their position. When the War Department or the Navy Department say they have no objection, then we have none. But if they feel it would hurt national defense, then our position might be entirely different.

Senator POPE. In that connection, I call your attention to the memorandum which Mr. Simons referred to in that letter. It is dated Wilmington, Del., January 17, 1933, and marked "Confidential memorandum to Maj. K. K. V. Casey, director, proposed embargo on shipment of munitions", and it states:

Colonel Taylor in his T-2544 of December 28th, which was his annual report for the year, made some very interesting comments on the effect of disarmament in Europe. This was extracted in a memorandum dated January 16, addressed to you, and sufficient copies prepared so that they could be handed to interested officials in Washington.

Did you know about the preparation of that memorandum by Mr. Aiken Simons and its being handed to the officials of the War Department?

Mr. CASEY. I believe that was an extract from Colonel Taylor's letter. He was giving his report on the European reactions.

Senator POPE. What was the nature of those European reactions?

Mr. CASEY. Regarding the effect of an embargo.

Senator POPE. Meaning an embargo already in force?

Mr. CASEY. No; the effect of a possible embargo. We take no action regarding whether legislation is passed or not, but we simply want to know what the effect would be.

The CHAIRMAN. Senator Pope, would you develop who Colonel Taylor is or was?

Senator POPE. Yes; who is Colonel Taylor?

Mr. CASEY. He is our representative in the Paris office.

Senator VANDENBERG. Is he the joint representative of I.C.I. and du Pont?

Mr. CASEY. Yes, sir.

Senator POPE. How long has he been in that capacity?

Mr. CASEY. I think possibly since about 1921 or 1922.

Senator POPE. Do you know whether or not he attended the disarmament conference.

Mr. CASEY. We saw a notice in the New York Times where somebody spied him in the gallery one time. He was not under our instructions, but he was simply there because he thought he would see what it looked like, and went in the gallery one time and a couple of New York reporters saw him in the gallery and reported it to their paper.

Senator POPE. He was there long enough to make this report on the disarmament conference?

Mr. CASEY. 1933 was not the time he was present.

Senator POPE. When was he present?

Mr. CASEY. I think it was maybe 1932, but that was one of the other meetings.

Senator POPE. His report related to the disarmament conference which he attended sometime before the date of this memorandum. Is that correct?

Mr. CASEY. I do not think it related to the conference then, but I think it was relating to the effect of disarmament in Europe.

Senator POPE. I call your attention to this further statement in the report:

On the morning of Monday, January 16th, I called on Major R. D. Brown of G-2 and handed him a copy of the memorandum and asked his opinion on the situation.

Who was Maj. R. D. Brown?

Mr. CASEY. I believe he was an officer in the military intelligence. That is what G-2 means.

Senator POPE. Do you know Major Brown?

Mr. CASEY. I may have met him, because I have been over there.

Senator POPE. This report further states:

Major Brown was concerned, since the authority of the President to declare an embargo on munitions had been presented to the Senate in the form of a bill and this bill is already out of committee. Major Brown's concern is justified. I then called on General Mosely, Deputy Chief of Staff.

By the way, did Mr. Simons tell you orally of his conference with Major Brown?

Mr. CASEY. No; all I got is in here, because this really covered the situation.

Senator POPE. The report further states:

I then called on General Mosely, the Deputy Chief of Staff, waiting sometime while General Mosely was in conference with General MacArthur, Chief of Staff, and Mr. Frederick H. Payne, Assistant Secretary of War. General Mosely received me, and after glancing over the memorandum instructed me to get a copy in the hands of Mr. Payne at once, since Mr. Payne had just been discussing the matter.

Did you also see Mr. Payne or General MacArthur about that time?

Mr. CASEY. Personally?

Senator POPE. Yes.

Mr. CASEY. No.

The CHAIRMAN. You asked, "personally." Who did see him?

Mr. CASEY. What was that, Senator?

The CHAIRMAN. Who did see him, or do you know who saw Mr. Payne?

Mr. CASEY. This letter is signed by Aiken Simons.

The CHAIRMAN. Yes; but who did see Mr. Payne?

Mr. CASEY. I do not see there is any reference in here that he did see him. He says he then called on Colonel McFarland and left the memorandum with him.

Senator POPE. Yes, it says:

I then called on Colonel McFarland.

Who is Colonel McFarland?

Mr. CASEY. Executive officer in the office of the Secretary of War.

Senator POPE. I read further as follows:

Who advised me it would not be possible for me to see Mr. Payne at the moment, but that the memorandum would be placed in his hands at the first opportunity, that Mr. Payne was much interested in it. I then called on Captain Ogan, naval officer of intelligence and handed him a copy and asked him that it be brought to the attention of the Secretary of the Navy. Captain Ogan informed me that he had no method to get it to the Secretary of the Navy and suggested that I call the Chief of Ordnance.

Do you know whether the matter was finally presented to the Secretary of the Navy?

Mr. CASEY. I do not. We felt that our obligation was fulfilled as American citizens.

Senator POPE. Is Mr. Simons here?

Mr. CASEY. No; I understand he was excused on account of a very severe physical condition.

Mr. RAUSHENBUSH. Mr. Chairman, I took the responsibility of doing that. It seems he is rather old and a very ill man, and we asked the company if somebody would stand examination on his correspondence and they said they would do so. And in that case I excused him.

Senator POPE. Now, do you know what particular embargo or proposed legislation was up for consideration at that time?

Mr. CASEY. No; I could not tell you. I probably would remember the incident if I could see what the report of Colonel Taylor was.

Senator CLARK. It was the embargo recommended by the President of the United States, which was immediately after this filibustered to death by the Senator from Connecticut, was it not?

Mr. CASEY. I don't know, I didn't follow that.

Senator POPE. Are you familiar with the general resolution no. 282 introduced by Mr. Fish on February 9, 1932 and printed on March 30, 1932, that was then pending?

Mr. CASEY. I could not say I was familiar with it. I probably had read it, or I may have just read the preamble.

Senator POPE. This is the resolution and we will have this marked "Exhibit No. 481."



(The resolution referred to was marked "Exhibit No. 481," and is included in the appendix on p. 1338.)

Senator POPE. I hand you this printed copy of the resolution and ask you if you are familiar with it?

Mr. CASEY. I think I saw it.

Senator POPE. Was it discussed by you and Mr. Aiken Simons?

Mr. CASEY. No; other than this correspondence here. There was another resolution.

Senator POPE. Another embargo resolution?

Mr. CASEY. Yes.

Senator POPE. What was your talk with him about?

Mr. CASEY. There was nothing at all we could do about it, because we have not attempted at any time, as I said before, to influence legislation.

Senator CLARK. Did Simons have authority from you, Mr. Casey, to call on the various officers of the War and Navy Departments and circulate this memorandum prepared by Colonel Taylor on the effect of this disarmament in Europe?

Mr. CASEY. I think that comes close to the national defense.

Senator CLARK. That was connected with this resolution, because the memorandum is headed "embargo resolution?"

Mr. CASEY. No; there is something I would want to understand in that connection.

Senator CLARK. Did he have authority from you to circulate that among the high Government officials, which he reported to you he had done?

Mr. CASEY. To give them something our representative over there had learned which might affect the United States Government; yes.

Senator CLARK. This memorandum is a report to you from Mr. Simons, and is headed "Proposed embargo on munitions" (reading):

Colonel Taylor in his T-2554 of December 28th, which was his annual report for the year made some very interesting comments on the effect of disarmament in Europe. This was expressed in a memorandum dated January 16th addressed to you.

And that evidently shows that was in connection with the embargo resolution. Had you instructed Simons to do that?

Mr. CASEY. Have you a copy of Colonel Taylor's memorandum?

Senator CLARK. No; I have not, but that report shows it was in connection with this embargo resolution, and what I am asking is, did you instruct Simons to circulate the report among Government officials?

Mr. CASEY. I would not instruct him unless that report was of interest to the Government.

Senator CLARK. Did you instruct him in this case?

Mr. CASEY. In this case I do not know whether I instructed him or not.

Senator CLARK. That report was made to you.

Mr. CASEY. Yes; after the fact.

Senator CLARK. So that your statement a while ago that the du Pont Co. had nothing to do with proposed legislation or discussion of it with Government officials was not correct, was it?

Mr. CASEY. I said we made no attempt to influence legislation. Calling attention to the effect of an embargo in Europe, struck me as being of interest to the officers of the Army and Navy. We had

nothing to do with the matter whatever, but it was a question of advising them what effect this resolution might have in Europe, and that is a matter of military importance to the Army and Navy.

Senator BONE. It would be intensely interesting to the officers of the United States Army?

Mr. CASEY. Yes.

Senator BONE. And can you tell the committee whether it would also be interesting to the people of the United States to know the effect on world politics; do you think it might not be equally interesting to the people of the country to have these facts?

Mr. CASEY. We would not be the proper ones to give that out.

Senator BONE. You gave it to the Army officers.

Mr. CASEY. Yes.

Senator BONE. Army officers are not the only people who suffer in case of war. The mothers and fathers of the boys who go into war also pay the price.

Mr. CASEY. Yes.

Senator BONE. Would you suggest there is any lack of propriety in having the people know what was going on?

Mr. CASEY. We were not the proper ones. The newspapers are covering these matters.

Senator BONE. The people pay the price, and all of the bills.

Mr. CASEY. Yes.

Senator BONE. Can you say that information of this kind should not go to the people of the country? Do you think these things should be kept from the people?

Mr. CASEY. They should not be.

Senator BONE. Do you think there should not be given to the people, the fathers and mothers whose boys go out and pay the price, full information; you would not want to suggest that, would you?

Mr. CASEY. Oh no.

Senator BONE. I was thinking about some of the suggestions of this situation being confidential. Nothing should be confidential when some boy has to shoulder a musket and go out and die. Would you share my view on that?

Mr. CASEY. I would.

Senator POPE. Now, Mr. Casey, I am referring to a document which I should be fair and say contains the stamp to which reference was made this morning, put there either by you or the du Pont Co.

This memorandum is dated Wilmington, Del., April 7, 1932, and Washington, D.C., April 6, 1932, apparently being a report of actions by Mr. Simons on April 6. It says:

I called by appointment on General Hof to discuss House Joint Resolution 282, proposing a resolution whereby the United States Government would join all other nations in renouncing the sale or export of armaments, munitions, or implements of war.

I think you said a few minutes ago so far as you knew, you would have no objection to an embargo for all nations?

Mr. CASEY. Yes, that is right.

Senator POPE. This memorandum further reads:

Since Mr. Fish has introduced somewhat similar resolutions on several other occasions, the Ordnance Department had not taken the bill very seriously and was not aware that it had been reported out of committee and put on the House Calendar.

Senator BONE. Major Casey, one question suggests itself to me in passing here. Can you tell us why, in discussing these embargo resolutions, the suggestion was made there about the vital need of maintaining private manufacture of munitions in this country? What is the association of ideas? Can you enlighten us on that? Why would that question of private manufacture come up in correspondence or discussion about that embargo on munitions?

Mr. CASEY. I might tell you a story there, if you will permit me.

Senator BONE. I do not want to prolong it, but I thought there might be a short reply.

Mr. CASEY. This will be short. Directly after the war, you must realize that the United States had two of the finest powder plants in the world, one at Old Hickory and one at Nitro, W. Va., with probably the greatest capacity of any country in the world. In that situation, together with the fact that there were tremendous stocks of surplus powder left over, our directors gave serious consideration to going out of the powder business indefinitely. When I heard that, I wanted to see whether there would be any objection on the part of the Ordnance Department of the Army, primarily to our going out of the business, so on my next trip to Washington, I think it was in the latter part of May, or in June 1919, I mentioned the matter to General Williams, and explained to him about our powder plants and terrific stocks, and there did not seem to be any reason at all for us staying in the business. As a result of that he wrote a letter to the president of the company, at that time Mr. Irénée du Pont, and that resulted in an exchange of correspondence which Mr. du Pont probably has with him. But, summing it up, they urged us to stay in the powder business in the interest of national defense, one reason being they felt we had the facilities, that means the technical knowledge and the ability to expand to supply the needs in a number of things to the Government in time of emergency.

As a result of that, and the further correspondence, we entered into an arrangement with the Ordnance Department whereby we agreed to undertake experimental research work to try to correct some of the shortcomings of the ammunition and guns that the report of the Westervelt Board had named, that being a Government board.

Senator BONE. Was this your information, or did you understand from the Government that if there was a world-wide embargo on munitions that would put all private plants out of business; or in your judgment would that be the effect of such an embargo?

Mr. CASEY. I am talking about 1919.

Senator BONE. Perhaps we do not understand each other. I am talking about the vital need of maintaining private manufacturing of munitions in this country, and I was wondering if a world-wide embargo would stop that?

Mr. CASEY. If a world-wide embargo would stop all private manufacture of munitions, then we are relieved of our obligations to supply material, and we look upon this thing as a thing we want to do, because we could take the money invested in that and put it into the development of commercial things.

Senator BONE. How would you get the money out of the plants if you had to junk them?

Mr. CASEY. We would take whatever is left, that is all I can say. Of course, as to what is invested in the plant, the working capital is invested in the plant.

Senator BONE. Keeping in mind it is the policy of your company not to oppose embargoes where all of the nations enter into an agreement to impose a general embargo, I call your attention particularly to this joint resolution numbered 282 which has been referred to in this memorandum, and a copy of which has been introduced into the record. This resolution provides:

That the American delegates participating in the general disarmament conference now being held at Geneva, Switzerland, be requested to propose a multilateral agreement renouncing the sale or export of arms, munitions, or implements of war to any foreign nations, in accordance with the intent and purpose of the Kellogg-Briand pact renouncing war as an instrument of national policy.

Now, keeping that in mind, I want to read you further from the report or memorandum submitted to you by Mr. Aiken Simons, as follows:

General Hof called up General Macfarland, of the office of the Assistant Secretary of War, and invited his attention to the above (now that is, H.Res. 282 and the fact it had been reported out of committee), at the same time calling attention to a letter which the Assistant Secretary of War had written to Mr. Morin under date of March 6, 1928, protesting against H.J. Resolution 183, of somewhat similar purport. General Hof suggested that with slight modification the above letter would serve the purpose at the present time.

At General Hof's suggestion, called on Colonel Macfarland and discussed the matter with him. He also was not aware that the resolution had come out of committee.

Called on Admiral Larimer, Chief of the Bureau of Ordnance, U.S.N., and discussed the same matter with him. Admiral Larimer called up Capt. H. K. Cage, chief of the Material Division, Office of Chief of Naval Operations, and called his attention to the resolution and its status, of which neither of these officers had been aware until their attention was called thereto. Captain Cage will take proper action to have the bill opposed on the floor of the House.

Who is Captain Cage?

Mr. CASEY. I believe he is a naval officer, from the reading of that.

Senator POPE. What do you know as to what action was taken by Captain Cage to have the bill opposed on the floor of the House?

Mr. CASEY. I have not the slightest idea. You want to realize the reason we direct their attention to these things is this, as I said before we are in the business because the Government has asked us to be in the business, and if there is going to be any change where the Government does not want us in the business we feel we should take action and notify these people and have them say they still want us in the business. It is their job to fight, and not ours.

Senator BONE. By "they", do you mean the War Department?

Mr. CASEY. They are the only people we have any contact with.

Senator BONE. You are not referring to the Congress of the United States?

Mr. CASEY. No; they are the only ones we have any contact with.

Senator POPE. What else did you do to bring that to the attention of the naval officers and have the bill opposed by naval officers?

Mr. CASEY. We were making no effort to have the bill opposed. We simply directed their attention to the bill because of the effect it might have on their national defense plan. If you will take the office of the Secretary of War, I think you will find he is

specifically charged under the act of 1920 with the duty to take care of what they term industrial preparedness, and if there is a question of cutting out the private manufacturer, then his entire program is changed.

Senator BONE. Do you know what appropriate action was taken by Captain Cage of the War Department?

Mr. CASEY. I have not the slightest knowledge. We never went any further with this matter.

Senator CLARK. Now, the so-called "Fish resolution", which your representative advised various officials of the War Department and Navy Department as to its status, and reported to you by this memorandum of April 6, 1933, was not the same resolution referred to in that memorandum dated in 1933 when he circulated the Taylor report, was it?

Mr. CASEY. That I do not know.

Senator CLARK. In other words, there was another resolution introduced in the Senate by Senator Borah at the request of the President of the United States, which resolution was reported out by the Foreign Relations Committee and filibustered to death by the Senator from Connecticut?

Mr. CASEY. That I do not know.

Senator CLARK. What did you understand when you got these reports?

Mr. CASEY. In order to know what I am talking about I would have to see the memorandum of Colonel Taylor referred to in this report.

Mr. RAUSHENBUSH. My investigators tell me that they do not have it.

Senator CLARK. Colonel Simons was acting under your instructions when he made these representations to the War and Navy Departments?

Mr. CASEY. Yes; it undoubtedly would mean we would have to decide what our future action would be.

Senator CLARK. What I mean, he was acting under your instructions when he reported to you?

Mr. CASEY. Yes.

Senator CLARK. So he was not a mere irresponsible agent as Mr. Bates was in South America?

Mr. CASEY. Oh, no.

Senator POPE. What was your attitude toward the Nye resolution under which we are now acting?

Mr. CASEY. What is that?

Senator POPE. What was your attitude toward that resolution?

Mr. CASEY. At the beginning we did not know exactly what it all meant, and I believe at one time I had a talk with Fay Brabson of the Military Intelligence, and I have talked to other people about what they felt this proposition meant, but, beyond that, we have had no further conversation except at the time we may have talked about it in a friendly way, but that is all.

Senator POPE. You were the one who talked to Mr. Brabson about the matter?

Mr. CASEY. Yes.

Senator POPE. What was the nature of your talk with him?

Mr. CASEY. I simply talked with him because he is a man I had known for a number of years and I spoke to him about this resolution.

Senator POPE. What did you ask him to do?

Mr. CASEY. I did not ask him to do anything. I said, "Here, Secretary Hull is from your State and you might talk to him about it."

The CHAIRMAN. About what? Having Secretary Hull help accomplish passage of the resolution. Is that what you were referring to?

Mr. CASEY. What?

The CHAIRMAN. Were you urging him to approach Secretary Hull to urge passage of the resolution?

Mr. CASEY. I did not urge passage or nonpassage; nothing of that sort. You must remember, Senator, in writing these reports we tried to make them what you might term chronological.

Mr. IRÉNÉE DU PONT. Senator Nye, might I call on you to make good on your statement yesterday morning that I would be given an opportunity in connection with this investigation to meet statements which come out in the record which I wish to correct?

The CHAIRMAN. Let us permit Senator Pope to finish this particular point first.

Mr. IRÉNÉE DU PONT. Pardon me.

Senator POPE. I think you attempted to make it clear here that so far as you are concerned, and Mr. Simons is concerned, that all you did when you discussed these matters with the naval officers and the Army officers was simply to find out their opinion on the matter.

Mr. CASEY. That is all.

Senator POPE. No other interest?

Mr. CASEY. No attempt whatsoever to try to influence them. It was because of the possible effect on us; yes, sir.

Senator POPE. Who is the president of the Federal Laboratories Co.? Do you know?

Mr. CASEY. John Y. Young.

Senator POPE. John Y. Young. Where are they located?

Mr. CASEY. John W. Young, I guess it is. At Pittsburgh.

Senator POPE. I offer in evidence a letter from Mr. Aiken Simons to Mr. Young, under date of December 28, 1932, just after Christmas. as "Exhibit No. 482."

(The letter referred to was marked "Exhibit No. 482", and appears in full in the text.)

Senator POPE. That letter reads as follows:

MY DEAR JOHN: Thank you for the very handsome dressing case which came to me on Christmas morning. I will find it very useful.

I spent a very quiet but very pleasant Christmas despite the rotten weather. Regarding the attempts of Mr. Hoover and the "cooky pushers" in the State Department to effect embargoes on munitions sent out of the country, I do not believe that there is the least occasion for alarm at present. The President and the State Department both lack authority to do anything now and in the spirit that Congress is in and with the large amount of oral business ahead I feel quite sure that no further authority will be granted.

Wishing you a very prosperous New Year.

And he signs:

Sincerely, Aiken Simons.

The CHAIRMAN. Senator Pope, does that particular letter carry a stamp revealing that upon instructions of the War and/or Navy Department it is of a confidential nature?

Senator POPE. I am interested in that rather "luscious" term, "cooky pushers." Do you know what Mr. Simons meant by "cooky pushers" in the State Department?

Mr. CASEY. I have not the slightest idea, and I could not be responsible for a statement of that kind. That is a personal letter thanking him for a little brief case.

Senator POPE. Do you think it might have anything to do with those people who might have been favorable to embargo acts and similar legislation?

Mr. CASEY. I could not tell.

Senator POPE. Do you know whether he included Secretary Stimson in that category?

Mr. CASEY. I could not say.

Senator POPE. He mentioned Mr. Hoover and the "cooky pushers" in the same breath. Do you know whether he included Mr. Hoover in that category?

Mr. CASEY. Again I cannot say. I have not the slightest idea.

Senator POPE. Did he ever talk to you about who were the "cooky pushers" up there?

Mr. CASEY. No; in fact, I never heard the expression before, because I never saw the letter.

Senator POPE. You think, in the light of this statement here, just after Christmas Day, when he was at peace with the world and he said:

I do not believe that there is the least occasion for alarm at present. The President and the State Department both lack authority to do anything now and in the spirit that Congress is in and with the large amount of oral business ahead I felt quite sure that no further authority will be granted—

that he was making that as a disinterested party, without knowledge of what Congress might do?

Mr. CASEY. Yes, sir.

Senator CLARK. Major, if this was a letter intended to promote "peace on earth, good will among men", do you know how it happened to get into the official files of the du Pont Co., from which it was taken by our investigators?

Mr. CASEY. We opened everything, and that may have been in their personal files.

Mr. IRÉNÉE DU PONT. The investigators did look through personal files in our corner of the building. I do not know whether they found anything.

Mr. CASEY. Anything they wanted to see we gave them.

Senator CLARK. Even though this was a personal letter, it contained a certain clear assurance on this embargo which had been placed by President Hoover.

Senator POPE. Referring back to your statement about the Nye investigation, I want to submit this memorandum by you, Mr. Casey, under date of February 15, 1934, and I will read the first paragraph into the record.

The CHAIRMAN. Which, incidentally, was only a few days after the resolution spoken of had been introduced. That was introduced on the 6th of February.

Senator POPE. Also it contains this stamp which we have referred to [reading]:

Had a talk with Colonel Brabson of Military Intelligence and drew his attention to the Nye resolution. As Colonel Brabson comes from Tennessee and is very close to Secretary Hull, he will discuss this matter with him so that when the matter is referred to the State Department, at least they will be familiar with the situation and the possible disadvantages from the viewpoint of the Army.

Mr. CASEY. That is what I had already referred to, Senator. I say, the only thing that I learned was talking to Fay Brabson.

Senator POPE. You referred to the fact that he had been advised there were disadvantages from the standpoint of the Army.

Mr. CASEY. If there were disadvantages, it was their job, not ours.

Senator POPE. That is all.

The CHAIRMAN. Mr. Raushenbush, before you proceed Mr. du Pont has a matter that he wants to discuss, and which I think he might do at this time.

Mr. IRÉNÉE DU PONT. Senator, it was suggested that I talk to you personally, but I would much rather address the entire committee because the offense which I am accused of having committed in the papers applies to the entire committee and not you, of course.

From time to time I have noticed articles in the papers, of which I will read a short one here from the New York Times of September 10 of this year:

The public study into the huge du Pont's affairs is being made over objections to Irénée du Pont, head of the century-old concern. His criticism of the committee some months ago irritated several members, who sharply answered him. Chairman Nye announced that he had refused the du Pont demand that its trade secrets be withheld from the press.

"These munitions makers have been doing business secretly for so long that it is about time their affairs were made public", he continued. "The very fact protests have come from abroad shows the necessity for continuing. The inquiry will go on."

I was at first mystified by these references as to some dispute in the committee.

On May 22 of this year I wrote a personal letter, which the investigators did not take from my file, although it was there, and possibly you might want to put it in the record. It was a personal letter to one Paul Harris, Jr., an International Y.M.C.A. man. He had made an attack in Washington at the National Cathedral School for Girls on the du Pont Co., and had made statements which have been disproved over and over again, and went back for some 30 years. I tried to correct him on that. Incidentally, I might also say that this had nothing to do with the committee, because I never heard of it on May 22 of this year. It may have been created at that time, but I was not aware of it.

In that letter I stated, in part, as follows:

I have not read Traffic in Arms, but will try to secure a copy of it. Personally, I believe that the attack on munitions makers is caused by three efforts:

(1) A subservient force instigated by the Third Internationale and allied interests to weaken the defensive powers of capitalistic countries;

(2) Effort of idealists to prevent war through a mistaken notion that preparedness is a cause of war; and

(3) A desire on the part of many newspapers and magazines to sell copies by handing out to the public lurid reading which will help their sales.



That, I say, is my opinion [reading]:

Frankly, my belief in the first cause is based on what seems to be a self-evident proposition—that people cannot be held in a state of virtual slavery, without freedom of individual action, as now maintains in Russia excepting by force. The Russian Government admits an army numbering some nine million. They claim to have an enormous number of army airplanes. If and when their hold on Russia is weakened, they must, to defend their position, have war with some foreign country. It would only be the part wisdom of those in control of that unfortunate country to wish to weaken the defense of any prospective antagonist.

There can be no question but that there is an effort by those with high ideals, of which you are doubtless one, to stamp warfare from the face of the earth. It is a most laudable effort, but if turned in the wrong direction may greatly increase the incidence of warfare. Certainly, an unarmed United States, with no preparedness, would be a more enticing victim for Japan or Russia, or perhaps some European power, than any other I can think of. Its enormous wealth alone would make it a coveted prize. Japan's recent attacks in the Far East ought to indicate that we cannot depend on an aggressive nation's respect for the rights of others.

The third case above given hardly needs explanation. It must be apparent to all that newspapers and magazines are financially benefited by selling copies. Any lurid article is grist to their mill and they cannot be expected to be too accurate in checking up the details of the statements which may be made.

Some of that was reported to and copied in the press without my knowledge or consent, over a month after it was mailed to Mr. Harris. I know nothing of it. It was not my action and I am sorry it got into the press, and I certainly would not have been so discourteous to the committee to even have offered that, if it reflected on them, or to have done anything in the matter, but I have been made the cat's-paw in this matter, and nothing of the kind ever entered my head and I did not know the committee had been appointed.

I hope that will square me with the committee.

The CHAIRMAN. Thank you, Mr. du Pont.

Mr. VANDENBERG. I would like to make one comment on that letter. You are arguing, Mr. du Pont, that the net result of this undertaking might be to weaken the national defense of the United States. Am I wrong in the conception, which I confess is one of my dearest dreams—am I wrong in the conception that if we are to create a system under which every American resource is dedicated to the national defense, maintained without profit, in other words, if we create a common reservoir into which everything America has for the purpose of defense goes for the common defense, that that would weaken us? Would it not make us invincible?

Mr. IRÉNÉE DU PONT. Mr. Senator, I think we have exactly that situation today. I think the Army has gone over this country with a fine-tooth comb to find every industry which can be put to use, and if the United States goes to war, there will be no profit to munition makers. We did not make any profit during the war and paid more in taxes than we made in profits.

Senator VANDENBERG. What I want to know is with reference to the objectives of the committee, as set up in this resolution, whether that would weaken our defenses. It seems to me it would immeasurably strengthen them.

Mr. IRÉNÉE DU PONT. Perhaps I have not got a clear comprehension of it. When the letter was written I did not consider this matter because I did not know there was a committee. From what

I have seen in the papers, the object is a plan to nationalize making munitions of war. By "nationalizing" that means putting it in the hands of the United States Government or some branch of it. It cannot possibly be as efficient or as elastic in expanding. The munitions industry of the United States, in order to be of use in time of stress, must be in that situation. It is very important that concerns have the "know-how" and nucleus to expand. Personally I think if a traitor to the United States sold the plans of Pearl Harbor or Diamond Head or something else to an enemy of the United States, that there would be less damage done than if you stopped the manufacture of munitions of war by private individuals.

I will give you a sample of it. You say there is large profit in this. The reason the du Pont Company did so well in making war supplies during the World War was because we had a free hand. I want to give example of a single instance, one of the instances which are innumerable. Alcohol became scarce and there was insufficient to go around, and the Government had a bureau to look after the shortage. We used three-tenths of a pound of alcohol per pound of smokeless powder, and were called down by the official in charge at Washington as to why we put in a wrong report. I said, "That is not a wrong report." They said: "The reports show that it has always taken nine-tenths of a pound", and I told him, "We used to take nine-tenths of a pound", but that the research that we did on alcohol during the war had enabled us to reduce the net amount to three-tenths.

In the 1917 year alone we must have saved 200,000,000 pounds of alcohol by that saving in the consumption of alcohol. It had gone up in price from 4 cents a gallon to 12 cents a gallon, so that our net saving from that was \$24,000,000, by this condition of practical research, not test-tube research in the laboratory, but this is checking up by chemical analysis, by measuring alcohol used here, there, and everywhere, where evaporation takes place, where leaks are happening, and stopping the leaks.

To get that kind of work, we offered rewards. You have asked for reports of bonuses granted. Not only were bonuses paid but good salaries were paid, and those men were kept on their toes, knowing it was to their interest to each and all to do their level best. The reason we made such enormous profits during the war was very largely due to the savings which we were able to obtain by concentration on every detail and rewarding those who were successful.

I think this underlying principle of rewarding those who do good work is an underlying principle which you cannot refuse to recognize as valuable.

I can go back to one of the greatest philosophers of all time who said, "A laborer is worthy of his hire." You Biblical students may know to whom I refer. I would not set myself up in contradiction to him, but it seems to me the intent is good work, honestly done, and good work honestly done saves enormous sums of money and ought to be highly rewarded.

Senator VANDENBERG. I am not going to answer your address, which has powerful persuasion in it, and I am not one of those who favors Government in business, but, on the other hand, I fail to understand how there can be any private character whatsoever to the munitions business.

Mr. IRÉNÉE DU PONT. I agree with that, that there won't be, but it is just too bad. I think we will be a year getting started in case of war, just as we were in the World War, because many must have known it was coming 6 months ahead of the time, certainly after the sinking of the *Lusitania*.

Senator VANDENBERG. Whether or not this committee recommends the nationalizing of the munitions business is in the lap of the gods. I do not know whether it should be nationalized or not. That is one of the things we are to find out. That subject is not prejudged. The challenge which I find in your statement is the premise which you adopt, that we are going to weaken the national defense.

Mr. IRÉNÉE DU PONT. I think you are, sir.

Senator VANDENBERG. Because, so far as I am concerned, the objectives which I have in mind would make the United States absolutely invincible against the world.

Mr. IRÉNÉE DU PONT. Senator, do you appreciate the difficulty of overcoming the inertia and lack of knowledge and organization, to start any large military affair; that is, during a war when it starts?

Senator VANDENBERG. Yes.

Mr. IRÉNÉE DU PONT. Just think of what would happen in the powder industry. I am more familiar with that than I am anything else. I know perfectly well when war was declared in April 1917, that the Government had no plans and were perfectly at sea as to what to do in the matter of powder, and did not know how much they should have. They had never had the experience. We had had experience building powder plants. We were called on to build two large plants and before getting under way, almost, we received a peremptory telegram saying, "Do nothing until you hear from us", signed Newton D. Baker, Secretary of War; and we never heard anything more in that connection. We contracted to operate the other one for them and produce powder at approximately 10 cents a pound lower than the pre-war price, and were able to do that by means of the great efficiency which had been obtained.

Mr. RAUSHENBUSH. Mr. Chairman, evidence is being given on the part Newton D. Baker took or did not take on delaying the war plans. That is a long controversial subject. May I ask that before any evidence is given on that, we have a chance to examine into it?

Mr. IRÉNÉE DU PONT. I am not attacking Newton Baker. We received the telegram, and the purpose of it or the why of it I do not know.

The CHAIRMAN. Mr. Raushenbush, are we developing any part of this in an orderly manner later on?

Mr. RAUSHENBUSH. We are, at some length.

The CHAIRMAN. We are going to have ample discussion on that, and there is going to be ample opportunity for the witnesses to discuss it, when we reach that particular stage of the hearing.

Senator VANDENBERG. I am probably responsible for Mr. du Pont's statement, but I was challenging his statement.

It certainly does not weaken the national defense to make it impossible hereafter that one-half of our people should be in the front-line trenches for \$30 a month while the other half is in the shipyards at \$30 a day.

Mr. IRÉNÉE DU PONT. Why do you not pay the soldiers \$30 a day?

Senator VANDENBERG. Or vice versa.

Mr. IRÉNÉE DU PONT. I know from having seen it, that they lost time and that there was lost motion trying to get together an organization to do these things. And the Government built one plant without any aid except the plans which we had prepared, and never went into operation—

Mr. RAUSHENBUSH. Testimony is being given on the plant at Old Hickory, and I must challenge that.

The CHAIRMAN. The Chair will sustain the objection. We will come back to that later and there will be ample discussion of every part of it.

Senator VANDENBERG. Mr. du Pont, in connection with profits you mentioned your high taxes. The reason your taxes were so high during the war was because your profits were so large. The Government took a small portion of those enormous profits which you made by way of excess-profits tax, and so forth.

Mr. IRÉNÉE DU PONT. Senator, I think you were not present when I made the report. My statement was that it was a retroactive tax on exports.

Senator VANDENBERG. I was present.

Mr. IRÉNÉE DU PONT. I beg your pardon. It was practically an export tax levied retroactively on us, after we made our contracts and could not change the price, and then had to pay a matter of \$13,000,000 for that year. I say that is not a fair thing to do. It is not a question of what taxes the Government should raise at all. To single out one concern and levy on exports retroactively, I say to you it was unfair and I still think so.

Senator VANDENBERG. So far as such profit is concerned, you did get enough profit out of the war to pay out some 250 percent in dividends and still have \$60,000,000 left over in surplus at the end of the war, did you not?

Mr. IRÉNÉE DU PONT. That is perfectly true.

Senator VANDENBERG. So that so far as this profit question is concerned, it is by no means a purely patriotic, humanitarian endeavor on the part of the du Pont Co.

Mr. IRÉNÉE DU PONT. Senator, may I object to that? The du Pont Co. made those profits out of foreign sales. The United States was not in the war when it began over there.

Senator VANDENBERG. I understand, but the United States was in the war afterward. You made profits out of your business during the time the United States was in the war, did you not?

Mr. IRÉNÉE DU PONT. The earnings we had left paid 70 percent of the tax we paid that year.

Senator VANDENBERG. It costs you 24 cents a pound to make TNT and you sold it to the United States Government for 50 cents a pound.

Mr. IRÉNÉE DU PONT. No matter what we charged, it was not enough for the back taxes.

Senator VANDENBERG. You mean by retroactive taxes in that case that they recaptured it?

Mr. IRÉNÉE DU PONT. No, sir; that retroactive tax was in 1916, before the United States entered the war, when the United States could not have been motivated from the standpoint of the war.

Senator BONE. Mr. du Pont, are we to gather from your statement a fair inference, that if preparedness is placed in the hands of the War Department, the whole thing is a "flop" unless private munitions makers look after details? Is that it?

Mr. IRÉNÉE DU PONT. No; the real reason is this: The War Department did not touch smokeless because it knew the du Pont Co. was there.

Senator BONE. What is the War Department for? Just to sit in an office and have no knowledge of these things?

Mr. IRÉNÉE DU PONT. They have got plenty to do.

Senator BONE. Do you not think a very thorough knowledge on the part of the War Department officials is necessary as to how to launch a war in case we got into one? That would be a part of the national defense, would it not?

Mr. IRÉNÉE DU PONT. I am not attempting to run the War Department.

Senator BONE. I understand.

Mr. IRÉNÉE DU PONT. I say a private manufacturer can produce things, if he has an organization from which the men can be drawn and organized, better than the Government can organize such an organization.

Senator BONE. How would we know that when the Government has never done it? I think we can all agree, so far as the War Department is concerned, that it has relied on private companies to create the necessary munitions. That is right. Now, unless we try it out, how do we know that the War Department cannot do it? The War Department can hire specialists and technicians, can it not?

Mr. IRÉNÉE DU PONT. It does not do any good to hire specialists and technicians. You must have an organization.

Senator BONE. Can not they get an organization? Are we to understand that the du Pont Co. now presents to its country this picture: That the United States Government is so inept—perhaps the word is not altogether proper, but let us say it anyway—is so stupid, so inept, so unbusinesslike that it cannot hire and pay large salaries and could not do the work you are doing? I would like to have an answer to that.

Mr. IRÉNÉE DU PONT. I will answer the first question first. You say you have never tried to have the Government prepare for war. The French made their own powder and relied on their own powder factory, and had to come to us and buy hundreds of millions of pounds. The Germans relied on their industrial people and made enough not only for their war purposes, but for Austria. That was done by private concerns. If we had not shipped powder to France and England, the possibilities are that Germany would have won the war, and we would have been taken next and been a German colony.

Senator BONE. Do you think the du Pont Powder Co. kept the United States from being a Germany colony?

Mr. IRÉNÉE DU PONT. I think we were a great influence; yes, sir.

Senator BONE. This country was so helpless that were it not for a private corporation in this country that made \$255,000,000 of profits during the war, we would be a German colony now?

Mr. IRÉNÉE DU PONT. You are trying to put me in a position of being a conceited ass, and I am not. I am reciting facts that I know.

I am trying to convince you gentlemen, because you have got a tremendous responsibility. You must look at what happened in this country when we went into the war and at what will be done in the way of preparedness by a number of industrialists. We could not start tomorrow and make powder the way we did then, but we have a nucleus.

Senator BONE. Do you not think it is a strange situation——

Mr. IRÉNÉE DU PONT. It is a hell of a situation.

Senator BONE. That after 157 years of national life we sit here, in a Senate room, with this matter before the committee, and the statement is made that this country might have been a German province were it not for a few private concerns? Is not that rather a somber picture?

Mr. IRÉNÉE DU PONT. It is a somber picture.

Senator BONE. That this Government is so helpless that we would be a German colony today if it were not for these private companies.

Mr. IRÉNÉE DU PONT. The average man in 1916 thought he was perfectly safe out in the Middle West and was beyond attack by Germany. If Germany had won from France, she would have won from England, too. They started with the motto "der Tag", which referred to their conquest of the world, without any question, and do you suppose that they would not have come over here and fought us?

Senator BONE. Do you suppose we would have had any trouble with Germany if it had not been for our insistence on the exportation of munitions during the war?

Mr. IRÉNÉE DU PONT. I think that depends on how much the Kaiser wanted to rule the earth.

The CHAIRMAN. Please proceed, Mr. Raushenbush.

Mr. RAUSHENBUSH. Before going on to the rest of the outline, I would like to ask one question. Who was the General Williams whose decision the du Pont Co. asked? What is his station in life now?

Mr. CASEY. He has retired.

Mr. RAUSHENBUSH. What activity is he in?

Mr. CASEY. Nothing that I know of. I think he was working for the N.I.R.A. the last I heard. That is the last I heard of him anyway.

Mr. RAUSHENBUSH. I have before me a report of William N. Taylor, your Paris agent, and the I.C.I. Paris agent, put in the record as "Exhibit No. 476", in some other connection, under date of August 2, 1933, and because it brings out from your agent some experience that happened with some of the munitions makers in Holland, which forced the French Government to expend a great deal of money because the question of private munitions had been affected thereby, I would like to read from this report. He has been talking about the question of whether Bofors has or has not a case in Holland, Bofors, I believe, being one of your main competitors in the powder field.

I am reading from page 3 of this exhibit:

In connection with this, you will recall that about a year ago there was a great newspaper excitement in France over the 1,500 half-finished guns in Holland in the possession of the H.I.H. which, the French newspapers

claimed, was a secret stock of heavy guns held in Holland by the Germans. The result of this caused the French Government to buy the most important pieces. It turned out that this whole French newspaper row was originated by Vlessing and Haegen in order to sell this stock and that it was a vast publicity farce which the French newspapers fell for due to their desire for anti-German news. Vlessing said that they managed this whole publicity affair without having to pay a cent to the newspapers. Vlessing and Haegen are extremely proud of this feat and discussed with me in great detail how they got the French press excited on this matter by constantly denying that they knew anything about it and by making it all very mysterious and leaving the journalistic spirit do the rest.

This was addressed to you, Mr. Casey. Does anybody else in the company see these reports?

Mr. CASEY. Sometimes we do refer some of the reports to the committee.

Mr. RAUSHENBUSH. Would the president of the company see the report?

Mr. CASEY. I could not say that he would.

Mr. RAUSHENBUSH. That is a fair story of how a munitions company, in order to get rid of stock, drums up this anti-war feeling, which is constantly raging between France and Germany, and in this case they did it in great glee without paying a penny to the French papers, as they say, and made the French taxpayers pay out a great deal of money for junk.

Is not that a correct outline of what happened?

Mr. CASEY. I would say so.

Mr. RAUSHENBUSH. I should like to go on with some questions that I would like to address to the president of the company, if I may. Mr. Lammot du Pont, you have been president of the company for the last how many years?

Mr. LAMMOT DU PONT. Eight years.

Mr. RAUSHENBUSH. Do you feel pretty well conversant with what goes on, with what the agents of your company do in South America and Europe?

Mr. LAMMOT DU PONT. I am afraid I am not.

Mr. RAUSHENBUSH. You do take some responsibility in public statements about the activities of the company?

Mr. LAMMOT DU PONT. Yes.

Mr. RAUSHENBUSH. The point I am raising is whether you know of these activities. I wonder if, as the testimony goes on, you could indicate to us—because this is important—to what extent you knew of these activities and to what extent you did not?

The first question I want to raise goes back to 1932. There was at that time, and there has been since, a good deal of hostility between the Bolivians and the Paraguayans. You were selling to both sides, were you not—or attempting to?

Mr. CASEY. I do not think we were selling either of them.

Mr. RAUSHENBUSH. I have here before me a report addressed to Major Casey, signed by Mr. Bates, dated August 5, 1932, saying:

Called at the Bolivian Legation, 2830 44th Street, Washington, D.C., and spoke to His Excellency Luis O. Abelli, Envoy Extraordinary and Minister Plenipotentiary of Bolivia to the United States. The Bolivian Minister showed considerable interest in military propellants and explosives and wanted, particularly, information on demolition and fragmentation airplane drop bombs; also the addresses of American manufacturers able to supply the bombs, and addresses of the companies manufacturing armored tanks.

Then in the same letter he goes on:

Called also at the Paraguayan Legation. The Minister was absent, but finally reached him by telephone. He, too, was interested in receiving prices and description of our military products.

Mr. LAMOTT DU PONT. I do not think I would have been informed about that at the time.

Mr. RAUSHENBUSH. You would not know that. Later on, in 1934, in May, when the hostilities between Peru and Colombia were only slowly drawing to a close; when the feeling of hostility was only slowly drawing to a close, there is another report signed by Mr. Casey headed "Trend of Business" in which he speaks of selling. He says:

Business worthy of note received during the month includes 50,000 pounds of caliber .50 smokeless powder on order from Frankford Arsenal and 88,000 pounds of TNT purchased by the Peruvian Government. We have also been indirectly responsible for the sale of approximately 340,000 pounds of TNT to the Atlas Powder Company, which is to be used in the loading of airplane drop bombs for the Colombian Government.

That is both Peru and Colombia for which you are taking credit, and through the Atlas Co.

I wish at this time to offer a list of your agents in South America as taken from your files, as of February 24, 1934, as "Exhibit No. 483."

(The document referred to was marked "Exhibit No. 483", and is included in the appendix on p. 1338.)

Mr. RAUSHENBUSH. Somewhat earlier in 1932—and we went over this testimony in the first week to some extent—you were dealing with the Electric Boat Co., having negotiations on munitions for Peru. The negotiations fell through, but they were taken very seriously, apparently. If I may summarize this, the testimony of last week showed that your legal advisers had prepared certain proposed arrangements. At the same time I have before me a report signed by Mr. Bates dated September 29, 1932, discussing these negotiations. This reads:

Called on Mr. Henry R. Carse, president of the Electric Boat Company, 40 Wall Street, New York. The gist of Mr. Carse's conversation was this: The Electric Boat Company some years ago had built four submarines for the Peruvian Government. The Peruvian Government still owes the Electric Boat Company \$600,000. Efforts to collect this amount have proven of no avail.

The letter ends up this way:

*Colombian Consul.*

I called at the consulate, checked Remington's information that the order for 3,000,000 rounds was forthcoming. We renewed our proffers to the consulate to furnish military propellants to the Colombian Government and our name is now on file with them in the event San Cristobal resumes manufacture.

That was both Colombia and Peru, was it not?

Mr. LAMMOT DU PONT. It sounds so, from your reading of it.

Mr. RAUSHENBUSH. Did you know that?

Mr. LAMMOT DU PONT. I think it is quite likely that that was referred to me.

Mr. RAUSHENBUSH. The expenses of your Paris office are shared equally, we brought out, I believe, by I.C.I. and the du Pont Co.; is that correct?

Mr. LAMMOT DU PONT. I think not.

Mr. RAUSHENBUSH. I beg your pardon.

Mr. LAMMOT DU PONT. I think not.



Mr. RAUSHENBUSH. How are they shared?

Mr. CASEY. If you will allow me to answer that. I.C.I. contributes not over half and in no case do they contribute in excess of 2,500 pounds. I think that is the arrangement.

Mr. RAUSHENBUSH. As a matter of fact, about half is what it amounts to, is it not?

Mr. CASEY. It has been running that way, but they agreed to pay half provided that half is not more than 2,500 pounds.

Mr. RAUSHENBUSH. I have before me the annual report of the situation in the territory of the Paris office, smokeless powder department, on December 31, 1933, from which I wish to read several paragraphs and offer this document as an exhibit.

(The document referred to was marked "Exhibit No. 484", and is included in the appendix on p. 1339.)

Mr. RAUSHENBUSH (reading):

Beginning 1933 the Paris office of E. I. du Pont de Nemours & Co. began to take over the territory of Southern Europe from the Paris office of Imperial Chemical Industries, and as I.C.I. had several changes which they wished to make in their agencies in these countries, we waited until these were completed and then adapted our arrangements to theirs. As I.C.I. had suitable agents in the territory, we decided that we would simply take the I.C.I. agents and add to their work the du Pont representation.

The difficulties encountered by the governments in this territory in obtaining foreign exchange, have made the export of powder and explosives extremely small, although all war departments in this territory have announced their desire for larger quantities than previously considered.

This was December 31, 1933, at the time that there was a good deal of war feeling. The report goes on, a little below:

On every frontier, Germany has a delicate problem, and Germany is taking certain steps which the military people agree are destined to make her a very dangerous adversary in case of war.

The following paragraph is:

The prices in Europe have been up to now going down, as competition for the small amount of business offered has been extremely severe. The different manufacturers are making tremendous efforts to sell, mainly in view of being well in with the customers in case of larger requirements, as mentioned above.

The question that I would like to raise there is what knowledge anybody in the company here who is before us had of these tremendous efforts which the different manufacturers were trying to make to sell to these European powers.

Who are your strongest competitors over there?

Mr. CASEY. Bofors is one.

Mr. RAUSHENBUSH. Bofors, of Sweden?

Mr. CASEY. Yes. I think I may have here a memorandum which might be of interest to the committee. I cannot say that it is a complete list, but it represents the entire sales of military propellants and explosives in Europe in the last five years. If you would like, I would be very glad to give you a copy of this.

Mr. RAUSHENBUSH. I think I have seen this. I think perhaps a copy without some analysis as to the time the sales were made and when they jumped, would be valueless. If you will allow us to have this and examine it, I shall appreciate it.

Mr. CASEY. Of course. An interesting summary of that situation would be about as follows: That in the last 5 years, that is 1930 to 1934 to date, inclusive, the total amount of business in military propellants and explosives in Europe was \$2,511,333. That is in 5 years, or an average of about \$500,000 per year.

Mr. RAUSHENBUSH. Major Casey, figures and facts like that really should be accompanied with explanations such as given in your annual reports from Taylor on the growth of the individual powder factories in the countries supplying themselves—Germany and so forth. So, if we may proceed and take up these figures later I should prefer that. This report on the prospects for 1934 ends with this statement—or rather I should say that this report ends with the statement, "Prospects for 1934." The language used is:

However, as mentioned above, all these countries desire large reserve stocks and our prospects for sales lay largely in getting these orders, which is a very possible undertaking.

These are really reserve stocks in case of war, are they not?

Mr. CASEY. Mobilization stocks, I think they call them.

Mr. RAUSHENBUSH (reading):

It will probably mean some financing on our part, and as these are extra-budgetary operations, they must be handled with different methods than those used in meeting ordinary adjudications.

These agents that you chose in Europe are agents who are close to the Government in some way or have connections that make them valuable to you, because all munitions business is done with governments, is it not?

Mr. LAMMOT DU PONT. I cannot tell you much about the sales of agents, except the policy of the company which is to sell powder. We cultivate that business. We therefore select the agent who, in our judgment, is most competent in the long run.

Mr. RAUSHENBUSH. And the munitions business or the powder business is different from all others in fact, in that you deal with governments abroad; governments only. That is true, is it not?

Mr. LAMMOT DU PONT. I do not think that is literally true.

Mr. RAUSHENBUSH. As far as the military end of it goes, it is true?

Mr. LAMMOT DU PONT. Very largely.

Mr. RAUSHENBUSH. You would not sell military powder to rebels. You would sell to governments?

Mr. CASEY. Recognized governments.

Mr. RAUSHENBUSH. Recognized governments; yes.

Mr. CASEY. Yes.

Mr. RAUSHENBUSH. And being governments, your contacts with them would have to be through people who you believe will be able to get the business; is not that true?

Mr. LAMMOT DU PONT. Will make the contacts; yes.

Mr. RAUSHENBUSH. So what you try to have is influential people in each country who have some sort of contact with the government and from whom you can expect to get a reasonable amount of business; that is true?

Mr. LAMMOT DU PONT. We select individuals who are influential in this particular respect.

Mr. RAUSHENBUSH. I call your attention to a letter of October 21, 1931, from Mr. Taylor to Mr. Casey, which rearranges some of the

agents' contracts in Europe. I do not want to go into European history in 1931, but there were troublesome times there, and if I understand this letter correctly, you are jumping the commissions through these agents from 5 percent to 7 percent. Is that correct?

Mr. A. FELIX DU PONT. I think there is only one there.

Mr. RAUSHENBUSH. And that one is where?

Mr. A. FELIX DU PONT. Klawe in Poland.

Mr. RAUSHENBUSH. You are jumping his commission. Of course, the larger the commission that a man gets, the more interested he is in selling.

Now, when the Electric Boat Co. representatives were here, they mentioned 3 percent as being a very reasonable commission. I believe some other companies had even higher commissions than that. Is 7 percent considered a fair commission in the military business?

Mr. A. FELIX DU PONT. I think so.

Mr. RAUSHENBUSH. Does Bofors give more than that, if you know?

Mr. A. FELIX DU PONT. I could not tell you.

Mr. RAUSHENBUSH. Are they not very important competitors? And is it not very important to know what Bofors gives their salesmen?

Mr. CASEY. We have no way of finding out. We have no contact with Bofors.

Mr. RAUSHENBUSH. Who are your main competitors?

Mr. CASEY. On that list you will find the names of a number of different competitors that appeared in these different adjudications.

Mr. RAUSHENBUSH. You know the main ones, Mr. Casey. Bofors is one. Is there anybody else?

Mr. CASEY. I think there is an Italian company and a company in Holland. Their names appear in that memorandum.

Mr. RAUSHENBUSH. I notice in examining your correspondence that when the sales get to be out of the continent of Europe, very few of the continental companies outside of Bofors are competitors of yours and I.C.I.'s.

Mr. CASEY. Looking at it from the standpoint of world-wide competition, they are the most active.

Mr. RAUSHENBUSH. I have one further item here from Mr. Pickard, vice president in charge of foreign affairs—he is the vice president in charge of foreign affairs of your company, is he not?

Mr. LAMMOT DU PONT. He is a member of the foreign relations committee.

Mr. RAUSHENBUSH. This is addressed to Mr. Casey and reads:

Please advise what steps have been taken to secure military sales business in the unhappy event of hostilities between China and Japan.

There is no indication in that letter as to whom you intended to sell to at all. Can you answer that? Was it to both sides?

Mr. LAMMOT DU PONT. It might have been both sides or either side.

Mr. RAUSHENBUSH. I will offer this letter as an exhibit.

(The letter referred to was marked "Exhibit No. 485," and is included in the appendix on p. 1346.)

## NATURE OF DU PONT FOREIGN RELATIONS

Mr. RAUSHENBUSH. I have here a report from Mr. Taylor to Mr. Casey dated August 14, 1933, which I will offer as an exhibit.

(The report referred to was marked "Exhibit No. 486," and is included in the appendix on p. 1346.)

Mr. RAUSHENBUSH. This consists of a discussion already touched on in a discussion of some documents by Senator George, which were put in the record earlier in the day, concerning the method of selling between I.C.I. and du Pont to China. There seems, if I am summarizing this correctly, to be a very considerable difficulty as to whether the sales are sufficiently active there and then it goes on to say, on the second page:

In the memorandum, Japan is mentioned. They handle Japan in a different way and believe it should not be handled by the same people as are handling China. Japan offers no possibility of business except for specialties, of which I.C.I. gets their share. All standard military material is manufactured in the country, and there have been no purchases of powder or explosives abroad.

That seems to indicate, does it not, that I.C.I. is willing or trying to sell in Japan at the same time it is trying to sell in China?

Mr. LAMMOT DU PONT. I would think so; yes.

Mr. CASEY. If they were maintaining neutrality, they would have to do it. They cannot sell to one nation and not to another, if they are observing the laws of neutrality.

Mr. RAUSHENBUSH. And as soon as you sell to one nation and not to another, you are taking part—

Mr. CASEY. You are taking part; yes.

Mr. RAUSHENBUSH. You are, in short, becoming a diplomatic agency, are you not?

Mr. CASEY. Yes.

Mr. RAUSHENBUSH. Mr. Casey, I should like to ask Mr. Lammot du Pont whether you are correct in stating the position of the company. Here a little while ago you told us informally the story of an instance where your company had the only source of explosives available to a government which you would not mention and which I am not going to mention, within the last year, you said.

Mr. CASEY. I said the only source in this country.

Mr. RAUSHENBUSH. The only source in this country?

Mr. CASEY. Yes.

Mr. RAUSHENBUSH. And for various reasons various people requested you to refuse to sell.

Mr. CASEY. Yes. That was at the request of people in our own Government, an unofficial request. They knew that there was no obligation on our part to abide by it, but they asked us if we would not take that action.

Mr. RAUSHENBUSH. Mr. Lammot du Pont, I want to ask that question in another way. When a munitions company becomes so closely an agent of a government that a government, according to what Mr. Casey says, uses it to force recognition or nonrecognition of another government, presumably a friendly government, is it not taking a very close and dangerous diplomatic relationship? Is not that a dangerous diplomatic relationship for a munitions company to get into?

Mr. LAMMOT DU PONT. I would not think it was; no, sir.

MR. IRÉNÉE DU PONT. I do not see what else you could do. After all, we are United States citizens and have got to support the Government. Would you expect us to do contrary to their request?

MR. RAUSHENBUSH. No. I am amazed that the request was made. I do not quite understand the situation, I am afraid. But instead of the State Department, or whoever it was—I shall withdraw "State Department"; I do not know what department the matter was referred to; but whatever department made this request of you, they were really getting you, through your economic power of being able to sell or not sell munitions to keep in power or throw out of power a government of what I presume is some Central American or South American nation.

Now, because of that and the use of the word "interference" that Mr. Pierre du Pont made some time ago in speaking of the embargo, I would like to come back early tomorrow morning to the question of whether a munitions company not only by selling, but refusing to sell powder, cannot overthrow the administration of a foreign country, and whether it cannot also seriously change the whole state of military competition between two countries.

THE CHAIRMAN. Mr. Raushenbush, what is the background of Colonel Taylor?

MR. CASEY. May I answer that? Colonel Taylor, I believe, was educated in Harvard, studied architecture, and I believe spent a good part of his time in France, continuing his studies in architecture. Exactly when he came back to this country, I do not know. But I know he has told me that he attended, I think, the very first Plattsburg camp. During the war he went into the service and at the conclusion of hostilities I think he had gotten no further than Fort Sill, but he was at that time in command of the Nineteenth Field Artillery.

After the war he was taken on when the du Pont Co. organized an export department and, because of his knowledge of French and the French people, was sent to the other side. He was there in the interest of export business. At that time we had only begun to try to sell powder abroad. Before the World War, there were only two attempts to sell powder made in foreign countries, one being in the case of France, after a couple of battleships had been blown up and they felt probably they might like to investigate something else, and two attempts were made in 1912 and 1913, and both fell flat.

The other foreign attempt that I know of was along, I think, about a year after, or maybe at the time that the two Argentine battleships, the *Rivadavia* and *Moreno* were delivered. It was felt that there might be the possibility of interesting the Argentine Government in more powder of that type. Most of their powder was of the English or German type. But those were the only instances I know of before the war. But after the war, in order to try to keep a nucleus of an organization together, for the benefit of the United States Government, and knowing that it would probably be some time before we could possibly expect any business from the Government, we began this attempt abroad and we were just like children in the wilderness when we started.

SENATOR BONE. Because your company is very close to and has friendly relations with our Government, and because of its ability to arrive at a common understanding with our Government, on matters of policy such as have been discussed here, your company

finds itself in a position of being almost, if not quite, a semi-official agency of our Government, does it not?

MR. IRÉNÉE DU PONT. I do not think we could properly say an official agency. We may say—I am quite sure—that the War Department and the Navy Department look on us as a material aid.

Senator BONE. When I used the term "semi-official" I am not using it in an invidious sense.

MR. IRÉNÉE DU PONT. We are not a semi-official agency like Colonel House was during the Wilson Administration. That was semi-official. That is the impression that the word leaves. We feel that we are obligated to the Army and the Navy to tell them all we can about defense; anything that comes to our knowledge, we certainly pass it along and certainly we would be guided by anything that they told us in the matter.

Senator BONE. In respect of refraining from supplying an order of munitions, such as has been under discussion here, in that particular instance, as possibly in others, you have followed suggestions of the War Department, and have been guided by them. That is correct?

MR. IRÉNÉE DU PONT. I think we have tried to help them in every way we could.

Senator BONE. In some respects, then, your relations with the Government would be similar to those of Soley of England with the British Government?

MR. CASEY. Senator Bone, I might sum it up in this way, which may establish the principle. We make no move in any foreign country without first advising both branches of the service. If they have any objection, no matter what the objection is, we are satisfied and we stop any effort there.

Senator BONE. Manifestly then, there is a guiding force which is entirely divorced from and independent of your own organization to which you yield allegiance and obedience in matters of that kind.

MR. CASEY. Absolutely.

Senator BONE. That being the War and Navy Department of the United States. That is what I am getting at.

Senator CLARK. That is substantially the same relationship that was had by Krupp to the Imperial German Government, before the war, was it not?

MR. CASEY. I cannot say.

Senator POPE. Mr. du Pont, was this agreement that was finally entered into in 1932 with the I.C.I. brought to the attention of the Government either before or at the time it was entered into? I mean brought to the attention of our Government?

MR. LAMMOT DU PONT. I doubt whether that one was, Senator, because it specifically excluded munitions.

MR. CASEY. I believe the Senator is referring to the selling agreement, is he not?

Senator POPE. The agreement introduced in evidence here, I think is dated October 10, or something like that.

MR. LAMMOT DU PONT. You are referring to the agreement providing for the joint agency?

Senator POPE. Yes.

MR. LAMMOT DU PONT. I believe that was brought to the attention—

Mr. CASEY. Allow me to answer it in this way. They were familiar with the previous arrangements, this being only a slight change from the previous arrangement. We had the arrangement, as you remember, in 1926.

Senator POPE. You mean that the 1926 agreement was brought to the attention of the Government?

Mr. CASEY. Yes.

Senator POPE. At the time that it was entered into, or afterwards?

Mr. CASEY. Well, they knew about the general idea that we had in mind before that.

Senator POPE. Did you show them a copy of the agreement?

Mr. CASEY. No, sir.

Mr. IRÉNÉE DU PONT. The Senator is talking about the joint-sales agreement, you are not talking at cross purposes?

Mr. CASEY. I think I understand the agreement the Senator referred to.

Senator BONE. Did you seek the approval of our Government, of this agreement?

Mr. CASEY. No; we did not.

Senator POPE. Has it ever been brought to the attention of the Government?

Mr. CASEY. The last agreement, in detail; no. But, as I say, the other agreements were known and this last one was merely an amplification of the other. This last agreement was purely an experiment, for this reason: The situation was such that we really felt we were going to drop out of the foreign field, because we could not afford to maintain the effort, because of the lack of return. Therefore, this was, you might say, almost a last attempt to see if, by a combination, which might bring about a reduction of expense, we might not be able to continue. It was an experimental proposition. The agreement speaks for itself when it says that it will be tried for two years.

Senator POPE. Just because of the kind of incident that arose where your joint agent was involved in a matter that concerned the 1934 embargo, would it not seem reasonable that you would bring that situation to the Government so that they would understand it?

Mr. CASEY. Do you mean that particular illustration?

Senator POPE. I mean the agreement.

Mr. CASEY. I think that incident was brought to their attention.

Senator POPE. I am asking whether that does not suggest that the agreement should have been brought to the attention of the Government.

Mr. CASEY. Perhaps it might have. In connection with that agent proposition, perhaps it should. That might have sounded a little worse than it really was, in view of the signature to the letter. But let us assume that Mr. Bates, who got his advice from the I.C.I. office in Buenos Aires, had simply cut his letter off after he said, "In order to conform to the embargo President Roosevelt, we are not going to quote", and left it there. The answer would have been that I.C.I. in Buenos Aires would have promptly notified their home office and we were out of it. The result would have been the same.

Senator BONE. Major Casey, is there anything unique in the relations of the du Pont Co. to this Government or do European govern-

ments frequently sustain to private munitions concerns a somewhat similar relationship?

Mr. CASEY. That I cannot say. I do not know of my own knowledge, anyway, that any manufacturer has ever tried to conform to the wishes of his government any more than we have.

Senator BONE. Senator Clark has referred, very amply, I think, to the relationship of the Krupp concern in Germany to the Imperial German Government prior to the War.

Mr. CASEY. I have no knowledge of that except what I have heard.

Senator BONE. That was a generally understood relationship; was it not?

Mr. CASEY. We have also heard the same thing about the Schneider concern in France.

Senator BONE. In other words, that relationship seems to exist in France between the French Government and the Schneider concern.

Mr. CASEY. I believe so, but I have no knowledge of it.

Mr. RAUSHENBUSH. Mr. Lammot du Pont, addressing you simply because you are president of the company, Mr. Casey is making some statements of significance, of a certain significance, which may be misinterpreted here. He is saying, in effect, that the company does nothing in relation to other governments that our Government does not approve of. Is that it?

Mr. CASEY. I do not say that.

Mr. RAUSHENBUSH. Would you re-phrase it for me, then, please.

Mr. LAMMOT DU PONT. I think you said that we take no new move without informing our Government of it.

Mr. RAUSHENBUSH. The implication in his statement is that the Government assented or consented to everything you did in connection with the foreign governments.

Mr. LAMMOT DU PONT. I do not think so.

Mr. CASEY. They have not the authority to do that. We would not put them in such an embarrassing position when they do not have the authority to do that.

Mr. RAUSHENBUSH. You are testifying to the committee in such a way as to indicate that you stay within the boundaries of what our Government desires you to do.

Mr. CASEY. Why shouldn't we? We are American citizens. I do not see what else we could do.

Mr. RAUSHENBUSH. And it gives the impression, the implication is, that everything you do in connection with foreign governments or refrained from doing, is with the approval of our Government?

Mr. CASEY. There is no intention to give that impression.

Mr. RAUSHENBUSH. So you consult them, but you may do things that they might not approve of?

Mr. CASEY. We could do things that they do not approve of, but the fact remains that we do not.

Mr. RAUSHENBUSH. Then you do say that everything you do is approved by them?

Mr. CASEY. No; we do not say that.

Mr. A. FELIX DU PONT. Allow me to try to clarify that? Our custom and what we have followed for many years, is to inform our Army and Navy and the proper officials of the Army and Navy, of



every move that we make with regard to sales to foreign governments; if it seems advisable, we also inform the State Department. Having done that many times we find there is no particular use in it, because all they will admit they are interested in is whether we are selling to a nation against whom there is an embargo. If there is not an embargo, that is all; they have nothing to say to us.

The CHAIRMAN. Is that policy of your company also common to the companies that your company owns and controls, such as for example, the Remington Arms?

Mr. A. FELIX DU PONT. Our connection with the Remington Arms Co. is quite short, as you know. They have their own organization still.

The CHAIRMAN. That is understood, but you have your directorate there, you have an active interest in it, and does that policy prevail in that company in any form?

Mr. A. FELIX DU PONT. It has not prevailed in the Remington Arms Co. before we took it over, so far as I know?

The CHAIRMAN. Does it prevail now?

Mr. A. FELIX DU PONT. I think so; we are getting towards that. Some of these men are fairly independent still, and not inclined to cooperate in the organization.

Dr. SPARRE. I can answer that the same rule does prevail in the Remington Arms Co.

The CHAIRMAN. How long has it prevailed?

Dr. SPARRE. Since we took control of that company about in June of 1933.

Mr. CASEY. Senator Nye, I might answer this; I have taken several officials of the Remington Co. to Washington to establish the same contacts, in order that they might keep the Army and Navy Departments posted in every phase of arms consumption.

The CHAIRMAN. The committee will stand in recess until 10 o'clock tomorrow morning.

(Thereupon the committee took a recess until tomorrow, Friday, Sept. 14, 1934, at 10 a.m.)



# INVESTIGATION OF MUNITIONS INDUSTRY

FRIDAY, SEPTEMBER 14, 1934

UNITED STATES SENATE,  
SPECIAL COMMITTEE TO INVESTIGATE  
THE MUNITIONS INDUSTRY,  
*Washington, D.C.*

The hearing was resumed at 10:45 a. m., in the caucus room, Senate Office Building, pursuant to the taking of recess, Senator Gerald P. Nye presiding.

Present: Senators Nye (chairman), George, Clark, Pope, and Vandenberg.

Present also: Stephen Raushenbush, secretary.

The CHAIRMAN. The committee will be in order. Mr. Raushenbush, do you wish to proceed where you left off last night?

**TESTIMONY OF PIERRE S. DU PONT, IRÉNÉE DU PONT, LAMMOT DU PONT, A. FELIX DU PONT, FIN SPARRE, J. BAYARD ELIASON, AND W. S. CARPENTER AND K. K. V. CASEY—Resumed**

Mr. LAMMOT DU PONT. Mr. Chairman, there are one or two matters in the nature of corrections of the record which I would like to refer to. May I do so now?

The CHAIRMAN. Very well.

Mr. LAMMOT DU PONT. First, the joint agency agreement which was being discussed at the close of our session yesterday was a 2-year agreement and expires some time within the next few months. I thought that was brought out, but the record does not indicate it.

Senator CLARK. That was with the I.C.I.?

Mr. LAMMOT DU PONT. The joint agreement between the I.C.I. and du Pont, dated 1932, being a 2-year agreement, and therefore expires sometime this year—within the next few months.

The CHAIRMAN. Does that contain any provision for renewal?

Mr. LAMMOT DU PONT. I do not know, but the document itself will show that. I thought it was brought out on yesterday, but it was not.

The CHAIRMAN. I do not recall it.

Mr. LAMMOT DU PONT. Secondly, in the testimony of yesterday I asked that my letter to Sir Harry McGowan, in reply to his letter which was introduced, be introduced in the record. I understood that was to be done.

The CHAIRMAN. That was ordered.

Mr. LAMMOT DU PONT. But it does not appear in the record.

The CHAIRMAN. Does the other letter appear in the record in its entirety?

Mr. LAMMOT DU PONT. Sir Harry McGowan's letter, I understand, is in the record, but my reply to it is not, and that is the one I ask be put in.

Mr. RAUSHENBUSH. We can have that inserted at that time, and we can also have inserted, Mr. Chairman, the letter of Mr. Lammot du Pont to the heads of departments and presidents of subsidiary companies at the same time, which follows the letter from Sir Harry McGowan.

The CHAIRMAN. Very well.

Mr. LAMMOT DU PONT. I do not know anything about that letter.

Mr. RAUSHENBUSH. It is a connective letter which seems to follow there.

Mr. LAMMOT DU PONT. The letter to which I referred was a letter of June 17, 1933, from me to Sir Harry McGowan.

Mr. RAUSHENBUSH. I received that this morning and I do not know what happened to it, and I am turning it over to the reporter.

The CHAIRMAN. Let those letters be given suitable numbers and inserted in the record. I refer to the letter from Mr. Lammot du Pont to Sir Harry McGowan and also to the other letter. What was the date of that?

Mr. RAUSHENBUSH. June 17, 1933; also signed by the president of the du Pont Co. to the heads of departments.

The CHAIRMAN. Let that letter be inserted as well.

(The two letters above referred to were marked "Exhibits Nos. 480 and 480-A" and appear in the text in the proceedings of Thursday, Sept. 13, 1934, on p. 1117.)

The CHAIRMAN. Proceed, Mr. Raushenbush.

Mr. LAMMOT DU PONT. There is one other point, Senator, in Mr. Irénée du Pont's testimony, toward the close of yesterday, where he referred to the lack of preparedness on the part of the United States Government. He tells me that he had in mind the situation in 1916 rather than the situation which exists today. I do not think that was clear in the record. Do you wish him to amplify that?

The CHAIRMAN. I think with your explanation that it amply clarifies whatever his thought was at that time.

Mr. IRÉNÉE DU PONT. I thought I brought that out; that I was talking about the World War in 1916 when I spoke about the preparedness of the du Pont Co. and what we could do.

Mr. LAMMOT DU PONT. The record does not show it.

Mr. IRÉNÉE DU PONT. I do not want it to appear that if war were declared tomorrow we would be able to do what we did in 1917.

Mr. RAUSHENBUSH. Mr. Chairman, before getting into the two main subjects which we want to take up this morning, which pick up from where we were discussing on yesterday afternoon the power and influence of a large company with international connections in the foreign affairs of the world and the preparedness of other countries, I want to call attention here and ask a question about a cable from I. C. I., which is dated February 19, 1934, and which I want to read.

(The cable referred to was marked "Exhibit No. 487" and is included in the appendix on p. 1348.)

Mr. RAUSHENBUSH. That cable reads as follows:

I.C.I., Ltd., London. Advise Hercules Powder Co., Rotterdam, Holland, inquiring (about) prices delivery (of) 50 tons diphenylamine for shipment to New York, N.Y. I.C.I. London naturally anxious (to) consummate business suspecting inquiry placed because of your inability (to) supply. However, do not wish to disturb your market and before offering request you to advise if any reason you prefer they do not quote and secondly at which price per ton c.i.f. New York, N.Y., you consider I.C.I. London justified (in) quoting. Cable immediately.

Is it a fair inference that I.C.I. and yourselves on this question of diphenylamine have a market arrangement that practically, to use the stock broker's phrase, "rigs the market" on that product?

Mr. LAMMOT DU PONT. No.

Mr. RAUSHENBUSH. What is the situation as brought out by that cable?

Mr. LAMMOT DU PONT. I think the cable speaks for itself. There is no arrangement with respect to that product.

Mr. RAUSHENBUSH. Yet I.C.I. was still having difficulty as to whether you would allow them to quote because they did not wish to disturb your market, and also at what price you would allow them to quote.

Mr. LAMMOT DU PONT. The cable does not so read to me.

Mr. RAUSHENBUSH. What else would it mean?

Mr. LAMMOT DU PONT. What it says [reading]:

However, do not wish to disturb your market and before offering request you to advise if any reason \* \* \*.

Evidently they are reserving the right to quote and quote any price they see fit.

Mr. RAUSHENBUSH. They ask specifically the price you would consider I.C.I. London justified in quoting.

Mr. LAMMOT DU PONT. They are just asking our opinion.

Mr. RAUSHENBUSH. There is a report before me from Shanghai, dated August 1, 1933, and signed by R. Montague Smith. Who is R. Montague Smith?

Mr. LAMMOT DU PONT. I cannot answer that myself. May I see the exhibit?

Mr. RAUSHENBUSH. The exhibit has been put before you.

(The document referred to was marked "Exhibit No. 488" and is included in the appendix on p. 1349.)

Mr. LAMMOT DU PONT. I am informed that Mr. Smith is a representative of the Imperial Chemical Industries in Asia, the Far East.

Mr. RAUSHENBUSH. On the last page of that document, under the heading of "Canton", he describes a certain situation which only becomes clear if you realize that there was at the time a difficulty between the Cantonese and the Nanking factions. It is a matter of common knowledge, is it not, that those two groups were at various times on the point of severing diplomatic relations?

Mr. LAMMOT DU PONT. There were internal difficulties in China. I do not recognize the names of the contestants, but I guess they are right.

Mr. RAUSHENBUSH. That document starts off on the last page as follows [reading]:

It is expected that the Canton Arsenal will be in the market for powder for shell bombs and hand grenade fillings in the future, as they are studying the

matter very carefully. We are definitely handicapped in this business on account of the fact that the British Government require export permits before they allow the export of any munitions into China. This export permit cannot be obtained until after the Chinese Minister in London has seen the Huchao—

That is the permit, is it not?

Mr. LAMMOT DU PONT. I do not know.

Mr. RAUSHENBUSH (continuing reading):

which has to be approved by the Nanking authorities, and the Cantonese naturally do not favor any arrangement which necessitates their applying to the Central Government for permission to export into their territory.

In the past, Jardines—

That is the I.C.I.—du Pont agent out there, is it not?

have managed to persuade the Cantonese authorities to write to Nanking for a permit, but it must be understood that the only reason why the Cantonese accede to this request is because they have no alternative either because prices submitted were under those of continental firms, or they could not obtain the material elsewhere. The above also applies to shipments from America.

Then you go on, and this is what seems to me to be important in it [reading]:

It would be a great help to conducting business if these restrictions could be lifted, and we suggest that representations be made to the British Foreign Office and the State Department in Washington in this respect. It could be stated in this representation that on no account would military munitions be supplied to the Cantonese Government if a state of war existed between them and the Central Government.

Now, is it not a fair interpretation that with those two governments threatening hostilities, and one government, the Canton Government, was very reluctant to ask the Nanking Government, the Central Government, for a permit, your agent out there makes this proposal definitely that we lift all the restrictions and put pressure on the British Foreign Office and the State Department at Washington, and you make a proviso: "It could be stated that on no account would military munitions be supplied to the Cantonese government"—that is the minor government—"if a state of war existed between them and the Central Government."

You realize that there is a possibility of war, and your people out there are perfectly willing and eager to get munitions to those people who may be conducting the war, and then you come along and say, "Of course, once the war is declared, we would not supply them with munitions."

Is not that a fair summary of your agent's report?

Mr. LAMMOT DU PONT. I do not think it is.

Mr. RAUSHENBUSH. Go ahead.

Mr. LAMMOT DU PONT. What is the question?

Mr. RAUSHENBUSH. That you go ahead and say what is your summary.

Mr. LAMMOT DU PONT. Just what the letter says, which is not very long. It says it would be a great help to our business if something were done, and suggests that representations be made—no pressure. It suggests that representations be made.

Mr. RAUSHENBUSH. To the British Foreign Office and State Department, and it goes ahead and gives the assurance, which is the usual assurance, that, of course, if there were a state of war declared, that no further munitions would be shipped. It is simply dealing

with the problem of supplying a possible insurrectionary or rebel government with munitions on the promise that at the time war is declared the munitions will no longer be sent.

Mr. LAMMOT DU PONT. It is stated in this letter that this statement could be made. It does not say that it is made or will be made, but it could be made.

Mr. RAUSHENBUSH. But the situation which involved getting business led to that sort of thing, did it not, that sort of an attempt to get around the permit system?

Mr. LAMMOT DU PONT. I cannot say what it led to.

Mr. RAUSHENBUSH. Who handles that sort of thing when it comes up?

Mr. LAMMOT DU PONT. Our smokeless powder department, Major Casey. Your question, Mr. Raushenbush, is whether your summary is a fair one, and I say, in my opinion, it is not.

Mr. RAUSHENBUSH. Yes, sir.

Mr. LAMMOT DU PONT. You in your summary refer to pressure being brought to bear, which this does not mention.

Mr. RAUSHENBUSH. This says that it is proposed by the agent, suggested by the agent, that representations be made.

Mr. LAMMOT DU PONT. Yes, sir. I differentiate between representations and pressure.

Mr. RAUSHENBUSH. You never bring pressure. There is no such thing as pressure by your company?

Mr. LAMMOT DU PONT. Not on this subject.

Mr. RAUSHENBUSH. In the matter of selling, you would never say there was pressure by the company on a governmental department or the British Foreign Office? I mean that is "out."

Mr. LAMMOT DU PONT. To do business?

Mr. RAUSHENBUSH. To do business.

Mr. LAMMOT DU PONT. I think that is correct.

Mr. RAUSHENBUSH. There is no pressure, so that the word "representation" is the word to use.

Mr. PIERRE DU PONT. May Major Casey state what was done under that letter from our agent, whether anything was done in regard to it?

Mr. RAUSHENBUSH. By the way, in this connection may I ask the president of the company this question: A great deal of testimony seems to have been going into the record from subordinate officials of the company. May we understand that those statements stand as the official attitude of the company unless corrected by you on the stand?

Mr. LAMMOT DU PONT. Certainly; the company is responsible for the acts of its men.

Mr. RAUSHENBUSH. We would be very glad to hear what happened in that matter.

Mr. LAMMOT DU PONT. I noticed that on yesterday, on several occasions, replies were given which might be construed as statements of policy of the company, and I think some of those were not always exactly correct.

Mr. RAUSHENBUSH. Will you help us out, Mr. du Pont, at that point, when these statements are made which seem to be giving the policy of the company, and check them at that point?

Mr. LAMMOT DU PONT. I think I did.

Mr. RAUSHENBUSH. Did you in every case?

Mr. LAMMOT DU PONT. I think so.

Mr. RAUSHENBUSH. I was particularly interested in that one about when Government consent was not obtained and what it meant or signified.

Mr. LAMMOT DU PONT. The question about this letter has been raised, and I inquire whether you would desire to have Major Casey state what was done in this matter?

Mr. RAUSHENBUSH. The answer is "yes."

Mr. CASEY. I might add that we had had at different times requests from the Cantonese indirectly, and never paid any attention to them, because there was only one source of supply, so far as we were concerned, to China, and that was the Government recognized by the United States. When this particular letter came, we took absolutely no action and did not think it was a matter which we should interfere with in any way. If the Cantonese wanted to be recognized, they had to take that up themselves with the United States Government. We had no intent at any time to interfere in matters of that sort, either directly or indirectly.

#### RELATIONS WITH MITSUI & CO., LTD., JAPAN

Mr. RAUSHENBUSH. The attitude of your agents on the scene and the things which they suggest seem significant enough to bring that out, but it is not a very important point. I would like to go on to this question of the purchase of the ammonia-oxidation plant by Japan. On July 2, 1930, there is a letter from H. G. Chickering, of the development department, addressed to Mitsui & Co., Ltd., New York. I will offer that as "Exhibit No. 489."

(The letter referred to was marked "Exhibit No. 489", and is included in the appendix on p. 1350.)

Mr. RAUSHENBUSH. Could any of you tell us in a somewhat descriptive way what this Mitsui & Co., Ltd., is and what its relations to the Japanese Government are?

Mr. LAMMOT DU PONT. My understanding is that Mitsui & Co. is a privately owned corporation in Japan of very old standing, hundreds of years, and one of the highest regarded and largest corporations in the country. They are engaged in a number of branches of industry, among others in the chemical industry. But what their relations with the Japanese Government may be, I do not know, except that I know that on some particular commodities they enjoy a monopoly, granted by the Japanese Government.

Mr. RAUSHENBUSH. There are some chemical branches in which they enjoy a monopoly granted by the Japanese Government, are there not?

Mr. LAMMOT DU PONT. I do not know that. I only know about one commodity.

Mr. RAUSHENBUSH. That is camphor?

Mr. LAMMOT DU PONT. That is camphor. I only know that because we purchase camphor from Mitsui.

Mr. RAUSHENBUSH. You use that in your chemical business to some extent?

Mr. LAMMOT DU PONT. Yes, sir.



Mr. RAUSHENBUSH. The letter of July 2, 1930, which I have offered for the record, just described, simply raises the question with Mitsui & Co. and points out:

\* \* \* we regret to note that the prospective clients in Japan have not as yet made any definite move toward the purchase of our ammonia oxidation process.

On April 23, 1931, there was a report from the Foreign Relations Department, signed by J. K. Jenney, assistant director, to various vice presidents of the company, which I would like to introduce as "Exhibit No. 490", being Messrs. F. A. Pickard, vice president, and J. E. Crane, vice president.

(The report referred to was marked "Exhibit No. 490" and is included in the appendix on p. 1351.)

Mr. RAUSHENBUSH. There are some paragraphs in that report which seem to be of interest. [Reading]:

Presumably, if we are to sell the process in Japan at all we would prefer to sell it to the Mitsui interests, not only because they are linked up with the Claude interests—

The Claude interests were the French interests for a somewhat similar ammonia process? Is not that true?

Mr. LAMMOT DU PONT. Mr. Claude was the inventor of a nitrogen fixation process.

Mr. RAUSHENBUSH (continuing reading):

but also because it is a matter of general company interest to keep as friendly relations with this company as possible. The point for the Foreign Relations Committee to decide bears on the I.C.I. relationship involved.

I will skip a paragraph, and the report continues:

I believe this obligates us to take the matter up with I.C.I. before making an offer or carrying on any further negotiations with Mitsui. We have no contractual obligations which would prevent us from concluding the deal with Mitsui, even though such a deal might hurt I.C.I.'s interests considerably, Japan being 1 of their 2 or 3 most important export markets.

Mr. Wardenburg is the president of your ammonia company?

Mr. LAMMOT DU PONT. He is in charge of our ammonia department.

Mr. RAUSHENBUSH. He is in charge of your ammonia department. [Continuing reading:]

Mr. Wardenburg, of course, quite justly points out that Mitsui seems resolved to go ahead with their expansion program, and it is hard to see how I.C.I. can be much worse off whether we sell them our process or whether they go ahead on their own or with some third party.

Mr. PIERRE DU PONT. We operate under those Claude patents, and we have a right to sell them in Japan, have we not?

Mr. LAMMOT DU PONT. I do not think that is correct.

Dr. SPARRE. No; none whatever.

Mr. PIERRE DU PONT. I thought they acquired it.

Dr. SPARRE. The du Pont Co. bought that ammonia process from the French company in 1924. At that time, as far as I recollect, the Japanese company had already bought the same rights from the French company for Japan, but the licensees of the French company had to exchange information under the purchase agreement to acquire the ammonia process from the French company, which is the usual provision in the purchase of patents and processes.

Mr. LAMMOT DU PONT. Mr. Secretary, I think you are getting confused on this, because you have not realized what the subject of this letter is. I will read the first sentence.

Mr. RAUSHENBUSH. Yes, indeed.

Mr. LAMMOT DU PONT [reading]:

I attach herewith copy of a report from Mr. F. A. Wardenburg to the board of directors of the du Pont Ammonia Corporation, relative to the proposed sale of contact conversion process rights to Mitsui in Japan.

The contact conversion process applied to hydrogen and not to ammonia.

Mr. RAUSHENBUSH. All right. Were there two processes being discussed throughout these years?

Mr. LAMMOT DU PONT. A great many more than two.

Mr. RAUSHENBUSH. I mean with Japan, with Mitsui.

Mr. LAMMOT DU PONT. I cannot say that I remember how many subjects were discussed with Mitsui, but this letter refers to the contact-conversion process. That was a process for manufacturing hydrogen.

Mr. RAUSHENBUSH. The other one was described as the ammonia oxidation process. Is that right?

Mr. LAMMOT DU PONT. The ammonia oxidation process is a process for converting ammonia into nitric acid. The contact conversion process is a process for producing hydrogen.

Mr. RAUSHENBUSH. Both of them have some relation to war materials, do they not?

Mr. LAMMOT DU PONT. As baking bread does, they have.

Mr. RAUSHENBUSH. A little more than that; do they not?

Mr. LAMMOT DU PONT. Maybe a little more than that.

Mr. RAUSHENBUSH. Quite a bit more?

Mr. LAMMOT DU PONT. Nitric acid and ammonia are both required as raw materials for some munitions, but they are also both used as raw materials for peace-time use.

Mr. RAUSHENBUSH. Peace-time use as well as military?

Mr. LAMMOT DU PONT. Yes, sir.

Mr. RAUSHENBUSH. The connection of the Mitsui Co. with the Claude process is described in a letter of April 24, 1931, from the foreign relations department to Mr. Wardenburg. This again the contact conversion process. I will offer that as "Exhibit No. 491."

(The letter referred to was marked "Exhibit No. 491" and is included in the appendix on p. 1351.)

Mr. RAUSHENBUSH. The postscript on that letter states:

The Mitsui people, who are Claude licensees in Japan, have heard through London of our part in the development of a contact conversion process and seem to be desirous of purchasing rights for use of this process in Japan. No definite offer has been made, but one will be in the near future. In the meantime Mitsui has asked us to keep this matter strictly confidential as they have to clear up certain commitments they have made with Air Liquide.

Air Liquide is a big French chemical organization, is it not?

Mr. LAMMOT DU PONT. Yes; that is the company with which Mr. Claude was connected.

Mr. RAUSHENBUSH. They used the Claude process, all right.

On March 23, 1932, you prepared a memorandum covering relations between Mitsui and du Pont with respect to hydrogen process. Will

you tell us again just what that is? That is not the ammonia process but the other one?

Mr. LAMMOT DU PONT. The hydrogen process referred to, I think, is the contact conversion process referred to there.

Mr. RAUSHENBUSH. I put that before you and offer it as "Exhibit No. 492."

(The memorandum referred to was marked "Exhibit No. 492" and is included in the appendix on p. 1352.)

Mr. RAUSHENBUSH. The memorandum was addressed to the Assistant Secretary of State, Mr. Rodgers, the 28th of March, 1932, and simply summarizes your relations with Mitsui in regard to this contact conversion process.

There is a further memorandum to the executive committee, dated two days later, March 30, 1932, signed by Mr. Lammot du Pont. I will read a part of that memorandum into the record [reading]:

On March 28 the writer called on Assistant Secretary of State Rodgers, having had an appointment with Secretary Stimson, who, unfortunately, was ill and by doctor's orders saw nobody.

Dr. Hornbeck was called in, and it happened that Mr. P. S. du Pont and Senator John G. Townsend were also present, the latter having arranged the appointment.

The matter of the sale of the rights to our hydrogen process to Mitsui & Co. was discussed. The matter was put before Mr. Rodgers in the light that (1) the deal was an important one to the du Pont Co.; (2) that we were given to understand that the process was not primarily for military purposes; (3) that the plant would probably not be in operation for a year and a half, and certainly not within a year; (4) that having this process did not mean that Mitsui & Co. or the Japanese nation could purchase any more ammonia, nitric acid, or munitions than they could without the process, but that it would mean their ammonia could be produced more cheaply; (5) that there might be some value in a continuation of friendly relations between Mitsui and du Pont from the international point of view; (6) that the desire of Mitsui & Co. to acquire the process preceded any warlike activities between Japan and China—

Let me interrupt at that point. 1932 was a time when there was a great deal of friction between China and Japan, was there not?

Mr. LAMMOT DU PONT. I think so.

Mr. RAUSHENBUSH. And the nations of the world were considering the possibility of boycotting one of the belligerents; was not that about the time?

Mr. LAMMOT DU PONT. I do not recall that.

Mr. RAUSHENBUSH. The seventh sentence of this reads:

That du Pont felt some embarrassment in refusing to deal with Mitsui at this time, it being necessary to reverse our previous position, if we were to take the stand of not selling the process.

That is a true statement of what you informed the State Department about it at the time, is it not?

Mr. LAMMOT DU PONT. May I read the rest of the memorandum before answering that?

Mr. RAUSHENBUSH. Yes, indeed.

Mr. LAMMOT DU PONT. Yes, sir; that is a correct statement of what I advised Dr. Hornbeck.

Mr. PIERRE S. DU PONT. Should it not be made clear that both this hydrogen and ammonia process are used in connection with making fertilizer either as nitric acid or as ammonia, and that this par-

ticular field was connected with fertilizers, and so represented. That is the way I understood it at the time. I remember the question being brought up.

Mr. RAUSHENBUSH. Mr. Pierre S. du Pont, you will notice that the sentence No. 4 says, among the ways it was put before the State Department—

That having this process did not mean that Mitsui & Co. or the Japanese Nation could produce any more ammonia, nitric acid, or munitions than they could without the process, but that it would mean their ammonia could be produced more cheaply.

Mr. PIERRE S. DU PONT. Yes.

Mr. RAUSHENBUSH. It was not a matter of giving Japan a new military supply or source of supply; it was simply cheapening the way in which they could produce it.

Mr. PIERRE S. DU PONT. That would be a military advantage and also a peace advantage in enabling them to produce fertilizer more cheaply.

Mr. RAUSHENBUSH. From the military angle, a country that can produce a great deal of ammunition cheaply in peace time can prepare at less expense for a war, of course, than otherwise.

Mr. PIERRE S. DU PONT. That is true, but the representation at the time was, I believe, that this process was chiefly intended for the fertilizer industry, to avoid importations from Chile.

Mr. LAMMOT DU PONT. That was our understanding; yes.

Mr. IRÉNÉE DU PONT. Would it not be appropriate at this time to refer to Senator Bone's statement on this subject? This is a patented process. The patent is published the world over. In case of war, what is there to prevent a country from taking the patent and using it?

Mr. RAUSHENBUSH. Then on the 26th day of July 1932, there was a contract signed between you and the Mitsui Mining Co., which I should like to put in the record as "Exhibit No. 493."

(The contract referred to was marked "Exhibit No. 493" and is included in the appendix on p. 1352.)

Mr. RAUSHENBUSH. It provided for a payment of \$300,000 for that process and some help in putting it in, did it not?

Mr. LAMMOT DU PONT. I do not recall those figures, but if they are stated in the agreement that way, it is correct.

Mr. RAUSHENBUSH. I remember it from other correspondence; I refer you to page 2, the second paragraph, which says:

Mitsui agrees to pay du Pont at Wilmington, Del., in United States gold coin of the present weight and fineness, or its equivalent, the sum of \$300,000 payable \$100,000 upon the signing of the contract, a further \$100,000 1 year thereafter, and the remaining sum of \$100,000 2 years after date hereof.

Then, later on, in the third paragraph it goes on to say:

When, however, the total of all payments made under this agreement shall have amounted to \$300,000, exclusive of payments for services as covered by paragraph 10 hereof, no further payments shall be required from Mitsui, regardless of the amount of hydrogen manufacturing capacity installed for ammonia manufacture.

Mr. LAMMOT DU PONT. That is correct.

Mr. RAUSHENBUSH. Then, on page 5, paragraph 10, the language is:

Du Pont agrees to furnish not to exceed three men for a period of not to exceed 2 years each to assist Mitsui or its subsidiary or subsidiaries with the design, construction, and placing in operation of its first unit of pressure contact conversion.

In paragraph 11 they say:

Du Pont agrees that it will, during the period of 7 years from date hereof, permit four visits, not exceeding 4 months each, by not more than three employees of Mitsui during each visit, to du Pont's ammonia plant for the purpose of study and training on those subjects, information relative to which is given hereunder, but on those subjects only, and du Pont further agrees to give every reasonable assistance to such employees of Mitsui.

The agreement is signed by Jasper E. Crane, vice president of du Pont & Co. and by Reisuke Ishida, attorney and manager, New York branch, Mitsui & Co., Ltd.

This was not the same thing as the ammonia-oxidation process, was it?

Mr. LAMMOT DU PONT. No.

Mr. RAUSHENBUSH. What happened to that discussion?

Mr. LAMMOT DU PONT. Which discussion?

Mr. RAUSHENBUSH. Concerning the ammonia-oxidation process.

Mr. LAMMOT DU PONT. My recollection is that no deal was ever closed on that. That is my recollection, that we never closed any deal with them.

Mr. RAUSHENBUSH. Why did the negotiations stop; not through unwillingness on your part to continue them?

Mr. LAMMOT DU PONT. I cannot recall at this date, Mr. Raushenbush, but my natural suspicion would be that our price was too high.

Mr. RAUSHENBUSH. Your price was too high. Well, it is the dealing in these processes which cheapens munitions, even if they do not give a country new sources of munitions; they seem to some of the members of the committee who have spoken to me about it, to constitute transactions of equal importance with the sending of divisions of an army; for instance, one gas process or one process might be equal to a division, let us say, or perhaps two divisions, in an army. For instance, take this ammonia process which was discussed at some length. I have before me a letter dated July 1, 1930, from Mitsui to you in regard to that ammonia-oxidation process.

Mr. LAMMOT DU PONT. This is the one that was never sold.

Mr. RAUSHENBUSH. Yes; this is the one that was never sold. But I am talking about the negotiations that were going on rather casually in connection with it. The first paragraph says:

\* \* \* We know that army, navy, and Mitsui Mining Co. have keen interest in your process, and also they will need it sooner or later.

Then a little later there is a discussion again of the contact process. That is the one that was sold?

Mr. LAMMOT DU PONT. The contact conversion process?

Mr. RAUSHENBUSH. I have here a document which I will offer as "Exhibit No. 494", which is headed "Proposed sale of contact conversion process rights to Japan."

(The document referred to was marked "Exhibit No. 494" and is included in the appendix on p. 1355.)

Mr. RAUSHENBUSH. This comes from F. A. Wardenburg, president du Pont Ammonia Corporation, to the board of directors, the du Pont Ammonia Corporation. It is dated April 21, 1931.

After discussing the proposed sale of the contact conversion process rights to Japan, it goes on in the second paragraph of the second page to say:

The present large overproduction of nitrogen in the world makes construction of any nitrogen plant a dubious undertaking, but there seems more justification for additional capacity in Japan than in any other country, perhaps, in view of their large imports and their desire to be self-supporting in nitrogen supply for military purposes, as well as for agriculture.

This was at a time, 1931, when it was already clear to some people that Japan was expanding, and the head of your chemical company reports to his board that there is justification for additional capacity in Japan more than in any other country, perhaps, in view of their large imports and their desire to be self-supporting in nitrogen supply for military purposes as well as for agriculture.

There is another paragraph called "Recommendation", which says:

We appreciate that any increasing capacity in nitrogen manufacture in any part of the world has its effect upon our business, but we believe that our interests would not be hurt by the installation of additional capacity in Japan to the extent of the payments that could be secured for the sale of the Japanese rights.

There, in 1931, you were told by the president of your Ammonia Corporation that that was pretty thoroughly for military purposes.

Mr. LAMMOT DU PONT. No.

Mr. RAUSHENBUSH (reading):

\* \* \* Their desire to be self-supporting in nitrogen supply for military purposes \* \* \*.

That is given preference. That is put first. Then he adds—

As well as for agriculture.

Mr. LAMMOT DU PONT. That is in connection with a different point. It is in connection with a statement that there seems more justification for additional capacity in Japan than in any other country. That is the point that Mr. Wardenburg is making there.

Mr. RAUSHENBUSH. Mitsui already had plants twice as large as your own, did they not?

Mr. LAMMOT DU PONT. Not by this process.

Mr. RAUSHENBUSH. By the other process?

Mr. LAMMOT DU PONT. Yes. I do not accept your figures, but they had very large plants.

Mr. RAUSHENBUSH. And here they are having put in a capacity which would enable them practically to be self-sustaining from the military angle.

Mr. LAMMOT DU PONT. They were simply negotiating for a process. What capacity they built under that process would be a later development.

Mr. RAUSHENBUSH. This is the process that went through, is it not?

Mr. LAMMOT DU PONT. Yes.

Mr. RAUSHENBUSH. This is the contact conversion process?

Mr. LAMMOT DU PONT. Yes.

Mr. RAUSHENBUSH. I want to come back to that memorandum of the discussion that you had with the State Department on the matter. In that connection you said in paragraph 4—

that having this process did not mean that Mitsui & Co. or the Japanese Nation could produce any more ammonia, nitric acid, or munitions than they could without the process, but that it would mean their ammonia could be produced more cheaply.

Mr. LAMMOT DU PONT. That is correct.

Mr. RAUSHENBUSH. So substantially that is correct that they could not produce any more of these things?

Mr. LAMMOT DU PONT. That is correct.

Mr. RAUSHENBUSH. By this process, even if they installed plants as outlined in that contract?

Mr. LAMMOT DU PONT. They could install their additional plants in the use of their other process.

Mr. RAUSHENBUSH. Anyhow, then, they could do it more cheaply?

Mr. LAMMOT DU PONT. That is the reason they can do it more cheaply, but not in any greater volume.

Mr. RAUSHENBUSH. It would simply cost the Japanese less to keep up their army; keep their army prepared for such invasions of Manchuria as were made, than otherwise would have been necessary.

Mr. LAMMOT DU PONT. It might clarify your mind a little, Mr. Raushenbush, if I tell you that ammonia, for which this process is used, is a comparatively cheap article. It sells for around 5 cents a pound. A reduction in cost of the thing referred to is a matter of a fraction of a cent a pound.

Mr. RAUSHENBUSH. But it was worth enough so they were willing to put up \$900,000 for it.

Mr. LAMMOT DU PONT. If they make enough ammonia.

Mr. RAUSHENBUSH. If they make enough ammonia; with \$900,000 right off the bat.

Mr. LAMMOT DU PONT. The big use for ammonia is for fertilizer purposes.

Mr. RAUSHENBUSH. That seems to be in the sphere of argument, in view of these letters.

Mr. LAMMOT DU PONT. No; there is no argument about it. Statistics prove that there are millions of tons of fertilizer used and millions of tons of ammonia used every year.

Mr. RAUSHENBUSH. Did we not have the same argument in connection with Muscle Shoals, which was built supposedly for military purposes, but later on there was a question of diverting it into the manufacture of fertilizer?

Mr. LAMMOT DU PONT. I never had any argument about it.

Mr. RAUSHENBUSH. I am not referring to yourself, but there was a public argument that went on in Congress for a number of years.

Mr. LAMMOT DU PONT. I do not know anything about it.

Mr. IRÉNÉE DU PONT. I was quite familiar with that matter. The method of making ammonia at Muscle Shoals was completely obsolete in 1918; that is, this process of making ammonia costs a fraction of what it would have cost to make it by the cyanimide process, which was proposed for Muscle Shoals.

Mr. RAUSHENBUSH. I want to switch for a moment to the country across the Japanese ocean, China, and ask the president of the company whether he is at all conversant with those matters indicated in a letter dated August 17, 1932, which I lay before him.

Mr. LAMMOT DU PONT. I was not familiar with those matters in 1932, at the time this letter was written, but since then I have referred to our records, and I think I am generally familiar with the subject.

Mr. RAUSHENBUSH. You mean within the last few weeks you have seen the records on that matter?

Mr. LAMMOT DU PONT. Yes.

Mr. RAUSHENBUSH. That deals with commissions to officials?

Mr. LAMMOT DU PONT. And others.

Mr. RAUSHENBUSH. I beg your pardon.

Mr. LAMMOT DU PONT. It deals with commissions to officials and others.

Mr. RAUSHENBUSH. Officials and others; yes. I was not aware myself, Mr. Lammot du Pont, that you knew about these matters. I supposed that in a very large organization this sort of thing would be beyond you, and yet I was interested in your reaction to finding a letter like that in front of you, and I wish, if you would care to do so, you would comment on it at this moment.

Mr. LAMMOT DU PONT. I have nothing further to say about this letter, except that I was not familiar with these matters in 1932, but since then I have familiarized myself with them in a general sort of way.

Mr. RAUSHENBUSH. This is a discussion of the treatment of officials in China, and seems to treat the subject reasonably casually, does it not? As if this were not an unusual thing at all; it names one general and several other high officials.

Mr. LAMMOT DU PONT. Did you ask me a question?

Mr. RAUSHENBUSH. I am trying to have you comment on that without necessarily going into all the details. If this is a casual matter and they treated this casually without further repercussions, then is it not true that you are in a competitive system in which everybody does this? You are not the pioneer in this business of paying commissions to officials?

Mr. LAMMOT DU PONT. Not in China.

Mr. RAUSHENBUSH. Other people do it?

Mr. LAMMOT DU PONT. I understand that is so.

Mr. RAUSHENBUSH. Other competitive companies do it?

Mr. LAMMOT DU PONT. I understand so. I have never been in China myself. Do you wish me to say whether this is in accord with the company's policy or not?

Mr. RAUSHENBUSH. The fact that it took place indicates what the company's policy was at the time, does it not?

Mr. LAMMOT DU PONT. I am afraid not.

Mr. RAUSHENBUSH. Mr. Lammot du Pont, just treating this as people who are trying to be intellectually honest about a situation, the company's policy is what the agents in the field do, not what the president at the head of the company says to the public; is not that a fact?

Mr. LAMMOT DU PONT. No; that is not a fact. I think the company's policy is dictated by the head management. Sometimes



agents in the field deviate from that policy and sometimes their deviation is brought to light.

Mr. RAUSHENBUSH. The head of a police force can say to the citizens, "Gentlemen, we are going to have the cleanest, most honest police force in the world." But if the cop on the beat holds up some prostitute—and it is done often enough—that is the policy of that police force, is it not?

Mr. LAMMOT DU PONT. If it is done often enough, I think your contention would be correct.

Mr. RAUSHENBUSH. This question of commissions to high officials in China in 1932 was unusual?

Mr. LAMMOT DU PONT. You make a statement and ask me a question at the same time.

Mr. RAUSHENBUSH. I am asking you the question, Was it unusual?

Mr. LAMMOT DU PONT. Was what unusual?

Mr. RAUSHENBUSH. The payments by the company's agencies, joint agent of the company and I.C.I. out there, of commissions to high officials in the Chinese military administration, generals, and so forth; was that an unusual policy?

Mr. LAMMOT DU PONT. It certainly was unusual, extremely unusual.

Senator VANDENBERG. May I ask you this question? You can answer it yes or no. I am not interested in going into detail on mere hearsay. We can develop the facts later. In other parts of the world, have you ever been told by your agents that your terms must include what are delicately described as commissions for government officials or their relatives?

Mr. LAMMOT DU PONT. I think we have been told that at times, but not in all foreign countries.

Senator VANDENBERG. But what?

Mr. LAMMOT DU PONT. Not in all foreign countries.

Senator VANDENBERG. Oh, no.

Mr. LAMMOT DU PONT. And not on all occasions in any foreign country.

Senator VANDENBERG. As a matter of fact, have your agents or have they not reported on certain occasions that these so-called "commissions" to government officials or their relatives are a necessary part of the quotations which you must make?

Mr. LAMMOT DU PONT. Yes. We have been told on a number of occasions that that is the general practice in certain foreign countries.

Senator VANDENBERG. Have you ever included cost items of that character in your quotations?

Mr. LAMMOT DU PONT. Not to my knowledge. If that appears from this letter—evidently it appears from this letter to have been done in this case.

Senator VANDENBERG. I am not thinking alone of China at this time. I am thinking of the rest of the world and I am not reflecting on your company's action. I am thinking of the nature of world competition in respect to munitions sales. Do you very often confront the situation that the sales, or the prospect of it, may as well be abandoned except as those so-called "commissions", which we would probably call bribes, are included in the quotations?

Mr. LAMMOT DU PONT. We have been told that.

Mr. PIERRE S. DU PONT. May I amplify that statement from my experience?

Senator VANDENBERG. Yes.

Mr. PIERRE S. DU PONT. I have in mind only three occasions when that question was actively discussed. It dates back to my boyhood. I remember my father stating the policy that such a thing was entirely improper, and I guess it has made a lifetime impression upon me. A Russian contract for powder was ready for delivery and it was announced that it could not be accepted unless a commission was paid. I remember my father saying that the powder could remain there forever, so far as he was concerned, before any such thing would take place. But that is old history. When we first went into Chile, we were told that no operation could be conducted there, no manufacturing operation, unless a commission were paid in order to get machinery, and so on, into Chile. That question was actively discussed and we decided that we would stay out and the machinery remain undelivered in Chile if a commission were necessary. I think our shipments were delayed somewhat. But they went in without any payment.

The third occasion that I remember was in connection with business with Russia in the Great War. We had been told that no such business could be done with Russia without paying a commission. It was the custom of the country and it could not be broken down. Colonel Buckner, who was our chief negotiator for powder in those days, consulted with me. I was president of the company at that time. He consulted with me as to whether we would accede to this custom if necessary, and we decided—we both agreed—that we would not submit to any such thing. A great deal of powder was sold to Russia, but not to my knowledge was any commission passed. I think an investigation of every record that we have would show that nothing of the kind was done. I am firmly convinced that that is the policy of the company.

Under that policy, I am not clear whether this transaction was known to our agent at the time or whether this man who was supposed to have made the distribution did it and then reported it. But whatever was done was entirely contrary to the policy of the company and certainly should not be countenanced in any way, and I am certain that our board of directors and our committee would not countenance any such thing.

Senator VANDENBERG. I am sure that that is so. I am not thinking, in asking my question, about the Chinese incident, because we know that China seems to have a rule unto herself frequently. Is it not a fact, however, that that practice obtains in other countries than those even which you have mentioned?

Mr. PIERRE S. DU PONT. I understand so; yes.

Mr. LAMMOT DU PONT. I understand so.

Senator VANDENBERG. Do you suppose that your agents may find it necessary to pay some of these so-called "commissions" and find some other way of charging it to their expenses?

Mr. PIERRE S. DU PONT. I hope no such thing occurs and, if it does occur, I hope the company will take every precaution to stop it. It is certainly contrary to the policy of the company and if I had had known about it I should have protested absolutely. It might

have been done in possibly one or two cases when a man has gotten overenthusiastic, but certainly it is not the policy of the company and it should be stopped, if there is any means of stopping it.

Senator VANDENBERG. I think it would be very interesting if we could have on the stand, for the presentation of a typical picture, one of these key men in the export field. May I inquire whether, for example, Mr. Bates ever comes to the United States or is expected in the United States in the near future?

Mr. PIERRE S. DU PONT. I do not know a thing about it.

Mr. LAMMOT DU PONT. Yes; he does.

Senator VANDENBERG. Do you know when he is calculated to be here again?

Mr. LAMMOT DU PONT. I think he is in this room now.

Senator VANDENBERG. Mr. Bates is here now?

Mr. LAMMOT DU PONT. Yes, sir.

Mr. RAUSHENBUSH. Under the circumstances I simply want to read a few lines from this letter as to the amount paid in commission to Chinese officials, where he says he told one of the officials of your company on numerous occasions that a certain general and an agent who, I believe is in the financial department, participated in the 5-percent distribution, and several other officials in a certain province, and the paragraph I refer to reads:

It will be recalled that the payment to officials was deemed essential for doing the business we did, and the 5 percent allowed was thought sufficient.

Now, at the time of this Chinese-Japanese trouble you were really getting into a situation where you were securing cheaper powder for Japan on one side and giving bribes to China on the other. That was the situation?

Mr. LAMMOT DU PONT. No; that does not represent it at all, Mr. Raushenbush. We were not furnishing cheaper munitions to Japan. It was clearly our understanding that the process was desired in connection with commercial uses of ammonia.

Mr. RAUSHENBUSH. Now, Mr. du Pont, that does not seem to me quite fair, in view of your testimony and the reports to the department. You say you are very sorry this whole matter had to be discussed at the time of the Chinese-Japanese fracas, and it really came up before then?

Mr. LAMMOT DU PONT. That was the statement to indicate that the Japs did not have in mind a war when they first tried to acquire it.

Mr. RAUSHENBUSH. It was right in the middle of a hot spot where America was, through your company, which is a great company connected with other companies, offering Japan something that would strengthen her in a military way.

Mr. LAMMOT DU PONT. No; it was to strengthen them in the ammonia process, used principally for fertilizer, and incidentally for munitions.

Mr. RAUSHENBUSH. Before getting off of this one incident—and I am almost through with it—there are always a certain number of people in the country who think that sometime we may have to go to war with the great eastern power called "Russia." Testimony was interjected in the hearings yesterday by Mr. Irénée du Pont that possibly this munitions committee sitting here might be giving

aid and comfort to the great Russian Army. Is it not a fact that about this time and before, you were setting up in Russia a somewhat similar ammonia oxidation plant, as you were in Japan?

Mr. LAMMOT DU PONT. No; I think that was a different matter. The process we sold to Russia was ammonia oxidation, and the process we sold to Japan was contact conversion.

Mr. RAUSHENBUSH. Both of them had to do with the military angle.

Mr. LAMMOT DU PONT. No; as I explained before, the sale to Japan was with the understanding the product was desired principally for fertilizer purposes.

Mr. RAUSHENBUSH. I call your attention to a letter dated July 16, 1930, to Mr. W. H. O'Gorman, which speaks of sending two men over there to start on the ammonia-oxidation plant, and right after that discussion of ammonia oxidation in Sweden, on November 27, 1930, there is an extract from a letter signed by Homer H. Ewing. [Reading as follows:]

They asked if we could supply a smaller unit, whereupon I emphasized the importance of having excess capacity available for emergency requirements, such as may be called for in time of war.

That was ammonia oxidation, was it?

Mr. LAMMOT DU PONT. That was not sold to Japan.

Mr. RAUSHENBUSH. We are talking about Russia now, and I am trying to make the point that at the time when a good many people felt there was some danger of our having to engage in war with Russia your company was giving them capital resources which might in some event be used in case of war.

Mr. LAMMOT DU PONT. We were selling Russia a process that could be used in time of war.

Mr. RAUSHENBUSH. In view of that, then Mr. Irénée du Pont's testimony that the munitions committee was the one that was assisting and aiding Russia, should be coupled with the fact that the du Pont Co. was assisting in doing that also?

Mr. IRÉNÉE DU PONT. If you will refer to my testimony, I said if the committee's finding leaves America unprepared for war, we might suffer from an attack. This was selling a process to a country that is starved for fertilizer, and that is actual starvation. You have taken such a great interest in Paraguay and Bolivia that they must not hurt each other, then should Russia be allowed to starve for lack of fertilizer? It does not seem to be very consistent.

Mr. RAUSHENBUSH. The evidence the committee has is what happens in the field. This is what the agents really do when they are out there. You gentlemen are the representatives of a vast organization, and like the President of the United States, who does not know what every N.R.A. boy does out in the field, you are at arm's length from the situation, and it seems to me possible that things are being done in your name and with your consent that have far more significance than you attach to them.

Mr. PIERRE S. DU PONT. I believe those occasions are very rare.

Mr. RAUSHENBUSH. There are Russia and Japan.

Mr. PIERRE S. DU PONT. You have introduced no evidence that indicated anything contrary to our policy, or indicating that anything was done contrary to our policy either in Japan or Russia. You

were talking about the company's right in carrying out the policy of the management.

Mr. RAUSHENBUSH. What I mean is that those things seem to give some of these countries capital resources which would be used in war, and a process is as much a capital resource as a factory is.

Mr. PIERRE S. DU PONT. The only time that was mentioned was in connection with Sweden.

Mr. RAUSHENBUSH. Sweden bore out the Russian situation.

Mr. PIERRE S. DU PONT. That was the only time that was mentioned in any exhibit introduced.

Mr. RAUSHENBUSH. It seems to me in the one from Wardenburg regarding the use of that process back in 1930 it was merely brought out about Japan getting ready for military purposes.

Mr. PIERRE S. DU PONT. That was a communication to the company, and he gave it as his opinion what Japan was contemplating, and he gave it as his opinion that this process was going to be used by Japan for commercial purposes. But he pointed out it could be used for war, and he gave his reasons why he thought this was not going to be used for war.

#### ARGENTINE POWDER FACTORY

Mr. RAUSHENBUSH. Perhaps we can get back to that after we are through with this next incident.

On May 29, 1930, there is a letter from Mr. W. H. O'Gorman signed as assistant director. What is his position?

Mr. LAMMOT DU PONT. Assistant director of sales, smokeless powder department.

Mr. RAUSHENBUSH. This letter is addressed to Col. W. N. Taylor in Paris, and that starts off the story of the du Pont Co. in the Argentine. This letter reads:

In reference to your letter T-1924 it is noted that H. I. H. may make a bid for cruiser business in South America.

Who is "H. I. H."?

Mr. CASEY. That is a Dutch company.

Mr. RAUSHENBUSH. Were they the ones described the other day as taking part in selling Dutch junk to the French?

Mr. CASEY. No; that other incident, I think, was a man who had been a waiter, and made some money.

Mr. RAUSHENBUSH. The letter then proceeds as follows:

The best prospect in South America for the sale of cruisers or destroyers is undoubtedly Argentina. Other South American countries have little money to spend for naval equipment but Argentina is very ambitious in the progress of building up her navy.

Under the present administration, however, little funds will be appropriated in this connection. The President of Argentina is a pacifist and although he has been a bit more broad-minded, insofar as military appropriations go, during his present administration than he was during his last one, it is quite unlikely any large expenditures will be made for military equipment during this administration.

Argentine naval officials frequently told us that only du Pont powders would be used for guns of larger caliber which may be installed on cruisers. Since 1912 the Argentine Navy has been using du Pont nitrocellulose powder, and it is very unlikely that any change will be made. The United States Navy cooperates 100 percent with the Argentine Navy, and on powder or made-up charges the United States Bureau of Ordnance has always functioned as inspector for

the Argentine Navy. This connection in itself is one that the Argentine Navy fully appreciates and, insofar as propellants are concerned, we feel assured that we have enough support through our agent and our friends in the Argentine Navy that du Pont powder will be specified in the event that cruiser and armaments are purchased abroad.

We will take this subject up with our agent in Argentina and see that he does the necessary in connection with spreading good propaganda.

Very truly yours,

W. H. O'GORMAN, *Assistant Director.*

I am simply reading that to refresh your memory on the Argentine question. Were you president of the company when this happened in May 1930?

Mr. LAMMOT DU PONT. Yes.

Mr. RAUSHENBUSH. Could you tell us the connection of the du Pont Co., without my going through all of this correspondence with a powder factory proposed back there in 1930?

Mr. LAMMOT DU PONT. I don't think I can give you the whole history of the case, but I think I can answer your questions in regard to it.

Mr. RAUSHENBUSH. Do you know pretty thoroughly what happened there?

Mr. LAMMOT DU PONT. I think I know pretty much all about it. My recollection, however, after 4 years is not sufficient to give you a very connected account of the whole thing.

Mr. RAUSHENBUSH. Won't you tell us what happened in regard to the Argentine powder factory and the du Ponts?

Mr. LAMMOT DU PONT. My recollection is that the Argentine Government was considering the construction of a powder factory. I am not clear whether they came to us or our agent went to them and indicated we were capable of building such a plant. My recollection is that he indicated to them we were able to build the plant, and that we were able also to supply them their requirements for powder if they desired; that is, he indicated that the du Pont Co. was willing and anxious to do business with them on some basis.

Negotiations were entered into on both basis, if I recall correctly, but I also understand neither of them bore any fruit.

Major Casey says I am wrong in stating the negotiations bore no fruit, and that we did sell them smokeless powder for two battle-ships, but this is the negotiation of 1930, and my recollection is we did no business at that time.

Mr. RAUSHENBUSH. It carried on until 1934 as far as the powder factory is concerned, and will you tell the story of the powder factory, what you know of it from 1930 on?

Mr. LAMMOT DU PONT. I know we offered our services to construct a factory, and I also know there was competition in that respect.

Mr. RAUSHENBUSH. Competition from whom?

Mr. LAMMOT DU PONT. I do not know, but it was understood we were not the only people who could build a powder plant for them. I think that is an important thing to bear in mind on these other subjects you have brought up, that we had no monopoly on any of these jobs. We had no monopoly on the construction of a powder plant in Argentine; we had no monopoly on furnishing smokeless powder; we had no monopoly on the oxidation of ammonia; and we had no monopoly on the production of hydrogen for use in making ammonia.

Mr. RAUSHENBUSH. You were in a competitive situation and had to do the things that the situation demanded?

Mr. LAMMOT DU PONT. Yes. In many cases we think we have the better, if not the best, processes.

Mr. RAUSHENBUSH. That is the best of your memory on the history of the powder factory in Argentine?

Mr. LAMMOT DU PONT. Yes.

Mr. RAUSHENBUSH. Before going further can we get an agreement that a powder factory is far more important to a country than a battleship; a battleship is something that can be knocked out, and a powder factory is something that can keep supplying the country.

Mr. LAMMOT DU PONT. Yes; if it cannot be knocked out.

Mr. RAUSHENBUSH. Yes; but it produces, rather than being something that can be consumed?

Mr. LAMMOT DU PONT. I do not think there is much distinction between a battleship and a powder plant.

Mr. RAUSHENBUSH. We will let it stay at that; they are very similar.

I want to call your attention to a letter dated November 29, 1930, sent by Mr. O'Gorman to Mr. White of the Imperial Chemical Industries of New York, in which he states that there is a question of proposals for a powder plant down in Buenos Aires, in the Argentine, and that I.C.I. is involved in the question and also advises that Retienne is acting for Koln Rottweiler. That was the company Dr. Sparre testified yesterday was a party to the 1907 agreement, the German company?

Mr. LAMMOT DU PONT. Yes.

Mr. RAUSHENBUSH. The last paragraph on the first page of this letter reads as follows:

We advised you that Retienne, acting for Koln Rottweiler, had presented an offer to the Argentine Government to construct and fully equip the powder mill and have it in operation within 2 years, the price to be \$2,200,000. We understand that I.C.I. can make a tentative offer which will compete with Retienne's bid.

You were in close connection with I.C.I. and the German company there offering the bid?

Mr. LAMMOT DU PONT. It sounds as if we were in close competition rather than close relation.

Mr. RAUSHENBUSH. In close relation with I.C.I.. Was Koln Rottweiler, the German company, later on connected with the South American company you started down there in later years, the Explosive Interests, Ltd.?

Mr. LAMMOT DU PONT. No; I think not. I think it was the D.A.G., if there was any Germany company.

Mr. RAUSHENBUSH. That is the other big Germany company?

Mr. LAMMOT DU PONT. Yes; the explosive company, commercial explosives, I should say.

Mr. RAUSHENBUSH. The second paragraph from the end of the letter reads as follows:

It is the writer's understanding that this new arrangement is felt to be of mutual advantage and that, if either party succeeds in getting a contract the I.C.I.-du Pont partnership agreement will be effective to the extent of the profits derived from such a contract. However, if either party suffers a loss under a contract which may be awarded, the other party will not be charged with any part of this loss.

That is simply stating you and the I.C.I. would share the profit that might be derived?

Mr. LAMMOT DU PONT. Yes; that is correct.

Mr. RAUSHENBUSH. Now, along comes a letter dated March 28, 1930, from Carames to Bates, which letter I offer as "Exhibit No. 495."

(The letter referred to was marked "Exhibit No. 495," and is included in the appendix on p. 1356.)

Mr. RAUSHENBUSH. Mr. Chairman, I suggest that we might have Mr. Bates on the stand at this time.

Senator GEORGE. Would you come forward, Mr. Bates?

### TESTIMONY OF N. E. BATES, Jr.

(The witness was duly sworn by Senator George.)

Mr. RAUSHENBUSH. There is a letter here from Carames, Buenos Aires, which has just been offered as "Exhibit No. 495." Was he the agent of du Pont and I.C.I. in Buenos Aires?

Mr. BATES. He was not the I.C.I. agent in that year.

Mr. RAUSHENBUSH. He was your agent—the du Pont agent?

Mr. BATES. Yes, sir.

Mr. RAUSHENBUSH. You mean he was not the I.C.I. agent in that year?

Mr. BATES. No. He was not.

Mr. RAUSHENBUSH. But he was the agent of du Pont?

Mr. BATES. Yes.

Mr. RAUSHENBUSH. Who was the I.C.I. agent in that year?

Mr. BATES. It was the I.C.I. office in Buenos Aires.

Mr. RAUSHENBUSH. Who was in charge of the I.C.I. office in Buenos Aires?

Mr. BATES. I think the manager was Mr. Morgan.

Mr. RAUSHENBUSH. Do you remember his initials?

Mr. BATES. David.

Mr. RAUSHENBUSH. I call your attention to a paragraph in this letter, "Exhibit No. 495", as follows:

I am also sending details of what has been decided lately by the Government, with reference to the powder factory. You must regard this as strictly confidential. In view of the very confidential nature of the matter, and that it is urgent, I am sending it by air mail and promise to send you further details later on regarding explosives. I have been promised further details of a very confidential nature as additions to the proposal.

He is telling you the Argentine Government, its Congress, and the Legislature, and everybody have decided that for better national defense they are going to have a powder factory. That is correct?

Mr. BATES. Yes.

Mr. RAUSHENBUSH. I now call your attention to a letter from G. W. White to E. I. du Pont de Nemours & Co., dated February 4, 1931, which I offer as "Exhibit No. 496."

(The letter referred to was marked "Exhibit No. 496", and is included in the appendix on p. 1357.)

Mr. LAMMOT DU PONT. You will note that letter is a year later than the other one.

Mr. RAUSHENBUSH. Yes; this process has dragged on apparently from 1930 to 1931. This whole discussion is dragging, but they are still talking about the same powder factory.



Mr. LAMMOT DU PONT. My recollection is it was a very long-extended negotiation, but the reason I called your attention to the date is, I think there is a little difference in the consideration and the relationship between the companies in the two letters.

Mr. RAUSHENBUSH. Will you describe that?

Mr. LAMMOT DU PONT. The later letter says the du Pont-I.C.I. partnership scheme is still in operation. My recollection is that the previous letter did not refer to any such relationship with the I.C.I. Perhaps I am in error in that, and it was you who said the relation was closed.

Mr. RAUSHENBUSH. The second from the last paragraph on the second page of the letter which was previously introduced says that the I.C.I. is cooperating closely in the matter.

On April 3, 1931, there is the final bid of the du Pont Co., which ranges between \$3,091,000 and \$3,141,000, and on August 5, 1932, we come to a letter from Mr. White, of the I.C.I. in New York, to the du Pont Co., which letter is offered in evidence.

(The letter referred to was marked "Exhibit No. 497", and is included in the appendix on p. 1357.)

Mr. RAUSHENBUSH. I read from this letter, "Exhibit No. 497", as follows:

Further to my letter of June 15, I.C.I. have now had an opportunity of discussing the value of Señor Carames' services with one of their Buenos Aires representatives. The latter speaks very highly of the work done by Señor Carames in connection with the Government powder factory and has recommended that I.C.I. continue to retain this gentleman. In view of this, you might consider it desirable to make a payment to Señor Carames and I should like to know what you decide in this connection.

There was no powder factory in 1932?

Mr. LAMMOT DU PONT. Are you asking me?

Mr. RAUSHENBUSH. Yes; I am asking you.

Mr. LAMMOT DU PONT. I think there was not.

Mr. RAUSHENBUSH. This letter states that—

The latter speaks very highly of the work done by Señor Carames in connection with the Government powder factory and has recommended that I.C.I. continue to retain this gentleman.

What is the work he had done?

Mr. LAMMOT DU PONT. I presume the work he had done was in connection with the negotiations.

Mr. RAUSHENBUSH. I call your attention to a cable from Mr. Bates dated June 22, 1933, which is offered as an exhibit.

(The cablegram referred to was marked "Exhibit No. 498", and is included in the appendix on p. 1358.)

Mr. RAUSHENBUSH. This cable, "Exhibit No. 498", reads as follows:

Antonio Carames indignant our offer \$1,500. Claim cancelation he obtained competitors powder-plant contract and contract maintained for several years past without any remuneration has been very valuable to E. I. du Pont de Nemours & Co. Imperial Chemical Industries, Ltd., and merits much higher consideration.

Antonio Carames has great influence on present administration. On the \$1,500 offered Antonio Carames absolutely refuses agency and will become very dangerous enemy our business next few years as well as business E. I. du Pont de Nemours & Co., Argentine, S.A. Du Pont Argentina-Buenos Aires which must be avoided.

Have discussed the matter with E. I. du Pont de Nemours & Co., Argentine, S.A., du Pont Argentina-Buenos Aires who agree with me suggesting that we offer Antonio Carames \$6,000 in cash for services rendered and yearly retainer of \$3,000 payable monthly to cease at our discretion, thus avoiding any possible damage our interest.

You must consider company's interest as well as military sales division. Prospects are 2,100 charges 35-millimeter, 50 tons du Pont FNH powder, 100 tons pyro cannon powder, 100 tons rifle powder, and possible Argentine powder factory. Cable reply by Saturday. If you wish to telephone, advise by cable. Forward all letters.

Can you explain the first paragraph in that cable, Mr. du Pont?

Mr. LAMMOT DU PONT. Who was this cable addressed to?

Mr. RAUSHENBUSH. Mr. Bates might answer that.

Mr. BATES. To Major Casey, I think.

Mr. LAMMOT DU PONT. My explanation of the first paragraph is that it is something in the nature of a squabble between the agent and the principal as to what the agent's services are worth.

Mr. RAUSHENBUSH. Take that paragraph word by word—

Antonio Carames indignant our offer \$1,500. Claim cancellation be obtained competitors powder-plant contract and contact maintained for several years past without any remuneration has been very valuable to E. I. du Pont de Nemours & Co. Imperial Chemical Industries, Ltd., and merits much higher consideration.

Mr. LAMMOT DU PONT. That is Carames' claim.

Mr. RAUSHENBUSH. That is Bates' report on Carames' claim?

Mr. LAMMOT DU PONT. Yes; Carames makes the claim his services are valuable. You know an agent does not mind blowing his own horn.

Mr. RAUSHENBUSH. That is your interpretation of it, Mr. du Pont?

Mr. LAMMOT DU PONT. Yes.

Mr. RAUSHENBUSH. I call your attention to cable No. 9, which is offered as "Exhibit No. 499."

(The cable referred to was marked "Exhibit No. 499", and is included in the appendix on p. 1359.)

Mr. RAUSHENBUSH. This "Exhibit No. 499" is a cable from Bates, Buenos Aires, dated June 26, 1933, and reads as follows:

Referring to your cable no. 4 Antonio Carames leaving here for Europe July 6 returning by way of New York, N.Y., presumably sent by President secret mission Imperial Chemical Industries, Ltd. Buenos Aires, Argentina, agrees with me suggesting that we offer Antonio Carames \$250 per month to be canceled at any time by payment \$6,000 in monthly installments.

Remuneration if any (for) services rendered cancellation of powder plant to be discussed in London and/or Wilmington, Del., with Antonio Carames.

Mr. LAMMOT DU PONT. That is referring to the previous claim of Carames.

Mr. RAUSHENBUSH. I call your attention to a memorandum from the files, which is offered as "Exhibit No. 500."

(The memorandum referred to was marked "Exhibit No. 500", and is included in the appendix on p. 1359.)

Mr. RAUSHENBUSH. This "Exhibit No. 500" is a memorandum of a telephone conversation with Mr. Bates and Mr. Casey signs it, showing that the company and I.C.I. were still discussing how much Carames should be paid. I call your attention to a cablegram signed by Nick, dated July 2, 1933, addressed to Casey, du Pont, Wilmington, Del., which I offer as "Exhibit No. 501."

(The cablegram referred to was marked "Exhibit No. 501" and is included in the appendix on p. 1359.)

Mr. RAUSHENBUSH. This cablegram reads as follows:

No. 10 Carames accepts temporary arrangement pending interviews London Wilmington \$125 monthly. Ready sign contract Carames similar Veiga duration 3 years with 6 months cancelation clause. Wire immediately if satisfactory. Suggest don't send White or London my letter no. 13. Writing you fully also London air mail this week.

Then I want to put in an item found in your files, being an extract taken from the foreign trade development division in the month of June 1932.

(The extract referred to was marked "Exhibit No. 502" and appears in full in the text.)

Mr. RAUSHENBUSH. This extract reads:

A number of discussions have been had with Mr. Bates, who is now in Buenos Aires, regarding his negotiations with Sr. Antonio Carames, their agent here for military powders. Mr. Carames has had the idea that it would be only equitable for him to receive a cash payment for work done by him in heading off the Retienne contract and further that he should be paid a retainer in view of the expenses that he has been put to in connection with his work.

That refers to the Koln Rottweiler contract—

I.C.I. has been paying him a retainer of £300 per year. While he will make no definite statement in the matter, we get the idea that he has had in mind a cash payment of something like \$15,000 and a retainer of about \$400 per month. \* \* \* In view of Sr. Carames' very great influence in government circles and considering the character involved—

Mr. LAMMOT DU PONT. You left out something.

Mr. RAUSHENBUSH. Do you want it put in? I would be very glad to put it in.

Mr. LAMMOT DU PONT. Let me read it first.

Senator BONE. What is that gentleman's name, Mr. Raushenbush?

Mr. RAUSHENBUSH. Carames—C-a-r-a-m-e-s.

Senator BONE. What are his connections down there?

Mr. RAUSHENBUSH. It has been brought out that he is now the du Pont agent in Buenos Aires.

Mr. BATES. He is now the du Pont and I.C.I. agent in Buenos Aires.

Senator BONE. What was he at the time this letter was written?

Mr. BATES. He was our agent. He was a partner of Crocker & Co.

Mr. RAUSHENBUSH. Do you want that part in?

Mr. LAMMOT DU PONT. Yes, sir. It is being offered in evidence.

Mr. RAUSHENBUSH. I am perfectly willing to take the responsibility for that. [Reading:]

Mr. Bates has had many talks with him and has advised Major Casey fully in the matter. In view of Sr. Carames' very great influence in government circles and considering the character involved, which is exceedingly self-centered and very vindictive towards those against whom he has a grudge, I have thought it proper to suggest to Mr. Bates that, in attempting to arrive at some mutually satisfactory agency arrangement with Sr. Carames, due consideration be given to the company's considerable present investment in the Argentine and that there be weighed any possible undesirable effects that might accrue from Carames' "nuisance value" were he to be left feeling generally "sore" at the company as a result of the present negotiations. Of course, the figures that we have surmised are probably what Carames would like to have and both Mr. Bates and I agree that he would, no doubt, be satisfied with no cash payment, but with some modest retainer in addition to the amount that I.C.I. has been paying him in the past, and which, under the new arrangement, is to be assumed by Wilmington. However, in all this

Mr. Bates clearly understands that while I have suggested that the matter be looked at from a broad company viewpoint basis, I do not have in mind that any part of any retainer to Carames be assumed by any department other than the smokeless powder, in possible conjunction with I.C.I.

Is not a fair interpretation of that, that Carames, according to this, had killed an offer from your competitors, this Koln Rottweiler Co., and Carames was trying, to use the common phrase, to hold you up for \$15,000, and that your man down there, Bates, points out that now the fellow has a "nuisance value?" You do not get a "nuisance value" unless you know something which you could tell your competitors. Is not that true? That is what a "nuisance value" is in this case?

Mr. LAMMOT DU PONT. No; I do not think so. I think the "nuisance value" there applies to our other interests in the Argentine.

Mr. RAUSHENBUSH. What would Carames know about the company which would give him a "nuisance value?"

Mr. LAMMOT DU PONT. I suppose he could use his influence against the company in its various commercial lines down there.

Mr. RAUSHENBUSH. Would it not be a fact that he would go and tell everybody, if he wanted to, what du Pont and I.C.I. had done in holding up this contract and heading off the Retienne contract?

Mr. LAMMOT DU PONT. I do not think that is the idea at all.

Mr. RAUSHENBUSH. Let us go ahead. We can come back to that later.

Mr. LAMMOT DU PONT. What he probably had in mind was Señor Carames would go around to influential people and say the du Pont Co. was a bunch of crooks, and he knew it because he had been employed by them.

Mr. RAUSHENBUSH. And you think that would be an unfair statement in this case?

Mr. LAMMOT DU PONT. I think so.

Mr. RAUSHENBUSH. There are more cables here, discussing the matter between you, to which I assume you will agree, and I come to one of August 4, 1933, about 3 years after the powder discussion was started.

Mr. LAMMOT DU PONT. Oh, no. It started before that; 1918, Major Casey says.

Mr. RAUSHENBUSH. The country had apparently decided, according to previous evidence today, to do this in 1930.

Mr. LAMMOT DU PONT. Somebody reported.

Mr. RAUSHENBUSH. Carames reported it. And a bid was in from Koln Rottweiler of 2,000,000 pounds, and later on you put in a bid, and obviously negotiations were started. We have had your bid in as evidence.

Mr. LAMMOT DU PONT. Yes, sir.

Mr. RAUSHENBUSH. The matter was not in the academic stage. Argentine is trying to build, in this way, and then those other events took place. Here is a cable from Laing. He is an I.C.I. man in London, is he not?

Mr. BATES. Yes, sir.

Mr. RAUSHENBUSH. This is addressed to White Impkemix, New York:

191. Have interviewed Carames who will accept whatever arranged with Crocker.

Crocker is the other man in the agency at Buenos Aires?

Mr. BATES. Right.

Mr. RAUSHENBUSH (continuing reading):

His claim, and we cannot seriously question it, is that over the years expense has been 2,000 pounds (stop) We are willing pay half or lesser amount (stop) Bates who we suggest should handle matter for his prestige might satisfy Crocker with 1,500 pounds (stop) Building of factory question reopens December and we are preparing accordingly. For interim period existing contract continues.

I will offer that as "Exhibit No. 503."

(The cable referred to was marked "Exhibit No. 503" and is included in the appendix on p. 1360.)

Mr. RAUSHENBUSH. Now, I am almost through, but here is a letter which I wish to put in as "Exhibit No. 504", under date of August 15, 1933, headed "Antonio Carames—Argentine" and signed by W. N. Taylor, who is your Paris agent.

(The letter referred to was marked "Exhibit No. 504" and is included in the appendix on p. 1360.)

Mr. RAUSHENBUSH. That letter reads in part as follows:

I met Mr. Carames on his steamer on his arrival at Boulogne, and motored him to Paris. I did my best to make his stay agreeable, which he seemed to appreciate.

Here is Mr. Taylor's report, following Mr. Bates' various reports—

Mr. LAMMOT DU PONT. This whole letter here is from Colonel Taylor.

Mr. RAUSHENBUSH. Yes, sir; from Colonel Taylor. I skip two paragraphs. [Continuing reading:]

Carames told me his story, which you know from Mr. Bates' reports. His principal claim was that, in spite of the fact that it did not seem to him probable that stopping the factory could have meant a very large monetary gain to us, none the less both Wilmington and London urged him to stop it, a matter which cost him considerable money, the outlay of which at the time was known to both companies. That having spent this money at our request and having not given an opportunity to earn commissions, he was entitled to reimbursement.

Carames explained that having canceled the contract with the Germans three times, he could not continue to do it any longer, and that at the end of December or the first part of January, if we did not put in an offer for the factory a contract would finally be signed with the Germans, which would be final. In view of this, I.C.I. has agreed to make a serious endeavor to get this contract, and are preparing an offer and prices which they feel will compete favorably with the German proposal.

In our meeting in Paris with Mr. L. Smith, he said that he would be satisfied if the present interim agency contract was continued and if a payment of \$10,000 was made to Crocker & Co. He said he did not wish to settle this matter as his partner, Crocker, was the person to be satisfied. Mr. Smith and I discussed with him different phases of his story, but we did not make any promises of any kind. We told him settlement would be made through Bates with Crocker & Co., and to this he agreed.

After this conversation Mr. Smith talked this over in London and then sent me a copy of their cable to Mr. White under date of August 4, in which they will agree to pay half of the \$10,000 and request Wilmington to make the final arrangements on this matter and suggest that this thing be handled through Bates with Crocker & Co. From our conversation with Carames, it appeared clear to us that it was wise to have this done through Mr. Bates, because Carames appeared to think that Mr. Bates had no authority and could make no decisions and we felt it was advisable to force Mr. Carames to accept Mr. Bates' authority.

It would be wise to have the settlement made with Crocker & Co. before Carames leaves Europe, which will be early in November, as I.C.I. would like to go into the details of the factory proposal with him before he leaves, and they hesitate to discuss this matter in detail until this other matter has been settled.

Certainly your Paris agent takes this story of Carames, that he held up the factory, the powder factory which the Argentine was building because I.C.I. and du Pont gained by holding up the factory, and he took out the competition with the Germans, and Taylor takes it very seriously.

Mr. LAMMOT DU PONT. He does not say that.

Mr. RAUSHENBUSH. He reports it.

Mr. LAMMOT DU PONT. He reports it, that is all.

Mr. RAUSHENBUSH. He also goes on to say that I.C.I. is apparently willing to pay one-half of the \$10,000 which seems to be necessary to satisfy the man.

Mr. LAMMOT DU PONT. To settle the Carames claim.

Mr. RAUSHENBUSH. To settle the Carames claim which Mr. Carames says he has due.

Mr. LAMMOT DU PONT. Taylor says nothing to the effect that he thinks Carames' claim is correct.

Mr. RAUSHENBUSH. He certainly does not say anything in there to indicate that he thinks it is not correct, does he?

Mr. LAMMOT DU PONT. I do not gather that from the letter.

Mr. RAUSHENBUSH. At the beginning he states:

I did my best to make his stay agreeable, which he seemed to appreciate.

This was after Bates had said he had a "nuisance value" down there, and Taylor states:

I did my best to make his stay agreeable.

Mr. LAMMOT DU PONT. Colonel Taylor starts off with a statement:

Carames told me his story.

That immediately indicates to me that Colonel Taylor did not altogether put 100 percent reliance on the story.

Mr. RAUSHENBUSH. He says:

which you know from Mr. Bates' report.

The story is one that was known inside the company.

Mr. LAMMOT DU PONT. That is Carames' claim.

Mr. RAUSHENBUSH. At no point did Mr. Bates question what Carames did, and Mr. Bates, sitting next to you, states Carames held up this contract.

Mr. LAMMOT DU PONT. Did Mr. Bates say that?

Mr. RAUSHENBUSH. Yes.

Senator BONE. Mr. Bates, was the contract with the German organization canceled?

Mr. BATES. It was canceled.

Senator BONE. Three times?

Mr. BATES. It was canceled once to my recollection.

Senator BONE. Carames takes credit for having brought about the cancelation of that agreement?

Mr. BATES. He takes credit for it; yes.

Senator BONE. Did he work on it?

Mr. BATES. He told me he did. I was not there all the time.

Senator BONE. Do you have any reason to believe that he did work at it?

Mr. BATES. I do not know, really.

Senator BONE. You were all together and often observed it. You were reporting on this man's ability and his "nuisance value", were you not? That is correct?

Mr. BATES. That is correct; yes, sir.

Senator BONE. Do you believe he had influence enough in Government circles to bring about the cancellation?

Mr. BATES. I knew he had several friends in Government circles.

Senator BONE. He was apparently working on it?

Mr. BATES. I have no evidence, and I never saw him or heard him say anything to the officials.

Senator BONE. You evidently had something of that sort in mind in reporting to the company.

Mr. BATES. I took Carames' word that he was working at that.

Senator BONE. It was evidently of sufficient importance in your mind to report it to your company and to comment on it frequently and suggest his value as being a "nuisance value." You meant by that to get rid of him in some way and get him out of the picture, did you not?

Mr. BATES. No; I meant if he got mad at us he might do us some harm.

Senator BONE. In Government circles?

Mr. BATES. Not necessarily in Government circles, no; because he has a large circle of friends in Buenos Aires.

Senator BONE. I know, but this large circle of private friends was not buying powder and munitions. The Government was the agency you were trying to sell to, was it not? You do not sell smokeless powder to private citizens, do you?

Mr. BATES. No, sir; you do not.

Senator BONE. Your only clients were the Government?

Mr. BATES. But the company sells other products.

Senator BONE. I understand that.

Mr. RAUSHENBUSH. Then, there is more correspondence?

Mr. LAMMOT DU PONT. Mr. Raushenbush, you made a statement which I thought was incorrect, and you gave me this document to prove your statement is correct, and I find no such proof.

Mr. RAUSHENBUSH. May I have this? (Referring to paper.) This is "Exhibit No. 502."

Mr. LAMMOT DU PONT. Your statement was that Mr. Bates said that Carames had canceled the contract. I did not hear Mr. Bates say that.

Mr. RAUSHENBUSH. Mr. Bates, in your responses to Senator Bone's questions a moment ago, did you not answer that you were aware that that was what Carames was doing?

Mr. BATES. The Government canceled the contract.

Mr. RAUSHENBUSH. I am talking about the reference in here.

Mr. BATES. I could not say that. I do not see how a man can influence a government to cancel a contract.

Mr. RAUSHENBUSH. Let us go over this once more. (Referring to "Exhibit No. 502.") [Reading:]

A number of discussions have been had with Mr. Bates, who is now in Buenos Aires, regarding his negotiations with Sr. Antonio Carames, their agent

here for military powders. Mr. Carames had had the idea that it would be only equitable for him to receive a cash payment for work done by him in heading off the Retienne contract and further that he should be paid a retainer in view of the expenses that he has been put to in connection with his work. I.C.I. has been paying him a retainer of £300 per year. While he will make no definite statement in the matter, we get the idea that he has had in mind a cash payment of something like \$15,000 and a retainer of about \$400 per month. Mr. Bates has had many talks with him and has advised Major Casey fully in the matter. In view of Sr. Carames' very great influence in government circles and considering the character involved, which is exceedingly self-centered and very vindictive toward those against whom he has a grudge, I have thought it proper to suggest to Mr. Bates that, in attempting to arrive at some mutually satisfactory agency agreement with Sr. Carames, due consideration be given to the company's considerable present investment in the Argentine and that there be weighed any possible undesirable effects that might accrue from Carames' "nuisance value" were he to be left feeling generally "sore" at the company as a result of the present negotiations. Of course, the figures that we have furnished are probably what Carames would like to have and both Mr. Bates and I agree that he would no doubt be satisfied with no cash payment, but with some modest retainer in addition to the amount that I.C.I. has been paying him in the past, and which, under the new arrangement, is to be assumed by Wilmington. However, in all this Mr. Bates clearly understands that while I have suggested that the matter be looked at from a broad company viewpoint basis I do not have in mind that any part of any retainer to Carames be assumed by any department other than the smokeless powder in possible conjunction with I.C.I.

He was doing something in connection with the smokeless-powder division, which was to have a factory in the Argentine as a competitor. Can anybody read the letter without coming to the conclusion that the talk about \$15,000, and later \$10,000, was on the basis of stopping those contracts?

Mr. LAMMOT DU PONT. It was all on the basis of Carames' claim, who claimed to have stopped the building of the power plant.

Mr. RAUSHENBUSH. And Bates believed that?

Mr. LAMMOT DU PONT. I did not hear that. You put those words in Mr. Bates' mouth, and I did not hear them.

Mr. RAUSHENBUSH. Those who were dealing with this matter were taking it seriously, certainly.

Mr. LAMMOT DU PONT. Carames claimed to have stopped the contract. Whether he did or not, I do not know.

Mr. RAUSHENBUSH. There are cables here about giving him interim commissions.

Mr. LAMMOT DU PONT. There is no doubt that Carames worked for us. He claimed a lot of things which we did not altogether agree with, and this made a settlement of it.

Senator VANDENBERG. Mr. Bates, in the course of your negotiations with Mr. Carames, did he tell you that he had made any arrangements for special commissions to any intervening persons in connection with the transaction?

Mr. BATES. By intervening persons, he had engaged the services of an engineer who was related to some official there.

Senator VANDENBERG. Who was he related to; do you recall?

Mr. BATES. Yes, sir; the president.

Senator VANDENBERG. The president's son was an engineer?

Mr. BATES. He was, yes, sir; but he had no political position.

Senator VANDENBERG. No political position?

Mr. BATES. Absolutely not.



Senator VANDENBERG. And there is no significance, in your mind, as to the relations with the president's son, other than the professional relationship as an engineer; is that correct?

Mr. BATES. That is correct. Carames wanted to get an engineer to explain the highly technical details of this proposal, and when I arrived there he told me he had engaged the services of this man.

Senator VANDENBERG. In making the arrangements of this nature for technical services, would you say that the compensation proposed as an ordinary, professional compensation, or was it something more than that?

Mr. BATES. It was slightly high, I think.

Senator VANDENBERG. A little higher than ordinary?

Mr. BATES. Considering the man you are hiring, perhaps not. Fees in the Argentine are pretty high.

Senator VANDENBERG. How long have you been in the export business, the munitions business, Mr. Bates?

Mr. BATES. Since 1925.

Senator VANDENBERG. You are an American citizen?

Mr. BATES. Yes, sir.

Senator VANDENBERG. What have you to say as to the general competitive practice—I am not interrupting you, am I, Mr. Raushenbush?

Mr. RAUSHENBUSH. No, indeed.

Senator VANDENBERG. What have you to say as to the general competitive practice in the world-wide sale of munitions as respects the necessity for paying special political commissions, entirely aside from commercial commissions?

Mr. BATES. Senator, my experience has been this: That I have never been called upon to pay any commissions or make any proffers whatever. We try to sell our products on their merits, except for this one instance here.

Senator VANDENBERG. Except in this one instance?

Mr. BATES. That instance which I just told you about; that this man advised me he had engaged this engineer to explain the technical details of the proposal.

Senator VANDENBERG. You say that is an exception to the rule; that you are selling on merit. What do you mean by that? If this is an exception to the rule, what do you mean?

Mr. BATES. I did not exactly mean that. What I meant is that this is probably one instance where you might say that the agent engaged the services of an influential man.

Senator VANDENBERG. And engaged his services for his influence perhaps more than for his technical information?

Mr. BATES. I would not say that.

Senator VANDENBERG. You are also the agent for I.C.I.?

Mr. BATES. Yes, sir.

Senator VANDENBERG. Do you consider that a responsibility on your part runs equally to du Pont and to I.C.I., or does one have a larger responsibility in your view than the other?

Mr. BATES. The responsibility is equal, so far as offering military propellants are concerned.

Senator VANDENBERG. You are under responsibility to tell I.C.I. everything that you tell du Pont.

Mr. BATES. No; I do not think so.

Senator VANDENBERG. In some instances you specifically notify du Pont that you prefer that I.C.I. should not know about some particular thing which you are reporting, do you not?

Mr. BATES. I think we have made that statement; yes, sir.

Senator VANDENBERG. Now I am coming back to the incident respecting the embargo. You evidently have some latitude in respect to reporting to I.C.I. When an embargo incident arises, however, you refrain from making a du Pont bid because of your fidelity to the American embargo policy, but you immediately report to I.C.I. Do you consider that you are under any responsibility to report to I.C.I.?

Mr. BATES. Senator, the way that thing happened was this: I received a telegram from I.C.I. telling me that that man had inquired for prices on TNT. So I cabled and said that we could not quote—that is, du Pont could not quote because of the embargo. Then since I.C.I. already knew of the inquiry, I merely said—by way of tautology—that they should quote. We received the inquiry from I.C.I.

Senator VANDENBERG. In the letter of May 29, 1930, from Mr. W. H. O'Gorman, assistant director, to Col. W. N. Taylor, the final paragraph says—no; I might interrupt myself by saying that the letter referred to the sale of cruisers in South America and in the Argentine—and the final paragraph says:

We will take this subject up with our agent in Argentina—

I assume that is you—

and see that he does the necessary in connection with spreading good propaganda.

Did he take it up with you?

Mr. BATES. I do not remember it.

Mr. CASEY. What is the date of that.

Senator VANDENBERG. May 29, 1930.

Mr. CASEY. I think he refers to Carames.

Senator VANDENBERG. What would be your interpretation of "does the necessary" in South America in connection with spreading good propaganda? Is there anything invidious in that phrase?

Mr. BATES. I do not think so. He refers there, I think, to persuading the Argentine officials to buy du Pont powders for those boats.

Senator VANDENBERG. Have you ever paid any special commissions—let us call them for the sake of delicacy—to either officials or agents of business concerns in connection with your South American work?

Mr. BATES. I have not; no, sir.

Senator VANDENBERG. Never paid any?

Mr. BATES. Not a cent.

Senator VANDENBERG. All right; Mr. Raushenbush.

Senator BONE. Is that your construction of the words "does the necessary", which you have just given us?

Mr. BATES. Yes, sir; it is. Because there was an instance of buying British cruisers or cruisers built in the United States. As a matter of fact, I think the Argentine bought English war vessels.

Senator BONE. This expression, "does the necessary", is used in connection with spreading good propaganda.

Mr. BATES. Yes.

Senator BONE. How would you do the necessary?

Mr. BATES. By telling the Argentine Government that our Government and other governments in the world find that nitrocellulose powder for use in guns is better than nitroglycerin powder.

Senator BONE. Then that word "necessary" has no other implications than what you have given it?

Mr. BATES. I do not think so.

Senator BONE. You do not think so, but do you know?

Mr. BATES. I do not know.

Senator BONE. You do not know?

Mr. BATES. I remember the incident in that particular letter, and it referred to that particular propaganda—trying to persuade the Argentine Navy to specify guns made for nitrocellulose powder.

Senator BONE. We have an expression interspersed throughout the entire record about "doing the needful", and I am wondering if "does the necessary" has any similar implication. You assure me that it does not; is that correct?

Mr. BATES. That is correct.

Senator BONE. You want to be understood as assuring us that that does not have any significance such as other witnesses have attributed to similar words?

Mr. BATES. In that particular instance there I do not think it means that at all, Senator.

Mr. IRÉNÉE DU PONT. Do you mean by "does the necessary", Senator, is equivalent to offering a bribe? Is that the idea?

Senator BONE. I am asking the witness to interpret it if it has any meaning. It is a very unusual combination of words to employ in a business letter. The ordinary business man does not talk about "doing the needful" or "does the necessary."

Mr. LAMMOT DU PONT. I disagree with that statement as to this combination of words. That expression is a very common one, Senator.

Senator BONE. It is?

Mr. LAMMOT DU PONT. Yes, sir.

Senator BONE. Let me suggest this, Mr. du Pont: Whenever a similar expression has been found in the exhibits in this case, the witnesses have said, almost without exception, that it means the passing of money.

Mr. LAMMOT DU PONT. It does not mean that to me.

Senator BONE. When we have witness after witness testifying before the committee that that is what that expression means, you can understand why I ask the question.

Mr. LAMMOT DU PONT. I say what I have said, because I use that expression myself a great deal in my business.

Senator BONE. That is precisely why I ask, when I see it in your letters, if it has the same meaning that it has when it is employed by other munitions concerns. We have had witness after witness here saying that "doing the needful" and the like meant "greasing" someone.

Mr. LAMMOT DU PONT. It does not mean that to me.

Senator BONE. It may have an entirely different meaning with the du Pont organization, and that is precisely why I am trying to bring this out.

If you assure us that it has not, why, that's that.

Senator VANDENBERG. Mr. Bates, does the president whom we have been discussing have more than one son?

Mr. BATES. I do not think so; I am not sure.

Senator VANDENBERG. I call your attention to these copies of cablegrams which I am not offering for the record. If you will refer to those, Mr. Bates, you will see that the word is in the plural, "sons."

Mr. BATES. That is an error in decoding.

Senator VANDENBERG. You say it is an error in decoding?

Mr. BATES. Yes.

Senator VANDENBERG. The only son referred to is the engineer to whom you have previously referred?

Mr. BATES. That is true.

Senator BONE. There was one other question that I had in mind. Mr. du Pont, you say that that expression to which we have referred is frequently used by you. What does it mean?

Mr. LAMMOT DU PONT. It means, when I use it, that the person addressed is to do what is evidently necessary in the light of some document. For instance, I receive a communication from someone asking me for a contribution. I pass it to my secretary with a note, "Please do the needful" or "do the necessary." That means to comply with the request and write a courteous letter, something of that kind; "do that which is obvious from the document which I pass along." That is the way I use it, and I use it very frequently that way.

Senator BONE. I am very sure that you can understand our interest in view of what has transpired before in this hearing.

Mr. LAMMOT DU PONT. I think it is correct to say that that phrase has not appeared in any of our documents that have been placed in evidence.

Senator BONE. Well, this is in the exhibit from Mr. O'Gorman, who is the director of sales in your company.

Mr. LAMMOT DU PONT. Is he not quoting someone else?

Senator BONE. No. Your assistant director of sales is writing to Colonel Taylor, your Paris agent.

Mr. LAMMOT DU PONT. Quoting somebody else. He did not tell Taylor to do the needful.

Senator CLARK. No. He says in this letter that your agent in the Argentine would be instructed to do the necessary in regard to propaganda.

Senator BONE. Yes.

Mr. LAMMOT DU PONT. Is there any other place where that has appeared in any of our exhibits?

Senator BONE. I have not observed it in those documents that I have seen.

Senator CLARK. I think what Senator Bone refers to is that in this hearing, in connection with other companies, the phrase "to do the needful" has come to have almost a trade significance, apparently.

Mr. PIERRE S. DU PONT. We have not had the advantage of sitting in at all of your hearings; or disadvantage, as the case may be.

Senator CLARK. That is the reason I am making the explanation that I have made.

Senator BONE. As a matter of fact, one witness after another has testified that it was practically a good old trade custom to use that sort of expression.

Mr. RAUSHENBUSH. There is one more question of fact that I should like to refer to. This concern, the Koln Rottweiler crowd that seems, according to the evidence, to have been taken out of the picture later on, became part of the D.A.G.?

Mr. LAMMOT DU PONT. I do not think that is correct.

Mr. RAUSHENBUSH. Is not that correct?

Mr. LAMMOT DU PONT. There were two commercial powder companies in Germany, D.A.G. and Koln Rottweiler.

Mr. RAUSHENBUSH. Are they hooked up in any way?

Mr. LAMMOT DU PONT. I understand they are both part of the I.G. now.

Mr. RAUSHENBUSH. Let me try and see if I can bring out, by asking some questions, what all this means. We start off with a proposition something like this, that a powder factory is to a country as important as a battleship; I thought perhaps more so and you thought perhaps not. It is a great military resource to a country?

Mr. LAMMOT DU PONT. True.

Mr. RAUSHENBUSH. Argentine had decided that it wanted a powder factory and they had passed legislation to get themselves the powder factory.

Mr. LAMMOT DU PONT. That was at a late stage in the negotiations.

Mr. RAUSHENBUSH. Well, at a very early stage Carames passed on confidential information that the matter was up.

Mr. LAMMOT DU PONT. When he said that they decided on a factory that was about 1930. Major Casey stated that the negotiations started in 1918.

Mr. RAUSHENBUSH. Apparently a more recent law had been passed, because du Pont and I.C.I. were taking it seriously and talking about Koln Rottweiler, and so forth. At that point du Pont and I.C.I., according to the evidence, decided that, regardless of what the Argentine Government thought its proper defenses should be, they should not have a powder factory and they managed to take the only possible competitor that protruded itself into the scene, the German competitor for this powder factory, out of action for a period of many years. The evidence goes on further, as I read it, that the agent, realizing that he was not going to get a commission on business he had been active in promoting, demanded \$15,000, and a discussion was held between I.C.I. and du Pont about a \$10,000 price. The agent was recognized to have some nuisance value. In Colonel Taylor's letter I think there was some eagerness to talk to him before he talked to the Germans when he was visiting there. The nuisance was in some form bought off.

The Argentine Government and the Argentine people probably do not know, and will not until the cables of this moment, why they have not got a powder factory today.

A powder factory is important also from the angle of embargoes. People constantly say that an embargo is not fair to one nation because the other has a powder factory; that is, an embargo is unequal before the fact.

We had testimony from one of your own people the other day that the only fair thing was to sell to both sides in any hostility. That was the only way to keep neutrality.

Here you are creating a situation that gives an excuse for that sort of an argument. The only thing that really interests me to add to this is whether it would be possible that the people in South America or in China would get the same idea that we got yesterday from your people, that du Pont was a semi-official connection of the Government. It was certainly only that feeling that allowed your people to put on this stamp that read, "Upon instructions of the War and/or Navy Departments \* \* \*" when the War and Navy Departments denied having given those instructions or that permission.

MR. LAMMOT DU PONT. Why, Mr. Raushenbush, that is not a correct statement.

MR. RAUSHENBUSH. That was the statement made during your testimony yesterday immediately following the statement that was made that Colonel Slaughter, of Military Intelligence, had come up to the committee and informed the committee that that stamp was not authorized.

MR. LAMMOT DU PONT. That is true. But none of our witnesses ever said that that stamp was authorized, did they?

MR. RAUSHENBUSH. I certainly gathered that that was the testimony.

MR. LAMMOT DU PONT. I thought it was clear that I had given the instructions for the application of that stamp myself.

MR. RAUSHENBUSH. The stamp that read "Upon instructions of the War and/or Navy Departments \* \* \*"?

MR. LAMMOT DU PONT. Yes. I gave the authority for the use of that stamp.

MR. RAUSHENBUSH. Of course, the transcript will show it, but I am very sure that the testimony was that it had not been authorized by General MacArthur.

MR. LAMMOT DU PONT. We received a letter from General MacArthur instructing us, or rather calling our attention to the fact, that some matters in our file were confidential. He asked us to take precautions to see that those documents which were confidential were not given out publicly. I saw that letter, and the wording of that stamp was suggested to me. I approved the use of that stamp as a means of carrying out my understanding of General MacArthur's request. Is that clear?

MR. RAUSHENBUSH. That is clear.

MR. LAMMOT DU PONT. Naturally, General MacArthur would say he had never authorized the stamp. I authorized it. But I thought I was carrying out the suggestion that General MacArthur had given us in safeguarding those documents.

MR. RAUSHENBUSH. Perhaps I am under a misapprehension, but—

SENATOR CLARK (interposing). Mr. du Pont, you realize, or you would have been advised by your legal department if you had consulted with them, that neither General MacArthur nor anybody else has authority to instruct you to disregard the process of the United States Senate.

Mr. LAMMOT DU PONT. He did not give us any such instructions.

Senator CLARK. You evidently thought so from the stamp that you placed on the letter?

Mr. LAMMOT DU PONT. No, sir. I am no attorney, Senator, and perhaps I make errors in respect of the legal interpretation. But the letter of General MacArthur called our attention to the fact that there were certain documents in our files which were confidential and suggested that those confidential documents should be safeguarded. That is the understanding I had of General MacArthur's letter. It may not be a proper legal interpretation of what he said, but that is what I thought he said; and I thought the simple, perfectly proper method of carrying out the suggestion was to place the stamp on every confidential document so that your committee would know and be warned that in the estimation of the du Pont Co. that document was one of the confidential documents to which General MacArthur referred.

Senator CLARK. It certainly appears to me, speaking as a member of the committee, if that was your intention, that the wording of the stamp was very unfortunately phrased.

Mr. LAMMOT DU PONT. No; it sounded very good to me.

Mr. RAUSHENBUSH. Later on, when the secretary of the committee suggested the stamp simply be "E. I. du Pont de Nemours & Co. considers this confidential", that stamp was adopted right away?

Mr. LAMMOT DU PONT. That language was never suggested to me, as far as I recall. It seems to me it might have answered the purpose.

Mr. RAUSHENBUSH. It was put on later documents, was it not?

Mr. LAMMOT DU PONT. I do not know about that.

Mr. RAUSHENBUSH. I did not mean to get into this argument. I thought that was all settled. The only point that I was trying to raise was this: Would it be possible for some of these South American and other countries to get the idea that because of this semi-official connection of du Pont, or very close connection—let us put it that way; I think the word "semi-official" was used yesterday—

Mr. LAMMOT DU PONT. I do not know that I used that term.

Mr. RAUSHENBUSH. Let me finish my question, please; that what the du Pont Co. was doing in South America or anywhere else had in some way the approval of the Government. Could they have gotten that misconception at all, that it had the approval of our Government?

Mr. A. FELIX DU PONT. What they were doing in what way?

Mr. RAUSHENBUSH. Let us say in Argentina.

Mr. LAMMOT DU PONT. You mean in trying to sell a powder plant?

Mr. RAUSHENBUSH. Not trying to sell one; trying not to sell a powder plant.

Mr. LAMMOT DU PONT. I think trying to sell one.

Mr. A. FELIX DU PONT. No; we were not trying to.

Mr. LAMMOT DU PONT. Well, they were negotiating.

Mr. A. FELIX DU PONT. What we want to do is to sell powder and not build plants.

Mr. RAUSHENBUSH. Yes. You are trying to sell powder and not build plants. That was the economic explanation of the action taken.

Mr. A. FELIX DU PONT. We will build plants if they tell us to, but we would rather sell powder.

Mr. RAUSHENBUSH. And that is the explanation of this whole matter.

Mr. LAMMOT DU PONT. The record shows that we made a bid.

Mr. RAUSHENBUSH. A very high bid.

Now, I should like to ask you just this question. I am not going to read these five cablegrams into the record. But I should like to ask you this question: If those five cablegrams here combined were read into the record, would it not happen that a very serious situation, a very dangerous situation to life or property might ensue in a particular South American country?

Mr. LAMMOT DU PONT. I cannot answer that; I do not know.

Mr. RAUSHENBUSH. If no such situation would ensue, then the committee would have had no particular reason for withholding those cablegrams?

Mr. LAMMOT DU PONT. I do not know what you are referring to.

Mr. RAUSHENBUSH. You have read the cables?

Mr. LAMMOT DU PONT. The ones that were offered in evidence?

Mr. RAUSHENBUSH. No; they are not offered in evidence.

Mr. A. FELIX DU PONT. The ones that we had before us just now.

The CHAIRMAN. They are not offered in evidence.

Mr. LAMMOT DU PONT. They are not the ones we have seen?

Mr. RAUSHENBUSH. You have seen them.

Mr. PIERRE S. DU PONT. Senator, may I say a word on this Argentine situation?

The CHAIRMAN. Have you finished this particular point, Mr. Raushenbush?

Mr. RAUSHENBUSH. I have not. I was trying to get an answer to that question.

Mr. LAMMOT DU PONT. If you will allow Mr. Pierre du Pont to proceed with what he wants to say, perhaps by that time I shall be able to give it some thought and perhaps give you an answer.

The CHAIRMAN. I would now suggest that you try to get an answer to that question, Mr. Raushenbush.

Mr. LAMMOT DU PONT. Perhaps while Mr. Pierre du Pont is speaking, I will be able to formulate an answer to your question.

Mr. PIERRE S. DU PONT. The impression seems to be that it was decidedly to the advantage of the Argentine Government to have a powder plant and that in some way they were frustrated by our efforts or the efforts of others. That is not necessarily true. If the proposition was to build a plant there without supplying the raw materials, it might very well have been greatly to the disadvantage of the Argentine Nation and possibly this propaganda refers or relates to pointing out to the Argentine Government that the powder plant in itself was useless unless they could get the raw materials. It takes, as I pointed out yesterday, 5 to 9 times as much raw materials to run a powder plant as there is powder made. It is much easier to import the powder than it is to import the raw materials.

So I think before this question is determined one way or the other—I think it is immaterial, really—we should discover whether the proposition was a complete powder plant with safeguarded raw materials or not. If it was not, the Argentine Government or Nation might have suffered severely by thinking that it had a powder plant and finding out later that it had nothing but a shell which could not be operated. I think the question is immaterial to the discussion, but



I do not want it left that we tried to do something to the disadvantage of the Argentine Government.

Mr. RAUSHENBUSH. On that point, if you wish, we could go back over all of this testimony in which I.C.I. and du Pont define what they are bidding on, plant plus machinery plus patents, and so forth, which does not, in any of these letters that we happened to have pulled, indicate that this is a foolish proposition in any sense. We could go over all of that record to convince you, if it is necessary.

Mr. IRÉNÉE DU PONT. Mr. Chairman, I am a little mystified, because if it is wrong to prevent Argentina from having a powder plant, why is it wrong to help Japan have a powder plant? A little while ago we were accused of doing something awful because we helped Japan. Now we are accused of doing something that is not right because we did not help another country. I do not quite follow the logic of that argument.

Mr. RAUSHENBUSH. Mr. du Pont, it is only your feeling that the ethics of a situation are being discussed that leads you to raise that question. It is not the ethics of any of these situations that we are talking about. I mean this 5-percent commission to officials in China—they are ethical matters, perhaps. But what we are trying to get at is what people abroad think of what a company does in helping other countries prepare in a military way, or in preventing them from preparing in a military way. We have had illustrations today of both, it seems to me. Those things are important. I am not passing any ethical judgment on it. In one case you seem to have stopped a country from using a source. As Mr. Felix du Pont said, you do not want them to build plants, you want to sell them powder. In the other case you helped Japan with a process that made it possible to produce powder more cheaply.

Mr. IRÉNÉE DU PONT. I can straighten this thing out. We are not in business to help or harass other nations. We have no right to do that and have no desire to do it. I do not know anything about it particularly, but certainly we are engaged in the business of manufacturing powder among other things; a very minor part of our business, but such as it is, it seems to me it ought to be followed in a businesslike way. If we can make money by showing the Japs how to make their hydrogen cheaper, thereby reducing the cost of their fertilizer a fraction of a cent a pound—well, why not? If they will share it with us. And if we can sell good powder to Argentina, the best powder that we know how to make, why should we not sell it? They do not have to buy it, if they do not want it.

Mr. LAMMOT DU PONT. I am prepared to answer your question now, Mr. Raushenbush.

Mr. RAUSHENBUSH. Mr. Chairman, Mr. du Pont is ready to answer the question that I raised with him about the possible effect of publishing these cablegrams.

Mr. LAMMOT DU PONT. I think it would be undesirable to publish those communications.

The CHAIRMAN. You agree with the committee that it would be undesirable?

Mr. LAMMOT DU PONT. I agree; yes. But that has nothing to do with our alleged semi-official relations with the United States Government.

Mr. RAUSHENBUSH. My question was somewhat different. Are you in a situation where the divulgence of certain things that you do may cause a political repercussion in a certain South American country?

Mr. LAMMOT DU PONT. I think the publication of those might do so; yes.

Mr. RAUSHENBUSH. That is the answer to the question.

Mr. LAMMOT DU PONT. But I do not think our relations with the United States Government—

Mr. RAUSHENBUSH. They do not enter into this.

Mr. LAMMOT DU PONT. No.

Mr. RAUSHENBUSH. Nobody has said that.

The CHAIRMAN. The committee will stand in recess until 2:15 p.m. (Whereupon, at 1:05 p.m., the committee took a recess until 2:15 p.m. of the same day.)

#### AFTER RECESS

(The committee reconvened, pursuant to the taking of recess, at 2:15 p.m.)

The CHAIRMAN. Let the committee come to order.

The Chair desires to inject for just a moment reference to testimony of yesterday involving an exhibit in the form of a memorandum found in the file of Mr. Casey, which was signed by initial. by Mr. Casey himself. This memorandum is dated February 23, 1934, relating evidently to a visit in Washington on February 15, 1934, and contains the following:

Had a talk with Colonel Brabson, of Military Intelligence, and drew his attention to the Nye resolution. As Colonel Brabson comes from Tennessee and is very close to Secretary Hull he will discuss this matter with him, so that when the matter is referred to the State Department at least they will be familiar with the situation and the possible disadvantages from the viewpoint of the Army.

What report, Mr. Casey, did Colonel Brabson make to you following this time concerning any contact he had had with respect to the so-called "Nye resolution"?

Mr. CASEY. I never heard anything more about it. I simply felt that when I called his attention to it and the possible effect on the national defense, I was through with it.

The CHAIRMAN. I feel I owe, and the committee owes, a very brief statement in that connection for the record. If Colonel Brabson did approach Secretary Hull—which I know he did not do—but if he did, his mission was evidently wholly unsuccessful, as other like missions would have proven, because the committee has enjoyed at the hands of Secretary Hull the fullest measure of cooperation in this investigation, and at the time the resolution was pending—and it had been introduced only a week before this memorandum was written—during that time I had, as sponsor of the resolution, very sympathetic and helpful consideration at the hands of Secretary Hull.

I think the record ought to be made clear with respect to that.

Mr. CASEY. There was at that time really very little knowledge of exactly what this proposition meant, and as Colonel Brabson has been a friend of mine of more than 25 years' standing, I spoke to him

about it, and I stated that the only thing we were concerned about is the possible effect anything of this sort may have on national defense. I said nothing more about it, because I knew he came from the same State as Secretary Hull.

Senator CLARK. Colonel Brabson did not tell you he was going to talk to Secretary Hull?

Mr. CASEY. No; he did not.

Senator CLARK. It so happens I have known Colonel Brabson for many years, and I think he has too much of a sense of propriety to do any such thing.

The CHAIRMAN. Nevertheless, the memorandum says he would.

Mr. CASEY. I don't think he was committed to do it.

The CHAIRMAN. Senator Clark, you may proceed.

Senator CLARK. Mr. du Pont, I have here a memorandum from the files of the Remington Co. in reference to the Rheinisch Westfulisches Sprengstoff, which I offer in evidence under the appropriate number.

(The document referred to was marked "Exhibit No. 505," and appears in full in the text.)

Senator CLARK. This memorandum, "Exhibit No. 505", refers to Mr. Pickard. Who is he? He is a member of your bureau of foreign relations, I believe.

Mr. LAMMOT DU PONT. Yes.

Senator CLARK. This memorandum reads as follows:

*Export prices.*—When Mr. Pickard talks with I.C.I. and R.W.S. he will probably draw them out on how best Remington can cooperate with them toward a higher level of prices in the foreign field. R.W.S. are bad offenders, so far as prices are concerned on center-fire metallics in Latin America, and should be made to realize that unless they raise their prices ours can very readily be reduced. The usual excuse is French competition, but we know they now have a working arrangement with the French manufacturers. We helped to bring them together about 4 years ago.

Now, R.W.S. in this memorandum is the Rheinisch Westfulisches Sprengstoff, A.G.?

Mr. LAMMOT DU PONT. I believe so. However, that "Westfulisches" is not spelled right; but that doesn't matter.

Senator CLARK. We are not responsible for that; these memoranda were copied by your own office force. However, R.W.S. is the commonly recognized abbreviation for that firm, however it may be pronounced or spelled, is it?

Mr. LAMMOT DU PONT. Yes.

Senator CLARK. In other words, that memorandum indicates that some years prior to the memorandum which is undated, there had been a working agreement between the French and German cartridge manufacturers amounting to a price agreement, at least so far as center-fire cartridges are concerned; does it not?

Mr. LAMMOT DU PONT. I really don't know anything about them, Senator.

Senator CLARK. That is what this memorandum would indicate, is it not?

Mr. LAMMOT DU PONT. This is evidently a reference to ammunition.

Senator CLARK. Yes; it is.

Mr. LAMMOT DU PONT. And I take it to be a reference to sporting ammunition.

Senator CLARK. Center-fire cartridges are used in all high-powered military rifles, are they not?

Mr. LAMMOT DU PONT. They are, but as I say I don't know anything about this, and I would infer this refers to sporting ammunition.

Senator CLARK. There is nothing in this letter to indicate it refers to sporting ammunition as distinguished from military ammunition, is there? At any event, what I am getting at, this does indicate a very definite relationship between a large German ammunition manufacturing agency and a large French manufacturing agency, which had been brought about through the intervention and mediation of an American agency, whether it was Remington, which you now control, or the du Pont Co. itself.

Mr. LAMMOT DU PONT. I don't think you are on the right track, there. This communication is by the R.W.S., is it not—it is signed by R.W.S.

Senator CLARK. Yes.

Mr. LAMMOT DU PONT. That is the German company.

Senator CLARK. That indicates a very definite agreement. Do you understand R.W.S. was writing about itself and saying:

R.W.S. are bad offenders, so far as prices are concerned on center-fire metallics in Latin America, and should be made to realize that unless they raise their prices, ours can very readily be reduced.

Mr. LAMMOT DU PONT. Who did sign that?

Mr. RAUSHENBUSH. Nobody signed it, but it was in your I-G explosives file.

Mr. LAMMOT DU PONT. Who wrote it?

Senator CLARK. It is a memorandum taken from your files.

Mr. LAMMOT DU PONT. Who wrote it?

Senator CLARK. I do not know.

Mr. LAMMOT DU PONT. Neither do I.

Senator CLARK. Did you have any agreement between the German and French manufacturers of small arms ammunition?

Mr. LAMMOT DU PONT. We certainly did not earlier than a year ago.

Senator CLARK. When did you learn about this agreement between the German and French manufacturers?

Mr. LAMMOT DU PONT. I never learned about it at all, and I don't think the company did more than a year ago, because that is when we got into the ammunition business.

Senator CLARK. Did you have any information on this?

Mr. LAMMOT DU PONT. I am quite sure we did not before a year ago.

Senator CLARK. I am asking did you have any information of a working agreement between the French and German manufacturers of center-fire cartridges?

Mr. LAMMOT DU PONT. No.

Senator CLARK. Mr. Felix du Pont, did you?

Mr. A. FELIX DU PONT. No.

Senator CLARK. Mr. Casey, did you?

Mr. CASEY. No; but I might add I think when Mr. du Pont said sporting ammunition, I think he is correct, because Germany is prohibited—

Senator CLARK. I am not asking about that; we will come to that later. Do any of you have any such information; did you, Mr. du Pont?

Mr. IRÉNÉE DU PONT. No.

Senator CLARK. Now, Mr. du Pont, the situation between the German and the French ammunition manufacturers, besides being of great interest to your Remington division and probably to other arms manufacturers, seems to have been of great interest to the du Pont Co., too; was it not?

Mr. LAMMOT DU PONT. I would not say of great interest, but of some interest on account of our acquisition of the Remington Co.

#### CONTRABAND OF ARMS IN GERMANY

Senator CLARK. I will offer as the next exhibit a letter from William N. Taylor to Major Casey, of date June 27, 1932.

(The letter referred to was marked "Exhibit No. 506", and appears in full in the text.)

Senator CLARK. This letter is from Col. William N. Taylor, your Paris representative, and reads as follows:

I heard on my last visit to Holland that the German political associations, like the Nazi and others, are nearly all armed with American revolvers and Thompson machine guns, and that there is a regular business of bootlegging of small weapons from America to Germany, the center of which being Cologne and most of the bootlegging being done by Dutch.

However, this is only a rumor like so many other rumors.

Very truly yours,

WILLIAM N. TAYLOR.

Then, again, I offer as an exhibit a letter dated January 9, 1933, from William N. Taylor, your Paris representative, addressed to Major Casey.

(The letter referred to was marked "Exhibit No. 507", and appears in full in the text.)

Senator CLARK. I read this "Exhibit No. 507", as follows:

There are four men in Germany principally engaged in the contraband of arms.

James Magnus & Co., 'Burckardstr, Hamburg. Maurice Magnus is in charge of the military business. They have a representative in New York called Leo Kohn, 90 West Street. Maurice Magnus does not work in the name of the firm but takes orders in his own name. He claims to be a second-hand arms dealer in a legitimate manner, but, in reality, his work is all contrary to rules and regulations. The only legitimate work we know about is the sale of Polish rifles to Finland. His credit is not very good, because the manufacturers who sell to him become immediately involved in an illegal transaction and hence find it difficult to collect.

Beno Spiriro, Hamburg. This man deals largely with the Balkans and South America. His credit is supposed to be a little better than that of Magnus.

Carlowitz, Hamburg. There three men work together. Each one has his own set of customers and in selling to them all three sign the contracts. When the principal defaults in payment, you call on the second who also defaults, and the collection becomes extremely confused due to the number of signatures. It is undesirable to deal with these people; they are all under suspicion and their operations are irregular and payment is bad. However, they do a large business.

Kunst & Albers. This is a more respectable firm and is a large commission house which dealt before the war mainly with Russia and China. They still have several offices in China and are supposed to deal in a legitimate manner. They enjoy better credit.

All the purchases made by these people are c.i.f. free port of Hamburg.

It is perfectly legitimate to ship to the free port of Hamburg and deliver there. It is also perfectly legitimate to take goods out of the free port of Hamburg and ship them where you wish.

The Swiss factories, the Czechoslovakian factories, the Austrian factories, Dordrecht, and Bofors all ship their goods to the free port of Hamburg, and hence they are delivered to their various customers. That is why rumors of shipments of arms are always current in the city of Hamburg.

It is illegitimate for the German manufacturers to ship to the free port of Hamburg, but it is managed. Once in the free port, there is no difficulty in getting them out.

It is supposed that in the year 1932, 400 to 2,000 tons of powder were shipped from the free port of Hamburg. The destination is not known and the original manufacturers are not known. Most of all is supposed to go to Russia in bond through Riga.

The principal agent for purchases for Russia is a Mr. Jacobson in Copenhagen, who handles the Russian business for Bofors, Solothurn & Dotiken.

In Holland there is an attempt to control the illegitimate traffic of arms. Every dealer must have a license and is carefully watched.

There is a certain amount of contraband among the river shippers, mainly in arms from America. Arms of all kinds coming from America are transshipped in the Scheldt to river barges before the vessels arrive in Antwerp. Then they can be carried through Holland without police inspection or interference. The Hitlerists and Communists are presumed to get arms in this manner.

The principal arms coming from America are Thompson submachine guns and revolvers. The number is great.

Along the Lemberg frontier there is a small traffic of arms into Germany, revolvers and small weapons, which can be bought in the retail stores in Holland.

It is worthy of note that in view of the difficulties of trading, due to the fact that the politicians in a desire to restrain abuses have put so many restrictions, taxes, duties, and licenses, on legitimate trade, that in all international business the amount of smuggling and fraud has increased enormously. The illegitimate dealers pay no taxes nor duties and are free from all restrictions, hence they can outbid and outdeal the legitimate dealers.

The legitimate export of powder in Europe has not been above 300 tons in 1932, but it is supposed that the illegitimate trade is over 1,000 tons, much of it made in Germany.

Over control only affects correct dealing, but favors smuggling.

So far I have kept away from these smugglers, but I am going to Hamburg at the first reasonable opportunity and call on them to see what information I can get about the business.

Very truly yours,

WILLIAM N. TAYLOR.

MR. LAMMOT DU PONT. Senator, I think you misread the next to the last paragraph. You read it, "Our control only affects correct dealing but favors smuggling."

Senator CLARK. You are correct. Thank you, Mr. du Pont, for calling it to our attention.

Now, first, let me ask all of you gentlemen, in each of these two letters reference is made to large quantities of American manufactured Thompson submachine guns being smuggled into Germany. Did Colonel Taylor ever tell any of you gentlemen, or was it ever mentioned in any of his rather voluminous reports, who was handling the shipment of these arms from the United States to Germany?

MR. CASEY. No; he did not.

MR. LAMMOT DU PONT. We do not manufacture any submachine guns.

Senator CLARK. I understand, but I notice he made that statement, and I wondered if it had ever come to your attention?

MR. LAMMOT DU PONT. No, sir.

Senator CLARK. Now, this last letter I just read, in which reference is made to the arming of the Hitlerists and the Communists, was written immediately prior to Hitler taking power in Germany, as it was written January 9, 1933.

Mr. LAMMOT DU PONT. I have no information about that, but I presume that is correct.

Senator CLARK. If I may say in that connection, I understand the committee has requested the du Pont Co. to get together what information they can on the shipment of contraband machine guns, and that Major Casey has undertaken to do that work for the committee.

Now, on January 18, 1934, there is another report from Colonel Tayor to Major Casey, which I offer as an exhibit under the appropriate number.

(The letter referred to was marked "Exhibit No. 508", and appears in full in the text.)

Senator CLARK. I read from this "Exhibit No. 508", as follows:

The contraband of ammunition is increasing tremendously. I.C.I. have received continuous enquiries for delivery to the free port of Hamburg from Magnus and Beno Spiro. (They are two of the rather shady dealers mentioned in the last letter.)

We have invited Beno Spiro to meet us this week in Paris, but he refused to come.

We are going further into this matter.

This was the same Beno Spiro he referred to as a cheap character who would not pay his bills, in the last letter, wasn't it, Mr. du Pont?

Mr. LAMMOT DU PONT. There seems to be a similarity in the two names.

Senator CLARK. The letter reads further:

There seems to be the beginning of a decided increase of activity in the ammunition business in Europe. The immediate cause of excitement is the possibility of revolution of the Croates in Serbia, which, if it takes place, will cause considerable trouble.

Very truly yours,

WILLIAM N. TAYLOR.

Then, I call your attention to a letter to Major Casey from Colonel Taylor dated March 4, 1933, which I offer as an exhibit under its appropriate number.

(The letter referred to was marked "Exhibit No. 509", and appears in full in the text.)

Senator CLARK. "Exhibit No. 509", the letter from Colonel Taylor to Major Casey, reads:

I wrote to you sometime ago a little article on the question of contraband of arms and pointed out that the Dutch laws permitted the transport in canal shipments from Belgium into Germany in transit through Holland without any government inspection.

I also mentioned that certain small arms of American origin were taken in Belgian boats from the Scheldt through Holland into Germany.

The Dutch newspapers have been objecting to this and recently a Belgian deputy has asked this question in the Belgian Parliament and asked if any measures had been taken by the Government to prevent this traffic. The Belgian Ministry replied that this matter had been taken up and that the Belgian Minister at The Hague had been instructed to consult with the Dutch Government on this matter in an attempt to stop this.

It would appear that a good many of these arms come from Liege.

So it would appear that the matter mentioned in Colonel Taylor's previous communication to you had been of sufficient importance to be the subject of legislation and diplomatic correspondence?

Mr. LAMMOT DU PONT. Not our diplomatic correspondence.

Senator CLARK. No; but I say the subject of contraband munitions mentioned in Major Taylor's communications to you were actually of sufficient importance to be the subject of diplomatic correspondence.

Mr. LAMMOT DU PONT. I do not know that. Colonel Taylor is simply reporting the information to us.

Senator CLARK. That is reported by Colonel Taylor to you?

Mr. LAMMOT DU PONT. He had gotten this information and was passing it on to us.

Senator CLARK. He reported to you that it had been the subject of legislative action and diplomatic correspondence.

Mr. LAMMOT DU PONT. Colonel Taylor had not had that diplomatic correspondence.

Senator CLARK. No; he did not have the diplomatic correspondence, but he called the information to your attention as it came to his notice. He called to your attention the fact that it had been the subject of diplomatic correspondence also?

Mr. LAMMOT DU PONT. Colonel Taylor was just reporting the things to us, was our view.

Senator CLARK. Referring to "Exhibit No. 505", a memorandum taken from the Remington files, having to do with an agreement between French and German ammunition manufacturers, it is a fact, is it not, Mr. du Pont, that the R.W.S. referred to in that memorandum is now the Dynamit-Actien-Gesellschaft, which is commonly known in trade circles as "D.A.G."?

Mr. LAMMOT DU PONT. I do not know. This is not the same as Koln Rottweiler. I do not know whether this is a part of the D.A.G. or not.

Mr. CARPENTER. It is not a part of the D.A.G., but I believe they are both owned by the I.G., which is a large German company.

Senator CLARK. I call your attention to another letter, taken from your files, Mr. du Pont, addressed to Mr. C. K. Davis, president, Remington Arms Co., Inc., Bridgeport, Conn., written on the letterhead of the Remington Arms Co., Inc., 25 Broadway, New York, N.Y., evidently being an inter-office communication, dated October 22, 1933. That will be offered as an exhibit and appropriately numbered.

(The letter referred to was marked "Exhibit No. 510" and is included in the appendix on p. 1361.)

I direct your particular attention to the next to the last paragraph on the second page of this letter which is signed by Mr. A. A. Dicke, and which reads as follows:

On account of my rather intimate acquaintance with Mr. von Herz, Dr. Mueller, and many others in the R.W.S. (now the D.A.G.) organization, practically all correspondence between the two companies was handled through me, and I have continued in this relationship even after my resignation as vice president of the Remington Arms Co., Inc. That is the reason why the letter referred to was sent to me.

That would appear to be a letter from a former vice president of the Remington Arms Co., Inc., who has had direct charge of



whatever went on between the Remington Arms Co., and R.W.S., and he now makes the statement that the R.W.S. is now known as the "D.A.G."

Mr. LAMMOT DU PONT. I do not know anything about that.

Senator CLARK. I am trying to establish the identity for this.

Mr. LAMMOT DU PONT. I am afraid you cannot establish it from my information, Senator.

Senator CLARK. I have established it from the exhibit I just offered. Is there anybody else in your organization who would be better prepared to give information with regard to the identification of these companies?

Mr. LAMMOT DU PONT. I think somebody connected with the Remington Arms Co. might.

Senator CLARK. Have you anybody here from that company?

Mr. LAMMOT DU PONT. Only Dr. Sparre, who is a director, and I do not think he would be informed on that.

#### RELATIONS WITH DYNAMIT-ACTIEN-GESELLSCHAFT, GERMANY

Senator CLARK. This letter just put in the record, Mr. du Pont, is from the former vice president of the Remington Arms Co., addressed to the president of the Remington Arms Co., who personally handled their negotiations with R.W.S., who states that R.W.S. is now known as "D.A.G."

Mr. LAMMOT DU PONT. I do not say that is not true, but I do not know.

Senator CLARK. I see. You are not prepared to testify to it.

I offer this statement from Mr. Dicke, the former vice president of the Remington Arms Co.

I offer in evidence and ask to have marked the appropriate number an exhibit which is an extract from the directors' report of the Dynamit-Actien-Gesellschaft, 1933, showing this hook-up.

(The report referred to was marked "Exhibit No. 511" and is included in the appendix on p. 1362.)

Senator CLARK. I will read a certain portion of that, pronouncing as well as I can the names. On page 5, toward the bottom of the page, these minutes state [reading]:

We have community-of-interests agreements with the following firms":

Mr. LAMMOT DU PONT. I beg your pardon, Senator, but we seem to have no page no. 5 in here.

Senator CLARK. I marked the numbers with pencil myself, Mr. du Pont.

Mr. LAMMOT DU PONT. It is the first page of the report?

Senator CLARK. Yes, sir [reading]:

We have community-of-interests agreements with the following firms:

Carbonit Aktiengesellschaft; Gustav Genschow & Co., A.-G.; Köln-Rottweil, A.-G.; Rheinische Gummi & Celluloid Fabrik; Sprengstoffwerke Dr. R. Nahnsen & Co., A.-G.

We belong to the following unions, conventions, and similar syndicates governing price and sales:

Deutsche Sprengstoff-Konvention; Sprengstoff-Verkaufs-Gesellschaft, m.b.H.; Zundschnur-Verkaufs-Gesellschaft, m.b.H.; Sprengkapsel-Syndicat; Celluloid-Verkaufs-Gesellschaft, m.b.H.; Munitions-Verband; Vereinigung Deutscher Kunstharzfabriken.

Going on to the next page:

The most important of our holdings of shares are the following :

Firm	Nominal stock in RM	Nominal holding in RM
Carbonit Aktiengesellschaft.....	1,500,000	417,500
G. C. Dornheim Aktiengesellschaft.....	500,000	482,000
Deutsche Celluloid-Fabrik Eilenburg.....	8,000,000	2,211,500
Fabrik elektrischer Zunder Gesellschaft m.b.H.....	3,000,000	2,820,000
Selve-Kronbiegel-Dornheim A.-G.....	900,000	615,000
Sprengstoffwerke Dr. R. Nohnsen & Co. Aktiengesellschaft.....	700,000	351,600
Sprengstoffwerke Kieselbach-Kunigunde G.m.b.H.....	600,000	300,000
Rheinische Gummi und Celluloid Fabrik.....	1,000,000	600,000
Aktiengesellschaft Dynamit-Nobel, Bratislava (Pressburg).....	Kc. 13,200,000	Kc. 6,745,200

Now, Mr. du Pont, from your familiarity with the trade, you know that many of these companies which are enumerated there as being controlled by D.A.G., or with whom they have agreements, are or were prominent arms and explosives manufacturers, do you not? In other words, what I am getting at, Mr. du Pont, is this: It is a fact that D.A.G. is the great German explosives trust, is it not?

Mr. LAMMOT DU PONT. Yes, sir.

Senator CLARK. There is no question about that, and it is well recognized throughout the trade. Is not that a fact?

Mr. LAMMOT DU PONT. Yes, sir. There are a few names which I recognize in here, Senator.

Senator CLARK. Perhaps you could not recognize them from my pronunciation.

Mr. LAMMOT DU PONT. I have been reading them, after I got the drift of your question, and the few which I recognize are not munitions concerns. The Deutsche-Celluloid-Fabrik Eilenburg, I think, is a celluloid company.

Senator CLARK. They are all tied in with this great Munitions Trust, are they not?

Mr. LAMMOT DU PONT. Yes, sir. The Rheinische Gummi und Celluloid Fabrik, I think, is a rubber company.

Senator CLARK. There is no question but that the D.A.G. is the great German munitions combine, is there?

Mr. LAMMOT DU PONT. Surely.

Senator CLARK. I will ask you to look at page 6, the second page of that report, immediately following what I have read, in which this statement is made:

The balance sheet and the profit-and-loss account are based on our community of interests agreement with the I.G. Farbenindustrie A.-G.

And on the last page you will find this statement:

Based on the agreement with the I.G. Farbenindustrie A.-G., our net profit amounts to RM 1,679,199.95.

Now, the I.G. or the I.G. Farbenindustrie A.-G., commonly known as I.G., is the great chemical combine of Germany, is it not?

Mr. LAMMOT DU PONT. Yes, sir.

Senator CLARK. So that you have a great explosives combine of Germany, the D.A.G., and the great chemical combine, I.G., tied in

together in a combine, the exact manner of which we need not go into at this time.

Mr. LAMMOT DU PONT. Yes, sir.

Senator CLARK. There is no question about the D.A.G. and I.G. being tied in together, is there?

Mr. LAMMOT DU PONT. No.

Senator CLARK. There is also in evidence from the last exhibit the fact that the D.A.G., the explosives combine, and the I.G., the great German chemical combine, are so closely related that they show profits and losses together.

Mr. LAMMOT DU PONT. Are you asking me a question?

Senator CLARK. I just made the statement that it appears from that exhibit that you just examined, that there was such an intimate connection between the D.A.G. and the I.G., the great explosives combine and the great chemical combine, that their profits and losses are reflected in their balance sheets. That statement is specifically made in the minutes which I just read.

Mr. LAMMOT DU PONT. I presume that is correct.

Senator CLARK. Now, Mr. du Pont, I offer for the record, for appropriate number, a document which was taken from your files, and which we found marked in your files as "Unsigned—in effect as gentleman's agreement." This purports to be a license agreement covering patented inventions and secret inventions between E. I. du Pont de Nemours & Co., party of the first part, and The Vereinigte Koln-Rottweiler Pulverfabriken and Dynamit Actien Gesellschaft, party of the second part.

(The agreement referred to was marked "Exhibit No. 512" and appears in the appendix on p. 1367.)

This agreement starts out:

"This agreement, made in the city of Hamburg, Republic of Germany, as of the 1st day of January, A.D. 1928, between—"

the parties named, which I have just read.

What do you know about this agreement, Mr. du Pont?

Mr. LAMMOT DU PONT. That is an agreement between the German companies and ourselves, which is very similar to the agreement between I.C.I. and du Pont, in that it provides that each of the parties may acquire from the other an option to purchase valuable rights to processes. The agreement with I.C.I., in this respect, is in effect, in that it has been duly executed by both parties. This agreement with the German company was drafted along the same general lines and was informally agreed to but was not executed. It, therefore, is not in effect, I believe, legally, but we have notified the Germans, I think informally, that we were satisfied to be bound by it, that is, we would agree to the agreement verbally, informally, but we have not executed it.

Senator CLARK. In other words, that notice on this contract, as we found it in your files, unsigned, "in effect as gentleman's agreement", is literally accurate. The contract has not formally been completed by signature, but that it is in effect practically, as a gentleman's agreement between the two companies.

Mr. LAMMOT DU PONT. If you mean by a gentleman's agreement—

Senator CLARK. I am asking what you meant by this notation. It is not my notation but a notation by somebody in connection with your company.

Mr. LAMMOT DU PONT. I know what my interpretation of a "gentleman's agreement" is, but I do not know what yours is.

Senator CLARK. I am asking you yours.

Mr. LAMMOT DU PONT. My interpretation?

Senator CLARK. Yes.

Mr. LAMMOT DU PONT. My interpretation of a "gentleman's agreement" is one which is not executed but which the parties have considered.

Senator CLARK. And are proceeding under?

Mr. LAMMOT DU PONT. Yes; but I think also, Senator, the term "gentleman's agreement" applies to the ability of either party to get out of it.

Senator CLARK. The point I am making is that you have had these negotiations and are actually proceeding under that agreement at the present time, are you not?

Mr. LAMMOT DU PONT. Yes, sir.

Senator CLARK. Even though that may not be binding and valid, and even though it might be voided by either party.

Mr. LAMMOT DU PONT. Yes, sir; I think we would be perfectly right, both legally and ethically, if we notified these companies that after tomorrow we would not be bound by the agreement.

Senator CLARK. Or they with you?

Mr. LAMMOT DU PONT. Or they with us.

Senator CLARK. This agreement, Mr. du Pont, provides for an exchange of patents and processes on black powder in all varieties, on all varieties of smokeless propellants for sporting purposes; disruptive explosives of all kinds for industrial purposes; detonators; electric detonators; safety fuses; powder fuses; detonating fuses; electric igniters, and generally all devices for initial detonation or ignition; the components which form the ignition and propellant charges of sporting ammunition; and the ingredients and component parts of the above insofar as they are applicable to explosives.

Mr. LAMMOT DU PONT. There was an error in your statement, Senator. I do not know whether you intended it.

Senator CLARK. What is that?

Mr. LAMMOT DU PONT. You said that this provided for an exchange of rights. It does not, I think. It provides for an offering from one to the other of rights.

Senator CLARK. I will read the first paragraph on page 2, which will perhaps explain it better than my language did [reading]:

Each party agrees to and until the 31st day of December, A.D., 1935, upon making or obtaining any patented invention or discovering or acquiring any secret invention, to disclose in writing to the other party immediately, or in any event within 6 months thereafter, full particulars in respect thereof, and thereafter to furnish to the other party, whenever and so often as the other party shall request, copies of all claims, specifications, applications, and patents in respect of any such patented invention, and copies of all writings setting forth any such secret invention and such information as the other party shall request in respect of any such patented invention or secret invention.

Mr. LAMMOT DU PONT. That is correct.

Senator CLARK. That seems to me to provide for the exchange of your patents and secret processes.

Mr. LAMMOT DU PONT. No, sir; it does not.

Senator CLARK. Will you explain what that means?

Mr. LAMMOT DU PONT. It provides for the exchange of information.

Senator CLARK. That is what I had reference to.

Mr. LAMMOT DU PONT. A subsequent paragraph refers to granting rights.

Senator CLARK. I will read that:

Each party shall forthwith appoint one or more competent, trustworthy, and experienced persons in its employ for the purpose of receiving such particulars and information from the other party. Whenever and so often as the other party shall request and at the expense of such other party, each party shall supply experienced chemists, engineers, foremen, and other experts to assist such other party in investigating, testing, applying, or using any patented or secret invention disclosed as aforesaid.

Mr. LAMMOT DU PONT. That again refers to information and no granting of rights.

Senator CLARK. I was not speaking of rights, but exchange of information, be it a secret or patented process, either one, and this applies, as I understand it, to both. I mean, it applies whether you have patented the process or maintained it as a secret formula. You are obligated, by this agreement, to furnish any such thing you may have discovered, and to inform the German company, and if they desire, to furnish your personnel to train them in connection therewith.

Mr. LAMMOT DU PONT. We are not obligated to do the former. We are obligated to offer them the rights, but we are not obligated to give them the rights. We are obligated to give them the information.

Senator CLARK. You are obligated to notify them that you have discovered a new process or patented a new process.

Mr. LAMMOT DU PONT. Yes, sir.

Senator CLARK. And if they desire it, you are obligated to furnish it to them?

Mr. LAMMOT DU PONT. No; we are obligated to offer it to them, presumably for a price.

Senator CLARK. I have not arrived at the question of terms, but you are under an obligation to notify them of your discoveries, whether they be patents or processes; yes, sir, and assuming a satisfactory price arrangement between you, you are obligated, at their option, to furnish them not only with the patent or the process, but also with expert personnel to train them in the use of that invention.

Mr. LAMMOT DU PONT. If they will accept our terms, we are obligated to give them the rights.

Senator CLARK. I was not getting at the question of terms. This agreement is, in many respects, similar to your agreement with the I.C.I., is it not?

Mr. LAMMOT DU PONT. Very similar; and it also applies, like the I.C.I. agreement, only to commercial explosives.

Senator CLARK. I am coming to that in just a moment, Mr. Du Pont.

Mr. LAMMOT DU PONT. Yes, sir.

Senator CLARK. It also goes into the allocation of territory, like the I.C.I. agreement does, does it not?

Mr. LAMMOT DU PONT. No, sir; neither agreement does.

Senator CLARK. Does it not provide that in some cases licenses will be given to them, and in the licensing agreement is not an allocation of the territory made?

Mr. LAMMOT DU PONT. We are obligated to give certain rights for certain territories.

Senator CLARK. That means an allocation of territory so far as they are concerned, does it not?

Mr. LAMMOT DU PONT. I do not think that is correct, Senator.

Senator CLARK. You agree to trade with them and license them in certain territory, just as you did with the I.C.I., and in certain territory you have notified them that you won't give them a license, or will reserve that for your own exclusive exploitation. In other words, there is an A territory, a B territory, and a C territory allotted in the world, as to part of which they can have an exclusive license, and as to part of which it is nonexclusive, and as to the other part of which there is no license granted at all. Is not that correct?

Mr. LAMMOT DU PONT. Correct. In that territory which we agree to offer them a nonexclusive license on, that does not allocate to them that territory. Do you see that point?

Senator CLARK. Yes; I see that point; unless they have traded.

Mr. LAMMOT DU PONT. That is why I did not want you to think this is a division of territory.

Senator CLARK. It does provide that they shall not be given any license in certain territory which you reserve exclusively for yourself, and that in certain other territory they may be given an exclusive license; that is, assuming that they have agreed with you on terms; and in a certain territory they shall not be given an exclusive license, but may be given a nonexclusive license. That is the A, B, C territory.

Mr. LAMMOT DU PONT. Correct.

Senator CLARK. Now, Mr. du Pont, you said a moment ago, and said the same thing on yesterday, that this agreement with the D.A.G., the German explosives trust, and also the agreement with the I.C.I., the British explosives trust, covered only commercial explosives, and, of course, that is true in the terms of the contract, but necessarily a great many of these commercial explosives have great military utility, have they not? For instance, you would say TNT was covered by a commercial use, would you not?

Mr. LAMMOT DU PONT. I do not think so, Senator; no.

Senator CLARK. Mr. du Pont, I have forgotten exactly which one of you gentlemen it was, but day before yesterday twice you testified that the very profitable TNT plant which you had during the war—it was Mr. Pierre du Pont—was a commercial plant.

At page 1733 of the transcript of testimony made day before yesterday the following appears [reading]:

Senator BONE. I am going to see, Mr. du Pont, if I can more particularly identify this plant more definitely, and for that purpose I will take the report you filed with the Bureau of Internal Revenue [reading]:

"At the outbreak of the war in August 1914 the manufacture of TNT in this country was practically in its infancy. The du Pont Co. was, it is believed, a pioneer in the manufacture of this product"—that is to say, TNT—"and started the erection of a small plant about 1912. \* \* \*

You will remember that.

Mr. PIERRE DU PONT. That was a commercial plant.

Then, again, on page 1746, in the examination of Mr. Carpenter by Mr. Raushenbush, the TNT plant, which was so profitable during the war, was again referred to as a commercial plant. So that it would certainly seem from the state of the record that TNT is at least a commercial product as well as a military product.

Mr. LAMMOT DU PONT. I think that is true, but TNT does not seem to be covered by this agreement.

Senator CLARK. That is a commercial explosive, is it not?

Mr. LAMMOT DU PONT. Yes; but the agreement specifically mentions the commodities which are covered.

Senator CLARK. Are not many forms of detonators both commercial and military?

Mr. LAMMOT DU PONT. I do not think detonators are used in a military way at all.

Senator CLARK. If you wanted to blow up a bridge with TNT, would you not use a detonator for it, in case of war?

Mr. LAMMOT DU PONT. I am afraid I am not technically informed on blowing up bridges.

Senator CLARK. That might be a very important military activity.

Mr. LAMMOT DU PONT. A detonator is the technical name for an article. It is sometimes known as a "blasting cap."

Senator CLARK. I may not be technically familiar with it, but I know for what purpose detonators are used for both military and commercial activities. So that if the French Army were driven back by the Germans across the Meuse, as was the case in the war, and was extremely anxious to blow up the bridges after them, TNT detonators would be of importance, would they not?

Mr. LAMMOT DU PONT. Yes, sir.

Senator CLARK. So that it is impossible, as you agree, to draw a hard-and-fast distinction between military and commercial uses of detonators, and things of that sort? For instance, dynamite is ordinarily considered a commercial explosive; but if you did not have any better explosive it might be a very vital and important munition of war, might it not?

Mr. LAMMOT DU PONT. It might be.

Senator CLARK. A dynamite bomb dropped out of an airplane will probably do quite a lot of damage, would it not?

Mr. LAMMOT DU PONT. If it went off. Senator, your original question was as to whether TNT was included, and I said I did not think it was.

Senator CLARK. I thought my original question was whether TNT is a commercial as well as a military explosive.

Mr. LAMMOT DU PONT. Yes; I think it is; but I do not think TNT is included in this list of products.

Senator BONE. Is it excluded, Mr. du Pont?

Mr. LAMMOT DU PONT. It is not mentioned.

Senator BONE. Then, if it is recognized in the trade as a commercial explosive, it might very readily be included in the terms of the agreement.

Senator CLARK. I include TNT, Mr. du Pont, because of this language in the contract: "Disruptive explosives of all kinds for industrial purposes." I take it that TNT might be a disruptive explosive for commercial purposes as well as military purposes, might it not?

Mr. LAMMOT DU PONT. I think TNT is never used as a disruptive explosive for commercial purposes.

Senator CLARK. It might readily be used as a disruptive explosive for commercial purposes, might it not?

Mr. LAMMOT DU PONT. I do not know whether it could be or not, Senator; but it is not. In other words, it is not an efficient explosive for the purpose, and, therefore, it is not used for commercial purposes. I think I am correct in stating that the commercial use of TNT is not as a disruptive explosive.

Senator CLARK. I was simply using that as an illustration, Mr. du Pont. It is a fact, is it not, and well recognized by everybody that the great bulk of explosives can be used for either commercial or for military purposes, although one may be more commonly used in the commercial and industrial field and the other more commonly resorted to in the military field, but, lacking one, either one can be substituted in the other field, can it not?

Mr. LAMMOT DU PONT. I think they could be substituted.

Senator CLARK. That is all I am getting at.

Mr. LAMMOT DU PONT. But, generally speaking, commercial explosives are rarely used for military purposes.

Senator CLARK. That is perfectly true, but what I am getting at, Mr. du Pont, is this: That within this broad definition of "commercial explosives" you have a very wide field of instrumentalities, like dynamite and detonators of various kinds and aerial bombs, that might very readily be used for military purposes as well.

Mr. LAMMOT DU PONT. I presume they might be, Senator. Would it clear up this point if I make this statement: That if we made an invention in the manufacture of TNT, I would not report it to the Germans under this agreement?

Senator CLARK. Why is that, Mr. du Pont?

Mr. LAMMOT DU PONT. Because I would not consider it a disruptive explosive for industrial purposes, and it does not seem to come into the other categories mentioned. It is not a black powder; it is not a smokeless propellant, and it is not a detonator.

Senator CLARK. It would be a disruptive explosive if anybody wanted to use it for commercial purposes, would it not?

Mr. LAMMOT DU PONT. I would say it is not used for commercial purposes.

Senator CLARK. It would be, if anybody wanted to use it for commercial purposes, would it not? It might be the case that some other product would be better or cheaper for disruptive explosive purposes, but if anybody wanted to buy TNT and use it for disruptive explosive purposes commercially, they could, could they not?

Mr. LAMMOT DU PONT. That might be.

Senator CLARK. I do not care to argue as to what interpretation you put on the contract.

Mr. LAMMOT DU PONT. I would interpret the contract that way.

Senator CLARK. I would say from my limited knowledge, if this were actually a signed contract, and from a legal standpoint you failed to notify them of the invention of a new form of TNT, I would say that they had a good cause of action against you. You have a highly paid legal staff of your own, which might not agree with that, but it seems to me, under the terms of this agreement, you



would be bound to notify them of the invention of any new TNT or any other new explosive.

Mr. LAMMOT DU PONT. I am quite sure we are not so committed.

Senator BONE. This being purely a gentleman's agreement and one which could not be subject to a strict interpretation in court in case of an action being brought, it would be more natural to liberally construe it between the parties, I take it, because of that very fact, would it not?

Mr. LAMMOT DU PONT. If that agreement were signed by us, I would interpret it in exactly the same way.

Senator BONE. But, not being signed, and there not being legal sanction behind it, but being a gentleman's agreement, the parties could give it a liberal interpretation and would be justified in doing it, would they not? In other words, I take it you attempted to preserve as far as you could your harmonious relations with the German company; naturally you would not care to enter into those relations unless you could sustain them and, all things being equal, if the combination were profitable to you. I just assumed that because that would be an ordinary incident of the business.

Mr. LAMMOT DU PONT. Evidently this agreement indicates harmonious relations.

Senator BONE. That is what I am getting at. Naturally, you would not want to needlessly irritate the man with whom you had entered into harmonious business relations.

Mr. LAMMOT DU PONT. No.

Senator BONE. That would follow in the ordinary practice of business.

Mr. LAMMOT DU PONT. Senator, if the Germans had an invention with respect to TNT I would not expect them to give up the knowledge of it, under this agreement.

Senator CLARK. Just to clear up the relationship between commercial or nonmilitary and military, to clear up the use of these terms, I wish to read from the record at page 1892 the testimony of Mr. Lammot du Pont and Mr. Pierre S. du Pont, on the day before yesterday, or yesterday.

Senator GEORGE. The transition from the nonmilitary to the military use of them, however, is both swift and easy, is it not?

Mr. LAMMOT DU PONT. In some cases it is. But those cases are items of minor importance in commercial business.

Mr. PIERRE S. DU PONT. It is not true, however—correct me if I am wrong in this—that the prime ingredients of military propellants are the same as used in sporting powders, and in some disruptive explosives. For instance, gun cotton and nitroglycerine are both used in military propellants and are used very largely in sporting powders. So that the fundamentals bear direct relation to both branches of the industry, military and industrial.

Mr. IRÉNÉE DU PONT. Senator, I think your point is well taken and I think its weight is greater than has been stressed.

Industrial manufacture in the chemical industry will tie into the production in a large way and economically, of military explosives. I think that information of this kind may cheapen the costs and make available more military supplies by reason of having it.

Mr. du Pont, is there any official definition of commercial explosives? What I am getting at is this: We have in effect now, in the United States, although not technically an embargo on the export of munitions to certain countries, actually an embargo, Bolivia and Paraguay, to be exact.

Would not the export of commercial explosives which might be used for military explosives for military purposes be forbidden under that embargo unless an extremely clear showing were made that they were to go into purely commercial use instead of military use?

Mr. LAMMOT DU PONT. I do not think the question would be decided on whether the material was ever used for commercial or military purposes. I am not sure that I get your question.

Senator CLARK. That happens to be the ruling of the State Department, as I happen to know. In other words, the State Department recognizes that these commercial explosives may be very readily used for military purposes, and in a recent case in which it was sought to import blasting powder, a commercial explosive showing was required as to exactly the destination and the use to which it was to be put. And in that, the State Department well recognized that the so-called commercial explosives could be very readily converted into military explosives, if they were permitted to be imported.

Mr. LAMMOT DU PONT. Blasting powder is nonembargoed, I understand—that is, is not embargoed.

Senator CLARK. It was embargoed until a showing was made as to its destination in the particular case of which I speak.

Mr. LAMMOT DU PONT. I understand TNT is embargoed.

Senator CLARK. In other words, what I am getting at is this: There is an interchangeability between explosives for commercial purposes and for military purposes, even though one may be more suitable for ordinary commercial use and the other more suitable for ordinary military use. That is correct, is it not?

Mr. LAMMOT DU PONT. There is a possible interchange, but it is not usual.

Senator CLARK. For instance, in the strikes that are going on now in this country, somebody might take explosives that were ordinarily denominated as commercial explosives and use them for what would be military purposes, or vice versa.

So that we come back to the proposition, Mr. du Pont, that the information and the patents which you are obligated under this contract toward this gentleman's agreement as long as it is enforced to exchange with this German company, could in time of war have a direct bearing on the effectiveness of a large quantity of war materials; is not that correct?

Mr. LAMMOT DU PONT. It could not be.

Senator CLARK. Why not?

Mr. LAMMOT DU PONT. Because munitions are not included in the agreement.

Senator CLARK. Detonators might be munitions, I think we agreed a while ago.

Mr. LAMMOT DU PONT. Certain detonators, suitable for military purposes, would not be included in this agreement, because such detonators would be called by their proper names.

Senator CLARK. What is the proper name of a detonator for military purposes?

Mr. LAMMOT DU PONT. I do not know.

Senator CLARK. That is the name by which they are commonly spoken of in the Army.

Mr. LAMMOT DU PONT. I think in the torpedo it is the war head, is it not?

Senator CLARK. I am not familiar——

Mr. LAMMOT DU PONT. Neither am I.

Senator CLARK. With the naval nomenclature. But a detonator in the Army is a detonator.

Mr. LAMMOT DU PONT. I think in military explosives every given detonator is known by its own name. But I do not know very much about it.

Senator CLARK. In my time in the Army, a detonator was known as a detonator.

Mr. LAMMOT DU PONT. Mr. A. Felix du Pont suggests that they are known as "primers" in military language.

Senator CLARK. I always heard them spoken of as detonators.

Mr. LAMMOT DU PONT. I think a detonator is a general term; a detonator is a thing that detonates something else.

Senator CLARK. That is perfectly true, and that is the term used in this contract.

Mr. LAMMOT DU PONT. There are lots of different kinds of detonators.

Senator BONE. Would that term be sufficiently broad to comprehend all of these classifications?

Mr. A. FELIX DU PONT. The corresponding article to a detonator in military use is a primer, and it is used for igniting propellant powders. It is also used—and there you get a little bit tangled up—in the bursting charges for shells it is again called a detonator.

Senator CLARK. If you were to invent a new process for any sort of explosives——

Mr. LAMMOT DU PONT. Dynamite?

Senator CLARK. Well, dynamite or any other shattering explosives or disruptive explosive, and put the Germans in possession of your secret process, as you would be bound to do under this contract——

Mr. LAMMOT DU PONT. You are wrong there, Senator. If it were a military disruptive explosive, we would not be bound under this agreement to give it to them.

Senator CLARK. Going back to your admission hitherto this afternoon that commercial explosives can be used for military purposes, although perhaps not used with as great facility as others—that is, military explosives—after you had classed this explosive as a commercial explosive and put the Germans in possession of your secret formula for the manufacture of it, it being your patented process, and they were to engage in a war, there would be nothing to prevent them from taking those processes and using them in the manufacture of war explosives would there?

Mr. LAMMOT DU PONT. Senator, we would not class the military explosives as commercial explosives.

Senator CLARK. But Mr. du Pont, it has been admitted here two or three times that commercial explosives may be used for military purposes, even though with not as great facility as the military explosives. Then, being in possession of the process for the manufacture of these commercial explosives in the event of war, there would be nothing to prevent them from taking those processes and using those explosives for military purposes if they did not have anything better.

Mr. LAMMOT DU PONT. Yes. We would give them information regarding commercial explosives.

Senator CLARK. And being in possession of that, they could use them for anything that they pleased in the event of war.

Mr. LAMMOT DU PONT. They would be of no use to them in war. Dynamite is practically of no use in a war; blasting powder is practically of no use in a war.

Senator CLARK. What do they use for mining operations in a war?

Mr. LAMMOT DU PONT. TNT, I believe.

Senator CLARK. They also use dynamite, do they not?

Mr. LAMMOT DU PONT. I do not think they do, Senator. I am not very warlike myself.

Senator CLARK. Dynamite can frequently be used in a war if you had no other substitute for it.

Mr. LAMMOT DU PONT. I do not think it is used for military mines; no, sir.

Senator CLARK. How about nitroglycerin?

Mr. LAMMOT DU PONT. Nitroglycerin itself is certainly not used in military operations itself.

Senator CLARK. I understand that it is used in the manufacture of munitions of war?

Mr. LAMMOT DU PONT. Nitroglycerin is used in the manufacture of some kind of propellant powder; for instance, cordite.

Senator CLARK. What I am getting at is this: Nitroglycerin would be an ingredient, so to speak, of both commercial and military explosives?

Mr. LAMMOT DU PONT. Yes.

Senator CLARK. And if you were to invent some new process touching nitroglycerin, would you feel bound under this contract to notify your German friends?

Mr. LAMMOT DU PONT. That is another question. I would have to look up the contract.

Mr. PIERRE S. DU PONT. While Mr. Lammot is looking that up, let me say that I think there is a little confusion here. You are right in regard to the interchangeability of certain explosives and my brother is trying to define what we consider our obligations under this agreement. We may make a classification that is not in accordance with your interpretation, or it may not be technically correct. What we do may be right and it may be wrong.

Senator CLARK. I understand, but since you have no contract that the other party can enforce, you can give it any interpretation you please?

Mr. PIERRE S. DU PONT. But even if it were a bona fide contract, the understanding between the two as to what was in one classification or in other classifications might not be a correct understanding, that is, it might result in an incorrect classification, but as long as they both agreed to it, that is what it would be.

Senator CLARK. But the point is that the testimony here has uniformly been that there is a certain interchangeability between the commercial explosives and military explosives. That is, certain things which ordinarily you would consider as military explosives could be used for military purposes and vice versa?

Mr. PIERRE S. DU PONT. Sometimes they are somewhat similar.

Senator CLARK. For instance, take the TNT. You speak of your TNT plant as a commercial plant?

Mr. PIERRE S. DU PONT. It is somewhat like this: During the recent war I understand that the Germans did not have sufficient wool to make clothing, so they made clothing out of paper. You would hardly include paper as a material for making clothing, but it can be used for that purpose.

Senator CLARK. There is no question of TNT being a military explosive, is there?

Mr. PIERRE S. DU PONT. It is military, but it is not commercial.

Senator CLARK. What did you mean then the other day when you spoke of your very profitable plant as being a commercial plant?

Mr. PIERRE S. DU PONT. Let me explain that. That commercial plant was originally started to make a nitrotoluol of less degree of intensity, if I may put it that way, for certain commercial safety explosives. That same plant was later developed to make TNT, which was not either used or known, as I understand it, at the time that our commercial plant was built. But that plant could be used for either and grew from one plant to another.

Senator CLARK. Surely. Now suppose, under this contract, you were to go over and show the Germans your process for making this commercial TNT or commercial—

Mr. PIERRE S. DU PONT. Nitrotoluol.

Senator CLARK. I understand that TNT is trinitrotoluol. Suppose you were to go over there and show them your commercial process for making this toluol. A war would come along and they would very nicely be able to convert that plant by the addition of simply one other formula into a TNT plant, would they not?

Mr. PIERRE S. DU PONT. That is true. But notwithstanding, we do not interpret the agreement that way. We may be entirely wrong. I am just saying what we do.

Senator CLARK. So then, in spite of the fact that your own TNT plant was a commercial plant, you would not feel compelled to disclose any information to the Germans as to the invention of a new process respecting TNT, if I understand you correctly.

Mr. LAMMOT DU PONT. I would not think that we were expected to do so, and I would not give them the information or send them the information.

Senator CLARK. Of course, it would appear from the exhibits here today that the first question of whether this TNT plant was a munitions plant or a commercial plant had to do with your return to the Bureau of Internal Revenue, and, secondly, it had to do with this contract. It would appear that the definition of TNT really depends on whom you are dealing with, whether the Internal Revenue Department or the D.A.G. in Germany, because in one case you say that the TNT plant was a commercial plant, while in the other case you say that it would not be included as a commercial explosive.

As a matter of fact, Mr. du Pont, while Germany is now forbidden by the various treaties signed after the war to manufacture armament, it is a fact that they are manufacturing, under agreements such as we have referred to, various high explosives which have extreme value in time of war; your reports from Europe indicate that, do they not?

Mr. LAMMOT DU PONT. They are only reports of information that has been received.

Senator CLARK. I understand. But do not your reports indicate that? You have very complete report service from Europe, as has been indicated here from time to time in the record?

Mr. LAMMOT DU PONT. The reports indicate that, Senator, but we do not know whether the reports are correct or not.

Senator CLARK. You have an information service on which you rely very largely, do you not?

Mr. LAMMOT DU PONT. Not always. We do not rely on all these reports. That is gossip reported to us, and we treat it as gossip.

Senator CLARK. As a further point, Mr. du Pont, if the Germans were manufacturing munitions of war, explosives which might be useful in war time, they might be depending very largely on the secret processes which they obtain from your company?

Mr. LAMMOT DU PONT. You mean in future or in the past?

Senator CLARK. That they are entitled to obtain from your company under that contract.

Mr. LAMMOT DU PONT. Certainly not in the future, Senator.

Senator CLARK. Not if you abrogate the contract, certainly.

Mr. LAMMOT DU PONT. No, if we keep the contract in effect. We are not required to give them information in regard to any military explosive. I said that a number of times, and I believe it to be true. That is the way I interpret it.

Senator CLARK. We still do not seem to be able, Mr. du Pont, despite the fact that all of you gentlemen have admitted this interchangeability between commercial and military explosives, to agree as to what your obligations are under that contract.

Mr. LAMMOT DU PONT. I have a very clear understanding of what our obligations are.

Mr. A. FELIX DU PONT. Perhaps I can clear up something there in regard to commercial and military explosives.

Senator CLARK. Please do. I shall be glad to have it.

Mr. A. FELIX DU PONT. There are two great classes of so-called "explosives" used in war time. One is a propellant charge. We do not call that an explosive. That is smokeless powder. An enormous amount of that is used, as you know, and that is used to send the projectile out of the gun.

The other is the bursting charge for shells. That is TNT. It is also used in airplane bombs. You seem to be under the impression that if people did not have TNT, they could use dynamite for that purpose. They could not.

Senator CLARK. Not for that particular purpose; no.

Mr. A. FELIX DU PONT. That is the enormous amount that is used. If it was used for demolition purposes, like blowing up bridges—

Senator CLARK (interposing). What I am getting at is this: That there are many purposes for which dynamite could be used, or other explosive might be used as a military munition, if you did not have TNT, which happens to be the new process and the best one.

Mr. A. FELIX DU PONT. No, Senator; it is a question of quantity in that case and use. Wherever you could substitute dynamite for TNT, it would be in blowing up a bridge, something like that. But it is unquestionable that any country could find enough dynamite to blow up bridges.

Senator CLARK. What did they use before they had TNT?

Mr. A. FELIX DU PONT. They used black powder.

Senator CLARK. TNT is a rather new development, is it not?

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. And black powder is covered under this contract with Germany, is it not?

Mr. LAMMOT DU PONT. Yes.

Senator CLARK. Which is both a commercial and a military munition.

Mr. A. FELIX DU PONT. No invention has improved black powder in 200 years.

Senator CLARK. But if you were to invent a process for black powder, whether for commercial or military purposes, you would be required to turn it over to this German company.

Mr. A. FELIX DU PONT. It would be a miracle.

Senator CLARK. That could be construed as being commercial even though it might be also used for military purposes.

Mr. A. FELIX DU PONT. You mean black powder?

Senator CLARK. Any one of this whole list; any process or improvement which was brought about through your research on anything, the principal use of which was for commercial purposes, you would be required to turn over, would you not?

Mr. LAMMOT DU PONT. I think so, for its principal use.

Senator CLARK. Then there is no disagreement on the subject. What is dynamite used for now?

Mr. LAMMOT DU PONT. Mostly in mining and construction work.

Senator CLARK. It is not used for military purposes?

Mr. LAMMOT DU PONT. Not at all, except for demolition.

Senator CLARK. There is a great deal of demolition in war time, is there not?

Mr. LAMMOT DU PONT. Very little.

Senator CLARK. How is that?

Mr. LAMMOT DU PONT. Very little, I believe. I do not mean demolishing enemy structures, but demolishing your own structures.

Senator CLARK. Well, that is entirely dependent upon the course of the war, Mr. du Pont. A retreating army always endeavors to demolish whatever it can to hinder the enemy.

Mr. LAMMOT DU PONT. You do not shoot dynamite over into the enemy's territory.

Senator CLARK. I understand that, but you do use it very largely for demolition purposes in a retreat, do you not?

Mr. LAMMOT DU PONT. If you run across a bridge and want to destroy it so that the enemy may not follow you, dynamite would be a very good explosive to use for that purpose. It is usually your own bridge.

Senator CLARK. In this agreement between the D.A.G. and du Pont, the British Empire was omitted. Why was that?

Mr. LAMMOT DU PONT. Omitted?

Senator CLARK. Yes.

Mr. LAMMOT DU PONT. You mean no rights—

Senator CLARK. It was excluded from the territory in which rights could be granted.

Mr. LAMMOT DU PONT. I think that that is due entirely to the fact that we had an agreement with I.C.I. whereby we were obligated to offer them exclusive rights for the British Empire.

Senator CLARK. So that this agreement of yours with D.A.G. really fitted into your agreement with I.C.I.?

Mr. LAMMOT DU PONT. Yes.

Senator CLARK. You were negotiating with D.A.G. in contemplation, of course, of your contract which had been signed with I.C.I.?

Mr. LAMMOT DU PONT. Yes.

Senator CLARK. Mr. du Pont, I call your attention to a letter to the executive committee of du Pont from Mr. J. Thompson Brown. He is one of your directors, is he not?

Mr. LAMMOT DU PONT. Yes, sir.

Senator CLARK. He is a member of the executive committee. I offer that letter as "Exhibit No. 513."

(The letter referred to was marked "Exhibit No. 513" and is included in the appendix on p. 1372.)

Senator CLARK. It is dated March 23, 1927. It is headed "Report of conference in February and March with British and German explosive interests." It reads:

On account of differences of opinion as to the extent to which du Pont and Nobel \* \* \*

When they say "Nobel" they mean I.C.I., do they not?

Mr. LAMMOT DU PONT. I think so.

Senator CLARK (reading):

\* \* \* which du Pont and Nobel should share with the D.A.G., the compensation which the D.A.G. had agreed to pay other German explosives companies for withdrawing from and limiting their activities in the export markets, and also because of a threatened resignation of the manager of Explosives Industries, Ltd., it was thought well that the writer should visit London, Hamburg, and Cologne for discussion of these as well as other live subjects with officials of the British and German explosives companies. Consequently the writer sailed for England on February 5 and returned to Wilmington on March 15.

There is attached hereto as exhibit A copy of minutes of meeting held at Nobel House, London, on February 16. It will be noted from these minutes that it was agreed between du Pont and Nobel that du Pont's share of the compensation to the German competitive companies, known as "Coswig, Lignose, and Gnaschwitz", should rightly be placed at £937/10 annually, whereas it had been contended by Nobel that du Pont's share should be £3,000 annually. The D.A.G. group had entered into agreements to pay annually to Coswig for a period of 10 years the sum of £5,000 in consideration of Coswig limiting its shipments of high explosives to the export markets to 250 tons per annum, and had made similar arrangements with Lignose and Gnaschwitz to pay to each of them £2,000 per annum to abstain from shipping explosives to the export markets. The writer agreed with Nobel that it would be proper to allocate to Chile and Bolivia 100 tons of the 250 tons accorded Coswig in the export markets, the balance to be delivered to the Dutch East Indies, and contended that it would be proper that one-half of the cash compensation to be paid Coswig should be considered as payable by the South American market, but that as neither Lignose nor Gnaschwitz had entered the export markets, and therefore had not been competitors of du Pont, du Pont should not share in the compensation to them. These points were conceded by Nobel and were later agreed to by Dr. Muller on behalf of the D.A.G. while the writer was in Cologne.

While in Hamburg on February 28 it developed that German deliveries of high explosives to Mexico have been made in 25-kilo cases, i.e., 55 lbs. net weight, and that deliveries under the du Pont-Hercules-D.A.G. agreement to date, including a shipment going forward on March 2, have amounted to 6,600,000 pounds, leaving 4,400,000 pounds of German high explosives still to be delivered.



What was that agreement with Hercules, Mr. du Pont—the du Pont-Hercules-D.A.G. agreement? Was Hercules a party to this agreement that you had with D.A.G.?

Mr. LAMMOT DU PONT. No, sir.

Senator CLARK. What agreement with D.A.G. was it that Hercules was a party to? Hercules was another American powder company, was it not?

Mr. LAMMOT DU PONT. Yes.

Senator CLARK. Concerning which your company recently has been engaged in some litigation?

Mr. LAMMOT DU PONT. I do not recall the litigation. It was one of the companies split off from the du Pont company in 1913.

Senator CLARK. Under a court order; that is what I had in mind.

Mr. LAMMOT DU PONT. I cannot think for the moment, Senator, what the du Pont-Hercules agreement is.

Senator CLARK. It evidently had to do with Mexico.

Mr. LAMMOT DU PONT. It is evident that it had to do with Mexico?

Senator CLARK. Well, it is not of much importance.

Mr. LAMMOT DU PONT. In any event, it refers to dynamite.

Senator CLARK (reading):

Mr. Marquardt agreed that D.A.G. would accept cash compensation for its undersales of the E.I.L. quota during the 15 months ending December 31, 1926, on the same basis as arranged with Nobel early in 1926, viz: £10 per ton of high explosives, 8s. per thousand detonators, 6s. per hundred electric detonators, 6d. per thousand feet of safety fuse.

With reference to the undersales of the E.I.L. quota, of D.A.G., does that indicate that when D.A.G. did not sell up to the quota allotted to it by I.C.I. and du Pont, the compensation was paid to D.A.G. for their failure to sell up to their quota?

Mr. LAMMOT DU PONT. This all refers to sales by E.I.L.

Senator CLARK. Who is E.I.L.?

Mr. LAMMOT DU PONT. E.I.L. is a company organized to sell commercial explosives in certain countries in South America.

Senator CLARK. That was the export company?

Mr. LAMMOT DU PONT. You might call it an export company.

Senator CLARK. Which is owned by du Pont-D.A.G.-I.C.I.?

Mr. LAMMOT DU PONT. Yes.

Senator CLARK. Was that interest between the three companies equal in E.I.L.?

Mr. LAMMOT DU PONT. I do not think it is equal; no, sir. I have forgotten the proportions.

Senator CLARK. Do you recall about what the proportions were? It is not important, but it is interesting to know.

Mr. LAMMOT DU PONT. I do not think it is equal, Senator. My impression is that the I.C.I. and du Pont interests are larger than that of D.A.G.

Senator CLARK. But this provision of the contract—

Mr. LAMMOT DU PONT. Dr. Sparre said that D.A.G. has 25 percent.

Senator CLARK. And the remainder is divided about equally between I.C.I. and du Pont.

Mr. LAMMOT DU PONT. I think that is correct.

Senator CLARK. And that is a company formed for the purpose of controlling the export field in South America?

Mr. LAMMOT DU PONT. No, sir. It is a British company formed to sell commercial explosives in certain countries of South America.

Senator CLARK. And under that a quota is given to D.A.G.

Mr. LAMMOT DU PONT. Yes, sir.

Senator CLARK. Of the total sales in South America; and when D.A.G. is not able to sell up to its quota of total sales, then they are reimbursed by the other two companies; is that the idea?

Mr. LAMMOT DU PONT. No, sir; that is not the idea.

Senator CLARK. Will you explain what it does mean?

Mr. LAMMOT DU PONT. It shows that you have a misconception of this company. E.I.L. is a British company formed to sell commercial explosives to certain countries of South America. It is not a manufacturing company. E.I.L. is not a manufacturing company. It secures its goods to sell from the three stockholders, and it draws those goods from the stockholders in a certain proportion which is known as the quota. If it does not draw from D.A.G. as many pounds of powder as the quota represents, then D.A.G. gets some compensation.

Senator CLARK. From E.I.L.?

Mr. LAMMOT DU PONT. From E.I.L.

Senator CLARK. Which in effect is a contribution, 75 percent of it, from du Pont and I.C.I.

Mr. LAMMOT DU PONT. Correct.

Senator VANDENBERG. Are you the originator of this alphabetical arrangement?

Senator CLARK. There are more alphabetical organizations that we are coming across here than there are in Washington.

Mr. LAMMOT DU PONT. We deny any credit for the results anyway.

Senator CLARK. Reading further from this exhibit:

In conference with Dr. Paul Muller, in Cologne, on March 4 he agreed to the distribution of the compensation to the outside German explosives companies, as already stated, and approved the arrangements made in Explosives Industries, Ltd.

In view of the very excellent type of delay-action electric blasting cap produced at the Troisdorf factory of the Rhenisch-Westfälische-Sprengstoff AG, and the desirability of du Pont putting out a similar article, the writer arranged with Dr. Muller to purchase the Eschbach United States Patent 1570733 for \$7,500, to be paid in three annual installments. Assignment agreement will be drawn and sent to Cologne at an early date.

It was also arranged with Dr. Muller that Mr. William Eschbach, manager of the detonator factory at Troisdorf, will come to America during this year, and that there will be discussed with him while here the subject of lead-azide-tetryl-aluminum-shell detonators, now manufactured almost exclusively at Troisdorf; and that subsequently du Pont would send one or more men to Troisdorf to make an exhaustive study of the manufacture of this product. Dr. Muller made assurances that the processes involved in the manufacture of these detonators would not be offered to other American explosives manufacturers pending a decision by du Pont. He indicated that should we eventually decide to adopt this type of detonator he would expect du Pont to pay for the process a lump sum of 100,000 marks, and to agree to a royalty payment to be applied from the start of manufacture, the 100,000 marks originally paid to be credited to the royalty payments.

Mr. LAMMOT DU PONT. Senator, your pronouncement in one point makes me think you misunderstood this entirely. You referred to the aluminum-shell detonators. The shell and the aluminum go together. It is not a detonator for a shell, but the aluminum shell is one of the component parts of the detonator.

Senator CLARK. That is not the point I had in mind, and I did not know anything about that at all. I do not profess to be familiar with that detonator and I have not the faintest idea of that type at all, or what it is.

Mr. LAMMOT DU PONT. I have to keep close track on you, to keep you straight.

Senator CLARK. What this arrangement means is that du Pont and I.C.I. will share with D.A.G. the cost of carrying the competitors to keep them out of the world market?

Mr. LAMMOT DU PONT. No; they share the expense of keeping certain competitors out of certain South American markets.

Senator CLARK. Well, they were world markets, were they not?

Mr. LAMMOT DU PONT. No; they were just the markets in those countries.

Senator CLARK. That is one of the components of the world markets, the South American market, and you were sharing with this German company and this British company the expenses of keeping competitors out of certain markets. So that, the intent and purpose of all of these agreements was to guarantee in the world market the sale of explosives by no one else except those controlled by du Pont, I.C.I., and D. A. G.?

Mr. LAMMOT DU PONT. That is not a fair statement.

Senator CLARK. I cannot see why it is not a fair statement.

Mr. LAMMOT DU PONT. Because this E.I.L. Co. dealt only in certain South American countries, and the competitors that were kept out of those markets, as you indicate, only were some of the competitors. There were many other competitors that were not kept out.

Senator CLARK. Yes; but you did contribute to keep competitors out of the world market?

Mr. LAMMOT DU PONT. Not all competitors.

Senator CLARK. You refused to contribute to these companies where they were not direct competitors of the du Pont as well as the E.I.L. In other words, the mere fact that a company was a competitor of E.I.L. and did not induce you to make any contribution, but it also had to be a competitor of the du Pont Co. That clearly appears from this exhibit I just read.

Mr. LAMMOT DU PONT. No; I think you are wrong.

Senator CLARK. I call your attention to this letter of Mr. Thompson dated March 23, 1927, "Exhibit No. 513." That was the report of Mr. Brown, and on page 2 he refers to this compensation, which reads:

and contended that it would be proper that one-half of the cash compensation to be paid Coswig should be considered as payable by the South American market, but that as neither Lignose nor Gnasschwitz had entered the export markets, and therefore had not been competitors of du Pont, du Pont should not share in the compensation to them.

That clearly had reference to compensation that the du Pont Co. should pay?

Mr. LAMMOT DU PONT. That disproves your previous statement.

Senator CLARK. No; it does not.

Mr. LAMMOT DU PONT. May I ask the stenographer to read your question?

Senator CLARK. My idea was that your contribution was based on compensation of du Pont, and you said that was not true.

Mr. LAMMOT DU PONT. And I repeat it.

Senator CLARK. Your statement entirely differs with that of Mr. Thompson Brown.

Mr. LAMMOT DU PONT. I think we must be talking about different things. You say our compensation paid to these competitors was based upon whether or not—

Senator CLARK (interposing). Whether or not they were competitors of du Pont. That is precisely the distinction Mr. Thompson Brown makes in the report to you in the letter I just read in which he says:

The writer agreed with Nobel that it would be proper to allocate to Chile and Bolivia 100 tons of the 250 tons accorded Coswig in the export markets, the balance to be delivered to the Dutch East Indies—

And then he continues:

and contended that it would be proper that one-half of the cash compensation to be paid Coswig should be considered as payable by the South American market, but that as neither Lignose nor Gnasschwitz had entered the exports market, and therefore had not been competitors of du Pont; du Pont should not share in the compensation to them.

Mr. LAMMOT DU PONT. That is right; they had not been competitors previous to the formation of E.I.L.

Senator CLARK. Now, were you successful in keeping these competitors out of the market?

Mr. LAMMOT DU PONT. So far as I know.

Senator CLARK. That matter falls under your jurisdiction; you are familiar with the ordinary course of contracts which your company enters into controlling certain markets?

Mr. LAMMOT DU PONT. I don't know whether some of these German companies live up to the exact letter of the agreement. To the best of my knowledge and belief they have not sold in those particular markets, those particular South American markets.

Senator CLARK. I will ask you to look at exhibit A which was attached to the letter of Mr. Thompson Brown, being the minutes of a meeting held at Nobel House on the 16th of February 1927, and which I will ask to be marked as an exhibit with the appropriate number.

(The document referred to was marked "Exhibit No. 514", and is included in the appendix on p. 1374.)

Senator CLARK. It appears that there were present at this meeting Mr. J. Thompson Brown, Mr. Wendell R. Swint, Mr. H. J. Mitchell, Mr. J. Laing, and Mr. A. G. Major, representing E. I. du Pont de Nemours & Co. and Nobel Industries, Ltd.

At the bottom of the first page of that exhibit, Mr. du Pont, we find this remark:

Atlas and Hercules activities: The activities of these two companies, particularly in Colombia, were discussed.

Atlas and Hercules were two American explosives companies?

Mr. LAMMOT DU PONT. Yes.

Senator CLARK. Were they two of the companies split off from du Pont?

Mr. LAMMOT DU PONT. Yes, sir.

Senator CLARK. That was the result of an antitrust proceeding, was it not?

Mr. LAMMOT DU PONT. Yes, sir.

Senator CLARK. In which you were ordered by the court to separate the entities of these companies from the du Pont Co.?

Mr. LAMMOT DU PONT. Yes, sir.

Senator CLARK. When was that?

Mr. LAMMOT DU PONT. In 1913.

Senator CLARK. I will read this again:

Atlas and Hercules activities: The activities of these two companies, particularly in Colombia, were discussed, and Mr. Brown stated that in conversations he had had with their representatives he had been informed that neither company intended to institute more aggressive measures, and that he felt they would be content with a share of the market not in excess of their present proportions. Mr. Brown, during his forthcoming visit, will explain the situation to the Germans.

Now, does that indicate you had an unsigned agreement with Atlas and Hercules as to the limit of their sales in 1927?

Mr. LAMMOT DU PONT. No, sir.

Senator CLARK. What does that report of Mr. Brown indicate when he said he felt justified in reporting to his European associates that Hercules and Atlas would be satisfied with a certain proportion?

Mr. LAMMOT DU PONT. That was the result of conversations Mr. Brown had with two competitors.

Senator CLARK. That did not amount to an agreement?

Mr. LAMMOT DU PONT. Certainly not.

Senator CLARK. Mr. Brown felt confident enough, though, to report it to his British associates, and reported to you that he would report it to his German associates in the near future?

Mr. LAMMOT DU PONT. Yes, sir.

The CHAIRMAN. Senator Clark, may I interrupt for a minute?

Senator CLARK. Yes, sir.

The CHAIRMAN. Does this agreement by any chance mark the inauguration of the N.R.A. idea?

Mr. LAMMOT DU PONT. I do not get your meaning, Senator.

The CHAIRMAN. Well, we have here a limitation of production and what not, involved, and is that at all basic of what has followed in our production program?

Mr. LAMMOT DU PONT. There is no limitation of production in this E.I.L.

Senator CLARK. Was any compensation paid to Hercules and Atlas for agreeing to limit their participation in the market to what it had been prior to 1927?

Mr. LAMMOT DU PONT. No, sir.

Senator CLARK. Do you know of any reason why they should have agreed to that?

Mr. LAMMOT DU PONT. Agreed to what?

Senator CLARK. Why they should agree to limit their share in the market to what they had enjoyed in 1927?

Mr. LAMMOT DU PONT. No, sir; I know of no reason.

Senator CLARK. Or any assurance they had given Mr. Brown to justify him in reporting this to the British and German associates?

Mr. LAMMOT DU PONT. There were no assurances given Mr. Brown and he did not say so.

Senator CLARK. He did not say assurances, but certainly he gave his British associates information on which they would be justified, in view of his familiarity with the American situation to rely on. The activities of these two companies, particularly in Colombia, were discussed and Mr. Brown stated he had been informed, and that he felt they would be content with a share of the market not in excess of their present proportion; that is, 1927, and that Mr. Brown during his forthcoming visit will explain the situation to the Germans.

You know of no agreement that was entered into.

Mr. LAMMOT DU PONT. No, sir; I am quite sure there was none.

Senator BONE. Why would two large competitor companies of that size voluntarily restrict the scope of the volume of their business?

Mr. LAMMOT DU PONT. There were various reasons but I do not know what they were.

Senator BONE. As I recall the testimony of the first day of this hearing, the Atlas and the Hercules Powder Co., when they were separated from the parent organization and reorganized into separate entities, found the stock of those companies largely in the hands of du Pont stockholders.

Mr. LAMMOT DU PONT. All of the stock was paid to du Pont stockholders as a dividend.

Senator BONE. So that the then present du Pont stockholders were the owners of the Hercules and the Atlas?

Mr. LAMMOT DU PONT. Yes, sir.

Senator BONE. Can you advise us whether that ownership still is in du Pont stockholders?

Mr. LAMMOT DU PONT. It has been largely dissipated, I believe.

Senator CLARK. Was that true in 1927?

Mr. LAMMOT DU PONT. Yes, sir. Senator, you will remember one of the provisions of that dissolution was that the stock that was given du Pont stockholders, who were personally defendants in the Government stock suit, should be stock that would not have the right to vote for 5 years. That was done with the expectation that after 5 years that stock would be so dissipated it would not make any difference whether it voted or not.

Senator BONE. The rather peculiar thing is that any big organization such as they are would voluntarily consent to a restriction of output. We hear so much discussion of curbing the initiative and what not in this examination, that I wonder why any concern would curb their initiative.

Mr. LAMMOT DU PONT. They did not say they were going to curb their production. They did not say they were going to do anything.

Senator BONE. Didn't he say he had been informed, or had gathered that information?

Senator CLARK. He said he had been informed.

Mr. LAMMOT DU PONT. I don't know how he got the information.

Mr. PIERRE S. DU PONT. I could make a suggestion to show the character of the transaction that would call for such a situation. Suppose Hercules are selling to a customer in the United States, and that customer happened to have business in Colombia, Chile, or somewhere else, it is quite natural Hercules would sell to that customer, but at the same time it might not pay Hercules to send

down to that country to increase sales. That might very well occur, but I have not the least idea it did.

Senator CLARK. It would follow if it was a simple casual transaction like that that so busy a man as Brown would not have felt it necessary to go to England to convey that information to his British associates, and then go to Germany to convey that information to his German associates.

Mr. LAMMOT DU PONT. Senator, that was not the reason he went to those countries.

Senator CLARK. This is one of the most important headings of this report.

Mr. LAMMOT DU PONT. I do not know that it is one of the most important headings.

Senator CLARK. It is one of the headings here.

Mr. LAMMOT DU PONT. It is one of the headings; yes.

Senator CLARK. He said he had been informed neither one of these companies intended to institute more aggressive measures, and he felt they could be content with a share of the market not in excess of their present proportion. That does not indicate any such casual transaction as Mr. Pierre du Pont has suggested.

Mr. PIERRE S. DU PONT. My suggestion was made applying to regular business, and I have not the slightest idea that was the case.

Senator CLARK. Now, this exhibit A to the report reads further:

Coswig: Gnashwitz-Lignose.

After discussion it was agreed that du Ponts could not be expected to participate in the financial obligations entered into by the Germans with Gnashwitz and Lignose. As regards Coswig, it was decided that du Pont's share should be confined to a participation in that sum properly applicable to the South American markets, the balance to fall to the British and German companies in such shares as may be agreed. Mr. Brown agreed to an equal sharing of the sum between South American (excluding Chile and Bolivia) and the rest of the world. Accordingly it was agreed that the £2,500 applicable to South America should be paid through the intermediary of Explosives Industries Ltd., which will result in the following apportionment of that sum:

	£	s.	d.
Du Pont share 37½ percent.....	937	10	0
Nobel share 37½ percent.....	937	10	0
D.A.G. share 25 percent.....	625	0	0
Total.....	2,500	0	0

In the event of Coswig not shipping the whole or any part of the 100 tons allocated to Chile and Bolivia, and that market having to compensate them on the shortage, the payment to be borne, as follows:

Seventy-five percent by Chile Explosives Co.

Twenty-five percent by D.A.G.

Chile Explosives Co. was a subsidiary of du Pont, was it?

Mr. LAMMOT DU PONT. The Chile Explosives Co. I think that is correct.

Senator CLARK. In other words, was this 75 percent to the du Pont organization and 25 percent to D.A.G.?

Mr. IRÉNÉE DU PONT. No; that is not a subsidiary; we are stockholders in the Chile Co., but not in control.

Senator CLARK. That is like E.I.L.?

Mr. IRÉNÉE DU PONT. I don't know the E.I.L.

Mr. LAMMOT DU PONT. It is not the same thing; the Chile Co. is a manufacturing company.

Senator CLARK. It is not a subsidiary of the du Pont Co., but you do have stock interest in it?

Mr. LAMMOT DU PONT. Yes, sir.

Senator CLARK. Now, I call your attention to exhibit B attached to Mr. Brown's report, being the minutes of a meeting held at Nobel House, London, on the 16th day of February, 1927, a copy of which I ask to be marked as an exhibit under the appropriate number.

(The document referred to was marked "Exhibit No. 515", and is included in the appendix on p. 1375.)

Senator CLARK. There were present at this meeting Mr. J. Thompson Brown, Mr. Wendell R. Swint, and Mr. P. H. Chase, representing du Ponts, and Mr. H. J. Mitchell and Mr. E. D. Metcalfe representing Noebel.

I read from this exhibit of the report, as follows:

Mr. Metcalfe said that from reports so far received from Mr. Clark a total of 705 tons crude glycerin has been acquired as a result of his visit to Paris and Marseilles; although no knowledge was to hand of the exact prices paid, stated that the figure would probably work out at about £69 per ton for crude.

Mr. Chase referred to conversations with Mr. Metcalfe and Mr. Clark in regard to the right of the du Pont Co. to call for participation in these purchases, and as it appeared to be clear that some misapprehension existed as to what course the parties were expected to follow as the result of the previous meetings, it was decided to lay down definite guiding principles to be followed in all future operations on the Continental glycerine market, as follows:

"(1) The parties shall keep each other informed as to whether and to what extent they are interested in continental purchases, and a mutual understanding shall be arrived at from time to time to leave the market free to each other for such time as may be arranged.

"(2) In no circumstances shall it be permissible for both parties to operate on the market simultaneously, and, in the event of both desiring to purchase, an understanding must be arrived at as to which party shall carry out the business and in what proportions any quantities purchased shall be allocated.

"(3) Whenever either party desires to operate on the continental market, due notice of their intention to institute operations shall be given to the other party before any action is taken. Such other party shall have the right to declare the extent of its interest in any new purchases made at the time of such approach, which declaration shall entitle it to take over such proportion of the purchases as is represented by its declared interest, but not more than 50 percent, at the price of purchase.

"(4) Should either party declare that it is not interested, then such party shall have no title to call for any participation in purchases made as a result of operations by the other party."

\* \* \* \* \*

The du Pont representatives indicated that they had no interest in the purchase which Mr. Clark was not effecting on the continental market.

That agreement simply meant that du Ponts and I.C.I. would attempt to control the glycerin market by joint purchases or by inviting interested parties and notifying them of intent to purchase so that other interested parties would not enter into the market?

Mr. LAMMOT DU PONT. No, sir.

Senator CLARK. Was not that an agreement between you and I.C.I. by which you would cooperate to control the market, one staying in the market and the other having the right to call for a participation in the purchases?

Mr. LAMMOT DU PONT. The arrangement was that one would be in the market and the other would not be, but that did not control the price of glycerin.

Senator CLARK. You were two of the largest purchasers of glycerin?



Mr. LAMMOT DU PONT. I think there were other purchasers of glycerin in the European markets that would far outweigh us.

Senator CLARK. du Pont and I.C.I. are not the largest purchasers?

Mr. LAMMOT DU PONT. I do not know about I.C.I. because I do not know how much glycerin they buy. We buy very little glycerin in Europe.

Senator CLARK. Of course glycerin is the basis of nitroglycerin?

Mr. LAMMOT DU PONT. Yes, sir.

Senator CLARK. The French, English, and German armies use military powders containing large quantities of nitroglycerin?

Mr. LAMMOT DU PONT. Not the French.

Senator CLARK. Some European powers do.

Mr. LAMMOT DU PONT. I think England and Germany both do, but I am not certain about Germany.

Senator CLARK. I understand you do not use nitroglycerin powder in the American Army?

Mr. LAMMOT DU PONT. I think the United States Army never has used glycerin.

Senator CLARK. You use nitrocellulose?

Mr. LAMMOT DU PONT. Yes.

Senator CLARK. Well, it is true you can use glycerin in the manufacture of powder?

Mr. LAMMOT DU PONT. Yes, sir.

Senator CLARK. Would this agreement you had exercise influence on the price of glycerin which would be used in the manufacture of European powders?

Mr. LAMMOT DU PONT. No, sir; that is entirely wrong.

Senator CLARK. Why?

Mr. LAMMOT DU PONT. Because our purchases in the European market have no effect on the price of glycerin.

Senator CLARK. What do those purchases amount to of du Pont and I.C.I.?

Mr. LAMMOT DU PONT. I cannot give you a very good idea of that, and I don't believe there is anybody here that knows that.

Dr. SPARRE. My opinion is, about this, the whole production of glycerin is about 75,000 tons. I think the du Pont Co. use about 5,000 tons or 4 percent of the total production, of which we buy more than half in the United States.<sup>1</sup>

Senator CLARK. What does the I.C.I. purchase?

Dr. SPARRE. Very much less.

Senator CLARK. Unless du Pont and I.C.I. were both substantial factors in the control of prices, why was it necessary to enter into this agreement as to one being out of the market and the other being in the market?

Dr. SPARRE. I think the facts will show that the combined purchases of du Pont and I.C.I. could not be more than 7 percent of the world's production.

Mr. IRÉNÉE DU PONT. There is no interest in having that agreement, except that the concerns should not compete against each other.

Senator CLARK. There is no reason why they should enter into the agreement unless it is to control the price?

Mr. IRÉNÉE DU PONT. It is a perfectly prudent thing to do. I didn't know anything about it and never heard of it before.

<sup>1</sup> Dr. Sparre later submitted corrected figures regarding the production and consumption of glycerin. They appear in the appendix on p. 1396.

Senator CLARK. If the whole amount of transactions of these two companies is so small as not to influence prices, there was no point in making such a contract.

Mr. IRÉNÉE DU PONT. The point is, the price of anything is important. If you and I are going to buy 1 percent of a certain stock, and if we go into competition with each other we might bid it up.

Senator CLARK. If you and I agree with each other, we would not buy a loaf of bread, and neither of us would buy a loaf of bread, it would not affect the price of bread, and it would be a silly thing to do.

Mr. IRÉNÉE DU PONT. Yes; but if you compete with each other in the market, it is a prudent thing to have such a contract.

Senator CLARK. So you think this agreement between these two companies would have a substantial effect on influencing the price of glycerin?

Mr. IRÉNÉE DU PONT. I don't say that, but I say it seems to be a prudent thing if there are two purchasers of a certain commodity that they should not bid against each other.

Senator CLARK. If there was not sufficient influence that it would control the market as to price and supply, and if it did not do that there would be no purpose in having the contract.

Senator BONE. Do you believe in the competitive system in business?

Mr. IRÉNÉE DU PONT. I do; very much.

Senator BONE. You are thoroughly committed to that principle?

Mr. IRÉNÉE DU PONT. Absolutely; yes. I never saw a monopoly yet that did not go to seed.

Senator BONE. Is that the attitude of your company?

Mr. IRÉNÉE DU PONT. I believe it is. It certainly was the attitude of the company when I was president.

Senator BONE. You, being one of the chief executives, would know its attitude. Would you say it is the attitude of the du Pont organization that competition is a good thing in business?

Mr. IRÉNÉE DU PONT. Not cutthroat competition.

Senator BONE. Evidently you were trying to eliminate competition by this sort of agreement.

Mr. IRÉNÉE DU PONT. We don't think you should feel it was eliminating competition at all. It seems to me reasonable competition is good.

Senator BONE. I do not want to put the words in your mouth, of course.

Senator CLARK. It is eliminating competition to pay somebody to stay out of the market. I am not speaking of the glycerin now, but I am speaking of the last remark.

Now, Mr. Felix du Pont, you are of course familiar with the fact that under the Versailles treaties and the treaties made after the war Germany was prohibited from entering into the manufacture of propellants?

Mr. A. FELIX DU PONT. I did not understand you.

Senator CLARK. I say you are familiar with the fact that under the treaties made at the conclusion of the war and since Germany is forbidden to manufacture propellants?

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. I want to ask Mr. Lammot du Pont this: Early in 1933 you were considering the possibility of selling a large quantity of military powder to Germany, and you notified the I.C.I. to that effect.

Mr. LAMMOT DU PONT. I do not think that is a proper description of what we were considering at that time. I think you are referring to an agreement with Mr. Giera.

## CONTRACTS FOR GERMAN SALES

Senator CLARK. I will read you a portion of a letter dated the 6th of March 1933, on the letterhead of Imperial Chemicals, London, from Harry McGowan, and that is Sir Harry McGowan, the head of the I.C.I., is it?

Mr. LAMMOT DU PONT. Yes, sir.

Senator CLARK. I will ask to have this letter first marked as a committee exhibit under the appropriate number.

(The letter referred to was marked "Exhibit No. 516" and appears in full in the text on p. 1243.)

Senator CLARK. In this letter Sir Harry McGowan says:

It is clear from our records that although Germany, Austria, and Hungary are not dealt with in the agreement, the understanding is clearly that, as, and when the Treaty of Versailles is modified the whole position as at present covered by the general military agreement should be reviewed.

Although our German friends have been out of the export military business for many years, they probably have manufactured for local requirements, and I think we may assume that they have not been idle in their research. It is definitely established that they have not been so in military detonators. I feel sure that when freedom to manufacture is granted for home use and possibly for export they will expect to take a prominent position in the business and one which will be in keeping with our arrangement with them on blasting explosives, and we have in fact kept in mind this possibility.

Then it is apparent from this letter, Mr. du Pont, that it was the expectation of your British associates that the world would be divided and price quotations set, between du Pont, I.C.I., and the German interests, when the Treaty of Versailles was modified, is it not?

Mr. LAMMOT DU PONT. No, sir.

Mr. CLARK. That certainly is the statement there.

Mr. LAMMOT DU PONT. It is not, as I read it.

Senator CLARK. It states [reading]:

It is clear from our records that although Germany, Austria, and Hungary are not dealt with in the agreement—

Mr. LAMMOT DU PONT. What agreement is he referring to?

Senator CLARK. I will come to that in just a minute [continuing quotation]:

The understanding is clearly that, as and when the Treaty of Versailles is modified, the whole position as at present covered by the general military agreement should be reviewed.

Although our German friends have been out of the export military business for many years, they probably have manufactured for local requirements, and I think we may assume that they have not been idle in their research. It is definitely established that they have not been so in military detonators. I feel sure that when freedom to manufacture is granted for home use and possibly for export they will expect to take a prominent position in the business and one which will be in keeping with our arrangement with them on blasting explosives, and we have, in fact, kept in mind this possibility.

Mr. LAMMOT DU PONT. Senator, I think that the general military agreement referred to there is the agreement between I.C.I. and du Pont with respect to joint offices.

Senator CLARK. Yes; but he certainly specifically contemplates that when the German interests are able to do it, they shall come into this agreement.

Mr. LAMMOT DU PONT. It does not say so.

Senator CLARK. That is certainly the inference to be drawn from it.

Mr. LAMMOT DU PONT. No; he says—

Senator CLARK. He refers in this letter to the appointment of Mr. Giera as your agent for the sale of military powder in Germany.

Mr. LAMMOT DU PONT. Yes, sir.

Senator CLARK. Major Casey, who is Mr. Giera?

Mr. CASEY. Mr. Giera was until about 10 years ago a Swiss citizen in this country.

Senator CLARK. His real name is Brenner, is it not, Peter Brenner?

Mr. CASEY. I never heard that.

Senator CLARK. You have known him how long?

Mr. CASEY. Since about 1916. He came to me with a letter of introduction.

Senator CLARK. That is about 18 years ago?

Mr. CASEY. That is about 18 years ago. He came to me with a letter of introduction from two people, an old friend of mine by the name of Col. H. C. Wilson, now dead, and another man, Capt. Laurence Angel, who, at that time, I think, was connected with the Maxim Munitions. He came to me regarding submarine mines and wanted us to test out a chemical detonator which he had for submarine mine work. He claimed at the time that he had, while a Swiss citizen, been assigned to Germany, in accordance with the usual practice of sending about 20 Swiss officers each year to serve with the German Army for training, and said that because of his chemical and explosive knowledge—I am repeating what he told me—that the Germans did use him on submarine mine projects, which included the mining of the Dardanelles, Heligoland, Buenos Aires, and Kiaochaw. We did test out his chemical detonator, but beyond doing that we had no interest in his project because it was a little removed from our efforts. I understood later, however, that a firm of lawyers in New York by the name of Manley & Grand, who organized the Ordnance Engineering Corporation, had decided that there was something in this submarine project of his. Later, when the United States got into the war, I understand that he was of considerable assistance to Captain Fullenweider, of the Navy, on designs of submarine mines.

Senator CLARK. Major Casey, I do not want to interrupt you, but, going back a little bit, we have understood, also, he was a German agent before the United States entered the war, affiliated with Boyed and Von Papen and sabotage.

Mr. CASEY. I did not know that until 1918.

Senator CLARK. You are familiar with that?

Mr. CASEY. Yes, sir.

Senator CLARK. Did he ever tell you that?

Mr. CASEY. Yes, sir.

Senator CLARK. That he was affiliated with Boyed and Von Papen during the war?

Mr. CASEY. Yes, sir.

Senator CLARK. And when the United States entered the war he saved himself from being shot by turning spy for the United States?

Mr. CASEY. That I do not know.

Senator CLARK. He did not tell you that?

Mr. CASEY. I do know he assisted them.

Senator CLARK. Go ahead with your story, Major. I did not mean to interrupt you.

Mr. CASEY. I was also under the impression that he assisted Naval Intelligence. That I am not sure of, except on his statements. I only saw him spasmodically. I saw him at the time of Colonel Wilson's death, at the funeral. I think I ran into him in Admiral Niblack's office, who was at that time at the head of Naval Intelligence. I think it was about the latter part of 1932—after he had been trying for a great many years to get me to go to the lower Catskills, where he had a hunting lodge, to get some deer shooting—and I went up there finally.

Senator CLARK. All I am asking you at this time is as to whether you know the man, and not a narration of the details, which I will come to in a minute. This Mr. Giera is generally known as an international spy, is he not?

Mr. CASEY. I think he would be.

Senator CLARK. Is it not a fact, Major Casey, that he boasts that he has been an agent for 13 different governments?

Mr. CASEY. Yes, sir.

Senator CLARK. He has been an agent for the Chinese, has he not?

Mr. CASEY. Yes, sir.

Senator CLARK. And the Germans and Japanese?

Mr. CASEY. I do not know about agent for the Chinese. Mining Kiaochaw for the Chinese Government.

Senator CLARK. And he has been an agent for the Japanese?

Mr. CASEY. I understand so.

Senator CLARK. And has been an agent for 13 governments in all?

Mr. CASEY. Yes; on his submarine work.

Senator CLARK. Is it not his claim that he assisted Germany in the work of mining Heligoland, and when he turned into an American spy he furnished the plans of the German Heligoland to the United States and also the German submarine base off of Yucatan?

Mr. CASEY. That I do not know.

Senator CLARK. He never told you that?

Mr. CASEY. He never told me that.

Senator CLARK. Del Fungo Giera, and it is alleged his real name is Peter Brenner.

Mr. CASEY. That is something I have learned for the first time.

Senator CLARK. And that he entered the United States under a forged passport prior to the war. Did you have anything to do with or was Remington a part of du Pont at the time Remington loaned Giera a gun or field piece to test out a propellant which he claimed he invented, which he claimed would revolutionize the ordnance of the world?

Mr. CASEY. It is true that I learned that Remington had in an exhibit room an old 3-pound navy gun on an old navy mount, an obsolete type of gun. He was very anxious to get hold of the gun.

Senator CLARK. You heard of the propellant that he claimed to have invented which would revolutionize the ordnance of the world?

Mr. CASEY. Using solid hydrogen.

Senator CLARK. Using hydrogen as a substitute for any other explosive, and passing it through water. Did you know he proposed to build a factory in this country to manufacture war material for Japan?

Mr. CASEY. So he said.

Senator CLARK. Now, Mr. Felix du Pont, on February 1, 1933, a contract was signed by yourself as vice president and manager of the smokeless powder department, with Mr. Giera, covering a proposed sale of military propellants to Germany, was it not?

Mr. A. FELIX DU PONT. Yes, sir.

Senator CLARK. I offer you three documents marked "A, B, and C", which consist of proposed drafts of this contract, and also a letter from Mr. Abrams, which I will ask to have marked as the appropriate exhibit. That is from Mr. Abrams of the legal department of the du Pont Co. to Mr. T. R. Hanley of the du Pont Co.

(The letter referred to was marked "Exhibit No. 517" and is included in the appendix on p. 1375.)

Senator CLARK. In that letter he states in part as follows:

To the best of my recollection the draft marked "B" was the agreement executed under date of February 1, 1933.

Now, Mr. du Pont, I will ask you whether you can identify the contract of February 1 any more definitely than is shown in that letter.

Mr. A. FELIX DU PONT. Of February 1?

Senator CLARK. I say, can you identify the contract of February 1 any more definitely than is done in the letter of Mr. Abrams?

Mr. A. FELIX DU PONT. Than it is done in Mr. Abrams' letter?

Senator CLARK. Yes. In other words, do you know if any of those drafts were the one actually signed on February 1?

Mr. A. FELIX DU PONT. I will have to look this over a bit.

Senator CLARK. Look them over as much as you please. It will take some time.

Mr. LAMMOT DU PONT. Mr. Raushenbush, did you not take from our files a signed copy of this agreement? You ought to know which is the one that was signed.

Senator CLARK. We have not got the one signed, but simply the drafts.

Mr. LAMMOT DU PONT. It will save us looking through this if you have the one that was signed.

Senator CLARK. All we know is what is contained in Mr. Abrams' letter.

Mr. LAMMOT DU PONT. Your investigators went through our files.

Senator CLARK. It is my understanding that the original contract, actually signed on the 1st of February 1933, was destroyed.

Mr. LAMMOT DU PONT. I did not know that.

Senator CLARK. On the 2d of February 1933, and it is a question which of these drafts found in your files was the original contract, and Mr. Abrams of your legal department states in the exhibit which I just showed you that this draft B was the contract of February 1.

Mr. LAMMOT DU PONT. The original contract was destroyed?

Senator CLARK. I will examine as to that in just a minute. These are the only drafts which we have, and I accompany that with Mr. Abrams' letter.

I will read Mr. Abrams' letter, Mr. du Pont, if it will refresh your memory in any way. [Reading:]

T. R. Hanley, Bldg.

Mr. T. R. Hanley is also in the legal department of the du Pont Co., is he not?

Mr. LAMMOT DU PONT. Yes, sir.

Senator CLARK. This is an interoffice memorandum and reads:

I enclose herewith copy of my letter of January 23 to Major Casey, together with copies of three drafts of agency agreements with D. F. Giera.

The draft marked "A" was the one enclosed with my letter of January 23. I believe this draft was revised before execution.

To the best of my recollection the draft marked "B" was the agreement executed under date of February 1, 1933.

I believe the draft marked "C" was drawn at the time of Captain Giera's return on February 2 but was never executed.

The above explanation represents my best recollection of the status of these three drafts but it is possible that any one of them was the one executed on February 1.

Mr. A. FELIX DU PONT. I do not recognize any of these as being the contract that we signed with Giera and put into execution for a short time.

Senator CLARK. How long a time did you put it into execution?

Mr. A. FELIX DU PONT. To the best of my recollection, it was a 6 months' contract.

Senator CLARK. Yes; but the contract which you signed on February 1 was torn up on February 2, was it not?

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. I am referring to the contract of February 1 now. Do any of these drafts represent the contract signed on February 1 and torn up on February 2, as Mr. Abrams suggests?

Mr. A. FELIX DU PONT. I think it does.

Mr. IRENEE DU PONT. If you do not know, say so.

Senator CLARK. I would like to have Mr. Felix du Pont answer this. He signed the contract and it is a question of identifying the contract I am getting at.

Mr. A. FELIX DU PONT. I do not know. The best way to identify that would be to be perfectly sure that when Mr. Abrams gave you these, or turned these in, that he did not have several among his notes or files of unsigned specimens of contracts.

Senator CLARK. The original was destroyed on February 2. Mr. du Pont, was it not?

Mr. A. FELIX DU PONT. That is correct.

Senator CLARK. Why was that destroyed?

Mr. A. FELIX DU PONT. Because it was not the right kind of contract.

Senator CLARK. Why was it not the right kind of contract? You had signed it, had you not?

Mr. A. FELIX DU PONT. Yes, sir.

Senator CLARK. You had authority from the du Pont Co., as vice president, to sign the contract?

Mr. A. FELIX DU PONT. I had authority from Mr. Lammot du Pont, and I signed it, and on that very same day the contract was discussed

in our executive committee, and it was found not to hold enough provisions to protect us from possible misinterpretation or action and so we were not satisfied with it. Mr. Giera had just gone, and we called him back, and he agreed to turn his contract over, and we took out ours and tore them up and made a new contract.

Senator CLARK. Do you know whether Giera had a photographic copy of his contract?

Mr. A. FELIX DU PONT. Absolutely. I believe that is one of the first things he did.

Senator CLARK. Now, this draft B, which Mr. Abrams thinks was the contract actually executed on February 1, I will read and see if that refreshes your memory [reading]:

This agreement, made this 2d day of February 1933 by and between E. I. du Pont de Nemours Co., a corporation organized and existing under the laws of the State of Delaware, United States of America (hereinafter referred to as the "company"), and D. F. Giera, of Pelham, State of New York, United States of America (hereinafter referred to as the "agent"),

Witnesseth: That for and in consideration of the premises and of the covenants contained herein, the parties hereto have agreed as follows:

1. The company hereby appoints and constitutes the agent to act as its special agent for the Kingdom of Holland and as its exclusive agent for the Republic of Germany, to negotiate the sale of military propellants and military explosives to purchasers (other than the Government of Holland and its colonies) located in said territories. The agent accepts such appointment and agrees that at all times during the continuance of this agreement he will use his best endeavors to promote the sale by the company of military propellants and explosives within the aforesaid territories.

2. The agent shall not, during the continuance of this agreement without the written consent of the company, act as agent for any other company, corporation, individual, or collection of individuals engaged in the manufacture and/or sale of goods of a nature similar to or competing with the said products covered by this agreement, nor shall he be concerned, engaged, or interested, either directly or indirectly, in the business of any company, corporation, individual, or collection of individuals engaged in the manufacture and/or sale of goods of a nature similar to or competing with the products covered by this said agreement.

3. The agent shall bear all expenses and assume sole responsibility in connection with such negotiations, and shall not make any representation, submit or accept any tender, enter into any contract, or execute any document on behalf of the company, except with the approval of the proper officers or other authorized representative or representatives of the company; it being further understood that no obligation on the part of the company, either to the agent or to third parties, shall arise in connection with orders not so accepted.

4. The company shall furnish, without charge to the agent, its duly accredited representative or representatives to assist and advise the agent on technical, financial, and legal matters incident to the completion of any negotiations undertaken by the agent hereunder.

5. The agent shall receive as full compensation for his services hereunder a commission as shown on schedule A attached hereto and made a part hereof. Any commission due hereunder shall be payable to the agent promptly upon receipt by the company of the selling price upon which such commission is based. Such commissions shall be paid in United States currency at such place as shall be designated in each instance by the agent, unless prevented by war, act of governmental authority, or other circumstance beyond the control of the company.

6. If, in the reasonable opinion of the company after consultation with the agent, it appears at any time to the company that the agent is not in a position to negotiate successfully with any prospective customer or customers within said territories, the company, after notice to the agent in writing, may appoint a special representative to obtain orders from such customer or customers; and no commission shall be payable to the agent hereunder with respect to orders negotiated by such special representative.



7. The company shall have the right to terminate this agreement upon written notice to the agent, should the agent breach any of the provisions of this agreement or become incapacitated, by illness or otherwise, from performing his obligations hereunder for a period of 6 consecutive months. No commission shall be payable hereunder on orders accepted after such termination.

8. The agent shall have the right to terminate this agreement upon 6 months' previous notice in writing to the company. No commission shall be payable hereunder on orders accepted after such termination.

9. Unless otherwise terminated in accordance with paragraph 7 or 8 hereof, this agreement shall continue in full force and effect for the period of 3 years from the date hereof.

In witness whereof the company has caused this agreement to be executed in duplicate by its officers duly authorized and its corporate seal to be hereunto affixed, and the agent has hereunto set his hand and seal the day and year first hereinabove written.

[SEAL]

E. I. DU PONT DE NEMOURS & Co.,  
By \_\_\_\_\_, Vice President.

Attest:

\_\_\_\_\_, Secretary.

Mr. LAMMOT DU PONT. Senator, I would like to protest against the introduction of that document, for the reason that it purports to be a copy of a contract which the company executed and almost immediately found to be an undesirable contract.

Senator CLARK. We will come to that in just a minute.

Mr. LAMMOT DU PONT. May I finish?

Senator CLARK. Yes.

Mr. LAMMOT DU PONT. We found it to be an undesirable contract and, with the consent of the other signatory, destroyed it and immediately executed another one which replaced it. I say that purports to be a copy of that original agreement, but we have no means now of identifying it positively. Therefore, we do not know whether this paper which has been introduced is proper evidence or not.

Senator CLARK. I propose to examine Mr. Felix du Pont upon the subject of the negotiations leading up to that contract and the execution of the contract. I may say, further, that this document identified by an attorney for the company, who assisted in its preparation, as one of the drafts leading up to the contract, in the absence of the contract, would be admissible in a court of law. It is my purpose at the proper time to offer this exhibit, but I had not done so yet.

Mr. LAMMOT DU PONT. I thought you were offering it on Mr. Felix du Pont's identification.

Senator CLARK. Mr. Felix du Pont has not identified it yet.

Mr. LAMMOT DU PONT. He said that he could not identify it.

Senator CLARK. I am trying to find out if this is the contract which he did execute on February 1, 1933.

Mr. LAMMOT DU PONT. He read it and said he could not identify it, and I protest its introduction.

Senator CLARK. That is all right. I am addressing my questions to Mr. Felix du Pont. I am reading this for the purpose of refreshing his memory. I am asking him, after having heard that read, if he can identify that as the draft of contract signed on February 1, 1933?

Mr. A. FELIX DU PONT. No; I cannot. The reason is, frequently we make minor changes in contracts being prepared by our legal department, and if the contract is not finally executed, they have nothing but maybe one or two copies in their files, and they themselves cannot tell which is the one which they actually submitted.

Senator CLARK. That is what Mr. Abrams states in his memorandum. There was a contract executed on February 1, 1933, was there not?

Mr. A. FELIX DU PONT. Yes, sir.

Senator CLARK. Does this draft B which I have just read essentially set forth that contract?

Mr. A. FELIX DU PONT. It is quite similar to it.

Senator CLARK. It is quite similar to it.

Mr. A. FELIX DU PONT. Yes, sir.

Senator CLARK. Do you recall any differences between the contract which you executed on February 1 and the draft which I have just read, and which has been stated by Mr. Abrams to be probably the draft which you actually did sign?

Mr. A. FELIX DU PONT. I have not a very good memory for all the terms of a contract when I have only seen it once, and that original contract I only saw once, read once, and signed.

Senator CLARK. You had participated in the negotiations for that contract, had you?

Mr. A. FELIX DU PONT. Participated in the negotiations for the contract?

Senator CLARK. Yes.

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. Did that draft B that I read substantially set out the agreement you made with Mr. Giera?

Mr. A. FELIX DU PONT. It is quite similar.

Senator CLARK. Does it differ in any essential from the one which you actually signed, that you can recall?

Mr. A. FELIX DU PONT. No; not that I can recall.

Senator CLARK. Not that you can recall. In other words, this draft B which I have read substantially represents the agreement which you had actually signed, and you are uncertain as to whether it is the exact contract which you signed on February 1 or not?

Mr. A. FELIX DU PONT. That is correct.

Senator CLARK. You say this contract was torn up on February 2. You started to explain why it was torn up, Mr. du Pont. Why was that contract destroyed on February 2?

Mr. A. FELIX DU PONT. We began to discuss the contract after it was signed, and gave it further discussion with other officers of the company.

Senator CLARK. With what officers of the company? Describe in some detail as to what took place after the contract of February 1, 1933, had been signed?

Mr. A. FELIX DU PONT. After the contract was signed, it happened to be on the same day there was a meeting of our executive committee, and the matter was mentioned in the executive committee, I believe by Mr. Lamot du Pont, and the other members of the committee discussed it in various ways and called me in. I immediately recognized that I had made a slip in not taking the customary procedure of bringing it before a member of our foreign relations department, and it was Mr. Pickard, of the foreign relations department, who thought that the contract did not bind this man, Giera, employed as important a way as it should.

Senator CLARK. In what way was it suggested, do you know?

Mr. A. FELIX DU PONT. May I ask if you have a copy of the second contract; the one which was signed?

Senator CLARK. Are you referring now to the contract of February 15?

Mr. A. FELIX DU PONT. I think so; yes, sir.

Senator CLARK. Yes; I have a copy.

Mr. A. FELIX DU PONT. If you would read this and read that, you will see there are many precautionary clauses in the second one, and it is quite obvious why we changed it.

Senator CLARK. This contract of February 1, 1933, however, Mr. du Pont, had been prepared by your legal department, had it not?

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. On your instructions?

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. These three drafts, and possibly others which we have here, and possibly letters had been prepared by your legal department, after conference with you?

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. And when the matter was discussed in executive committee, it was decided that some other provisions should be included?

Mr. A. FELIX DU PONT. That is correct.

Senator CLARK. And you then sent for Mr. Giera?

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. And he agreed to destroy the original contract?

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. Was any compensation paid him at that time for that?

Mr. A. FELIX DU PONT. No.

Senator CLARK. Any agreement for compensation?

Mr. A. FELIX DU PONT. No.

Senator CLARK. Now, Mr. du Pont, did you have any contract with Giera between the 2d of February 1933 and the 15th of February 1933?

Mr. A. FELIX DU PONT. I do not think so, but I am not quite certain. Senator, if you have a copy of the second contract, it will help me refresh my memory.

Senator CLARK. I am not certain which is the second contract and which is the first, in what I am trying to find out, Mr. du Pont. Apparently you yourself destroyed the first contract?

Mr. A. FELIX DU PONT. That is correct.

Senator CLARK. No evidence of it, except so far as there may exist a photographic copy taken by Mr. Giera?

Mr. A. FELIX DU PONT. That is correct.

Senator CLARK. Did Giera tell you he was taking off a photographic copy?

Mr. A. FELIX DU PONT. No; but he told somebody else.

Senator CLARK. Did he deliver his copy of the contract to you?

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. You destroyed them both?

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. Did you do that personally?

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. Now, I will offer drafts A, B, and C as exhibits.

(The contract A was marked "Exhibit No. 518" and is included in the appendix on p. 1376.)

(The contract B was marked "Exhibit No. 519" and is included in the appendix on p. 1377.)

(The contract C was marked "Exhibit No. 520" and is included in the appendix on p. 1379.)

Senator CLARK. Exhibit B, which was marked our "Exhibit No. 519," it was stated by Mr. Abrams was the contract actually executed on February 1 and destroyed on February 2, 1933.

I now offer another exhibit, to be known as "Exhibit No. 521", which is the agreement of the 15th day of February 1933 by and between the du Pont Co. and D. F. Giera.

(The contract referred to was marked "Exhibit No. 521" and is included in the appendix on p. 1380.)

Senator CLARK. That is the contract you referred to heretofore as the second contract?

Mr. A. FELIX DU PONT. The second contract.

Senator CLARK. Executed on the 15th day of February. Will you please look that over and see if that is the contract you actually executed on the 15th of February?

Mr. A. FELIX DU PONT. Yes; that coincides with my copy.

Senator CLARK. That was a new contract, was it not, for the proposed sale of military propellants to Germany, appointing Mr. Giera agent of the du Pont Co. Was it signed by you as vice president of the du Pont Co.?

Mr. A. FELIX DU PONT. Yes, sir.

Senator CLARK. I will ask you again, because we had not put in the second contract at the time I previously asked this question, was there any contract in existence between the du Pont Co. and Giera between the 2d of February, when the first contract was destroyed and the 15th of February, when the contract which you have just identified, was entered into?

Mr. A. FELIX DU PONT. No; there was not.

Senator CLARK. There was no contract between you at all?

Mr. A. FELIX DU PONT. No.

Senator CLARK. What is the difference between the contract of February 1, and the contract of February 15, Mr. du Pont?

Mr. A. FELIX DU PONT. The essential differences are that in the second paragraph of the contract of February 15 it says:

Whereas it is understood to be the desire and expectation of Germany to be relieved in the near future of the prohibitions of limitations upon the importation of arms and ammunition to which it is subjected under the terms of the treaty of Versailles; \* \* \*

That was a clause that we put in.

Senator CLARK. In other words, your first contract, the one that was destroyed on February 2, was a straight contract of agency for military propellants in Germany, without any reservation of that sort whatever, based on the Versailles Treaty or anything else?

Mr. A. FELIX DU PONT. Yes; just like all of our other agency contracts in Europe.

Senator CLARK. Were there any other differences that you care to point out?

Mr. A. FELIX DU PONT. An essential difference is on the next page, paragraph 4, which says:

It is expressly understood that the company will not enter into any contract for the sale of military propellants or explosives to the German Government without first obtaining the approval or consent of the United States Government.

Senator CLARK. There was no such reservation in the first contract?

Mr. A. FELIX DU PONT. No; we forgot to put it in.

Senator CLARK. That is to be seen.

Mr. A. FELIX DU PONT. I have just been reminded that there is another essential point here and that is that in the second contract, Holland is eliminated. It is mentioned in the first contract.

Senator CLARK. In other words, in the contract of February 1, 1933, the terms applied to Holland, except the Dutch Government, and to Germany without any exception whatever?

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. And the second contract was simply limited to Germany?

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. But there was no contract whatever, no contractual relations, between Giera and the du Pont Co. between February 2 and February 15?

Mr. A. FELIX DU PONT. No; there was none.

Senator CLARK. Is that your understanding, Mr. Lammot du Pont?

Mr. LAMMOT DU PONT. Yes, sir.

Senator CLARK. I will now offer as an exhibit a letter dated February 9, 1933, from Mr. Lammot du Pont to Sir Harry McGowan, Imperial Chemical House, Millbank, Westminster.

(The letter referred to was marked "Exhibit No. 522", and appears in full in the text.)

Senator CLARK. This letter is marked "Personal and Confidential." It reads:

DEAR SIR HARRY: We have made an agreement in the nature of an agency appointment with Mr. E. D. Giera, looking toward the sale of military propellants to the Republic of Germany.

I understand that Germany is excluded from our understanding with respect to sale of military explosives in Europe, under which we keep each other advised of our movements, but we feel that it is desirable that we should inform you in this case.

That is evidently a military agreement to which he refers in his letter which has been read.

This letter continues:

I am enclosing herewith a copy of the agreement with Mr. Giera, which speaks for itself, and which I understand covers the entire understanding between him and us. For various reasons we desire this matter considered confidential, but particularly so because we feel that any knowledge of such an agreement leaking out might get to some parties whose interest it would be to block Mr. Giera's efforts. Will you, therefore, please consider this letter and the agreement strictly confidential?

Yours sincerely,

LAMMOT DU PONT, *President.*

That letter, Mr. du Pont, is dated February 9?

Mr. LAMMOT DU PONT. Yes.

Senator CLARK. But that is in the period in which you say no contractual relations existed between Mr. Giera and the du Pont Co.?

Mr. A. FELIX DU PONT. That is very easy to explain, Senator.

Senator CLARK. We should be very glad to have your explanation.

Mr. A. FELIX DU PONT. Because when we made the first contract we had no intention of not making a second contract with Giera. But it was requested that when the second contract was prepared it be passed upon by our executive committee. We waited for another meeting of the executive committee before the second contract was finished. Therefore, it was to all intents and purposes—that is, the intention was that Giera would have a contract and he was simply waiting for the new contract to be made.

Senator CLARK. Mr. du Pont, do you understand that when your cousin said—

We have made an agreement in the nature of an agency appointment with Mr. E. D. Geira looking toward the sale of military propellants to the Republic of Germany—

And when he also said—

I am enclosing herewith a copy of the agreement with Mr. Giera, which speaks for itself and which I understand covers the entire situation between him and us—

that he was referring to a contract to be negotiated sometime in the future?

Mr. A. FELIX DU PONT. Yes; I am sure so. I do not think there is anything unusual about that at all.

Senator CLARK. You think it is not unusual, when a contract has not been signed, to say:

We have made an agreement in the nature of an agency appointment with Mr. E. D. Giera, \* \* \*

A copy of which is enclosed? Is that customary to say when you are expecting to sign a contract sometime in the future? Do you then say, "We have made a contract and we enclose a copy which speaks for itself"?

Mr. A. FELIX DU PONT. I am not sure how that is, but I think it is quite possible that Mr. Lammot du Pont, expecting to have the contract to enclose, may have dictated the letter at that time and held it up until the contract was ready.

Senator CLARK. Mr. Lammot du Pont, what is your recollection of this, sir?

Mr. LAMMOT DU PONT. My recollection is that I dictated this letter immediately after the execution of the first contract and I held it on my desk for a copy of the contract after it was signed. After the second contract was signed I attached a copy of the second contract and mailed the letter.

Senator CLARK. Let me see if I get that right. You dictated this letter before the first contract was signed?

Mr. LAMMOT DU PONT. I think it was after the first contract was signed.

Senator CLARK. After the first contract was signed, but held it on your desk to get a copy of the contract?

Mr. LAMMOT DU PONT. Yes.

Senator CLARK. Then you enclosed a copy of the second contract?

Mr. LAMMOT DU PONT. I think so.

Senator CLARK. But it appears, Mr. du Pont, that the letter was dated February 9.

Mr. LAMMOT DU PONT. Yes, sir.

Senator CLARK. Which was 8 days after the signing of the first contract and 7 days after the first contract had been destroyed and nearly a week before the second contract had been signed. Yet you say, "We have made an agreement a copy of which I enclose herewith."

Mr. LAMMOT DU PONT. I dictated that letter on the 9th of February, I think.

Senator CLARK. And that was a week before the second contract was signed?

Mr. LAMMOT DU PONT. A week after the first contract was signed.

Senator CLARK. Yes.

Mr. LAMMOT DU PONT. Fully expecting that a new contract would be signed. I held it on my desk until I could get a copy of the signed contract. The error that I made is in not correcting the date of the letter when I sent the final draft.

Mr. CASEY. Perhaps that can be explained in this way, Senator. The usual day for meetings of the executive committee is Wednesday. Wednesday was the first, which was the time Felix du Pont just mentioned as the time he spoke before the committee and they said, "That won't do. We will have to have that contract changed." So, on the second, which was Thursday, Giera came down and destroyed the first contract. Then we started in to modify the contract so that it would be suitable to Giera, conforming with the reservations that the executive committee insisted must be in before any contract could be signed. That second meeting of the executive committee, therefore, occurred the following Wednesday, which was the 8th. At that time the conditions of the contract were agreed on by the executive committee, which then waited the arrival of Giera before it was definitely signed. Then, as a result of the meeting of the 8th, it was drawn up in the usual form of contract with a blank date. Giera never came down until the 15th, which happened to be another executive committee meeting day.

Senator CLARK. That does not explain why Mr. Lammot du Pont on February 9 wrote Sir Harry McGowan saying, "I am enclosing herewith a copy of the agreement with Mr. Giera, which speaks for itself", when, as a matter of fact, the contract was not actually entered into for nearly a week in the future.

Mr. CASEY. Senator, I was present at the meeting of the committee on the 8th. I remember that one of the things brought up was that Sir Harry McGowan should be notified as soon as possible. So, I imagine—of course, I cannot go beyond what I actually heard—but I imagine that the very next day, the meeting lasting generally until late in the afternoon, Lammot du Pont probably wrote that letter and then waited for the executed contract. On the other hand, it is possible that he may have sent McGowan a draft—

Senator CLARK (interposing). Major; that is just pure speculation.

Mr. CASEY. But that is all that I can give you.

Senator CLARK. I will ask Mr. Lammot du Pont what he was referring to when he said in his letter of February 9 that he was en-

closing a copy of a contract which the du Pont Co. had entered into with Giera. Mr. Felix du Pont has testified that on February 9 there was no contract between Giera and the du Pont Co.

Now, what I am trying to find out is whether the contract of February 1 and the contract of February 15 were ever in effect at the same time?

Mr. A. FELIX DU PONT. Oh, no; they were not. No; certainly not.

Senator CLARK. One representing the real contract and the other representing a nominal contract?

Mr. A. FELIX DU PONT. Oh, no.

Mr. LAMMOT DU PONT. No, Senator. I think I have given you a correct explanation of that. I dictated that letter on February 9 and did not send the letter until after the 15th, but failed to correct the date.

Senator CLARK. Do you have any recollection of that subject?

Mr. LAMMOT DU PONT. I have a recollection of dictating that letter long before the copy was received. I had it on my desk for quite a long while before I was able to mail it to Sir Harry McGowan, because I was waiting for the contract. I have no recollection of failing to correct the date.

Senator CLARK. Mr. Felix du Pont, returning to these drafts, A, B, and C; none of these drafts contains any reservation whatever with respect to the Treaty of Versailles or as to the provisions of the Treaty of Versailles.

Mr. FELIX DU PONT. No; I believe not. I will have to look them over again.

Senator CLARK. The provisions of all of them are substantially like paragraph 1 of the draft marked "B" whereby the company simply appoints Giera its agent for the kingdom of Holland exclusive of the Government of Holland and for the Republic of Germany?

Mr. CASEY. Senator, I think that was one of the exceptions that we were called on the carpet for, because it was not clearly expressed what the purpose was.

Senator CLARK. Major, if you will permit Mr. du Pont to answer this, I want to get his idea about it, because he is the man who signed the contract.

Mr. A. FELIX DU PONT. I have to speak a good deal from my memory of over a year ago. I do not find that I can readily identify these copies but, to the best of my knowledge we prepared another one which may be one of these, took into one of the offices of the company, perhaps Mr. Pickard, and he found that it was not satisfactory and we made another. All of those copies and trial contracts were made in between the dates February 1 and February 15 and they were not ever executed.

Senator CLARK. Mr. du Pont, in the ordinary course do you destroy a contract instead of simply canceling it? I mean, is it not unusual to destroy all copies of a contract? Is that in the ordinary course of business?

Mr. A. FELIX DU PONT. No; it is not.

Senator CLARK. Why was that extraordinary procedure followed in this case?



Mr. A. FELIX DU PONT. Why, because, in the first place, it is most extraordinary for anybody to sign a contract and bring it back again. That is where I made my first slip.

Senator CLARK. For anybody to do what?

Mr. A. FELIX DU PONT. Sign a contract and ask for it back again. That contract was executed.

Senator CLARK. The contract was originally executed on authority of the president of the company?

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. Had he signed the contract before it was executed?

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. Mr. Lamot du Pont had looked over this contract of February 1 with Geira before you signed it, and you did go on his authority?

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. I still do not understand why it was necessary to destroy all evidence of the contract instead of simply canceling it, as is ordinarily done.

Mr. A. FELIX DU PONT. Well, I will tell you exactly why. We brought Geira back. He was exceedingly reluctant to turn back the contract to us. We began to suspect that he wanted to use it in some way that would not be at all—that we would not like at all. So I was very much relieved when he finally said he would give it up and I thought I would get it out of the way.

Senator CLARK. Would it not have been sufficient, and would it not have been in the ordinary course of business, when he gave up his copy, simply to take the copies and mark them canceled and put them in your files and preserve an important contract of this sort that had been entered into, in your own files, after it had been canceled?

Mr. A. FELIX DU PONT. Why, maybe so.

Senator CLARK. Instead of destroying all evidence of a rather remarkable transaction as you yourself had dominated it?

Mr. A. FELIX DU PONT. No; it was not. When I executed the contract it was not a remarkable occurrence at all. We gave the man a contract similar to all the others that we have in Europe.

Senator CLARK. I understand, but was it not rather remarkable and outside of the ordinary course of business to destroy all copies of the contract that you knew of that were in existence rather than to put a copy in your files, and mark the contract canceled. That is what you ordinarily do in your business, is it not?

Mr. A. FELIX DU PONT. Well, we do not like to have a signed contract in the files that is not in use. So I tore it up.

Senator CLARK. He had agreed to cancel it?

Mr. A. FELIX DU PONT. According to my ideas it would never be of any use to him and I might as well get it out of the way.

Senator CLARK. He had agreed to cancel it. In other words, tearing up the signed copies of the contract would not have invalidated the contract unless he had agreed to cancel it. As he had agreed to cancel it, there was no reason for destroying it; is not that correct?

Mr. A. FELIX DU PONT. I think we often tear up papers; I think I would often tear up a paper of that kind.

Senator CLARK. Do you recall any other instances of that kind?

Mr. FELIX DU PONT. I think I remember saying to Major Casey, "we are through with that", and I threw it in the waste basket.

Senator CLARK. Do you recall any other instance in your whole experience where you tore up a signed contract after it had been signed?

Mr. A. FELIX DU PONT. No; I never had an occurrence of that kind before in my life.

Mr. LAMMOT DU PONT. Senator, I discussed this contract with Mr. Giera and Mr. Felix du Pont before it was drafted. In that discussion it was clearly understood by both parties that these two clauses with respect to the Versailles Treaty and with respect to the United States Government approval were both to be included in the contract. That was thoroughly understood before either draft was made.

Senator CLARK. Was that so stated in the negotiations?

Mr. LAMMOT DU PONT. It was stated in the conversation, as I recall it. After the first draft was made, I think Mr. Felix du Pont is correct in saying that I read it, and I failed to note, and I think he also failed to note, at that time that those two clauses had not been included. A member of our executive committee called our attention to that fact. We recognized our mistake and agreed with the other members of the executive committee that the contract should be revised in those two respects as well as perhaps others. We got Mr. Giera, reminded him of the conversation, and he, as I recollect, agreed that those two points had been discussed, that he had agreed to them, and that therefore it was proper that those two clauses should be put in the contract. In other words, both Mr. Giera and ourselves agreed that we had made a mistake in the first contract and that we should draw a new contract to replace it.

Senator CLARK. Mr. Felix du Pont has just stated that Giera agreed to cancel the first contract with very great reluctance.

Mr. LAMMOT DU PONT. I think so.

Senator CLARK. Why should he be reluctant if the first contract represented exactly the provisions he had agreed to?

Mr. LAMMOT DU PONT. He, as I recall it, had to admit that those two points had been thoroughly discussed, because I discussed them with him myself.

Senator CLARK. With Giera?

Mr. LAMMOT DU PONT. Yes; with Giera; and I know he understood what was talked about.

Senator CLARK. Was that on the 2d day of February?

Mr. LAMMOT DU PONT. No; I think it was before that. It must have been before it, because it was before the draft had been prepared.

Senator CLARK. What I am speaking of now are the negotiations at the time the first contract was destroyed. Were you present at the time?

Mr. LAMMOT DU PONT. I do not think I was.

Senator CLARK. You did not talk to Giera when you summoned him back up there?

Mr. LAMMOT DU PONT. I am not sure, but I think not.

Senator CLARK. So you do not know about his reluctance to destroy the first contract and how it was overcome?

Mr. LAMMOT DU PONT. I have a recollection of reminding Giera of our conversation when the contract was being negotiated.

Senator CLARK. Apparently this contract was signed on one day and destroyed on another.

Mr. LAMMOT DU PONT. Yes.

Senator CLARK. Did you see Giera after the first contract was signed and before the second contract was destroyed?

Mr. LAMMOT DU PONT. I cannot say that I did.

Senator CLARK. So then, therefore, you are not familiar with the arguments that were used to overcome Mr. Giera's reluctance to destroy the second contract. Did you have anything to do with destroying the second contract—I mean tearing it up?

Mr. LAMMOT DU PONT. I understood that it was to be superseded; yes, sir.

Senator CLARK. I mean the physical destruction of the contract?

Mr. LAMMOT DU PONT. I was not present at that time.

Senator CLARK. Did you know that it was going to be done?

Mr. LAMMOT DU PONT. No; I cannot say that I did. But I am perfectly clear on this point, that before any contract was signed by Giera that these provisions of the Versailles Treaty and the United States Government approval—

Senator CLARK. You mean before the original signature?

Mr. LAMMOT DU PONT. Yes—were both discussed and I admitted my error in approving that contract without those clauses. I am quite sure that both Mr. Giera and ourselves admitted that we had both made a mistake in signing the contract, because it did not correctly set forth the verbal agreement prior to the signing of the papers. Now, a mistaken contract, one signed or executed by mistake, is, I think, a natural document to be destroyed.

Senator CLARK. What is that?

Mr. LAMMOT DU PONT. I think it is natural to destroy a document that both parties agree was made by mistake.

Senator CLARK. Apparently Mr. Giera was extremely reluctant, from Mr. Felix du Pont's testimony, to agree to any such thing.

Mr. LAMMOT DU PONT. Judging from what happened later, I think he probably was reluctant.

Senator CLARK. Now, as for the rest of this letter, "Exhibit No. 516", from Sir Harry McGowan to Mr. Lammot du Pont—

MY DEAR LAMMOT: I much appreciate your apprising me of the appointment of Mr. Giera as your agent for Germany. In the event of orders materializing I assume that these would be definitely for requirements of the Republic of Germany and not for re-export, although I do not think the agreement safeguards you in this respect.

In making the agreement I am sure you could not have had before you a résumé of the conversations between Colonel Taylor and my people when the military agreement in general was discussed and worked out. It is clear from our records that although Germany, Austria, and Hungary are not dealt with in the agreement, the understanding is clearly that, as and when the Treaty of Versailles is modified, the whole position as at present covered by the general military agreement should be reviewed.

Although our German friends have been out of the export military business for many years, they probably have manufactured for local requirements, and I think we may assume that they have not been idle in their research. It is definitely established that they have not been so in military detonators. I feel sure that when freedom to manufacture is granted for home use and possibly for export they will expect to take a prominent position in the business and one which will be in keeping with our arrangement with them on blasting explosives, and we have in fact kept in mind this possibility.

If the agent you have appointed, therefore, is at all active, I think that any future negotiations would tend to become more difficult and the Germans would probably consider that as we each reserve to ourselves orders from our respective Governments they should be entitled to do likewise.

Yours sincerely,

H. McGOWAN.

LAMMOT DU PONT, Esq.,  
Messrs. E. I. du Pont de Nemours & Co., Inc.,  
Wilmington, Del., U.S.A.

I ask you again, Mr. du Pont, if that, in your opinion, does not indicate certainly an expectation on the part of the I.C.I. that at such time as the Germans were able to manufacture munitions again, Germany was to be allocated to them in an agreement with you and I.C.I.

Mr. LAMMOT DU PONT. I do not think it so indicates; no, sir.

Senator CLARK. Well, that is a difference of opinion. Now, Mr. Felix du Pont, in May 1933 you received a letter from Longley, Bogle & Middleton, attorneys, who represented Mr. Giera, which I will offer as "Exhibit No. 523."

(The letter referred to was marked "Exhibit No. 523", and appears in full in the text.)

Senator CLARK. This letter says—

that deliveries under this agreement were assured to both himself and Count Westarp, of the German military staff.

Did representatives of the du Pont Co. actually meet with representatives of the German military staff on the probable sale of \$7,000,000 worth of military powder to the German Government?

Mr. A. FELIX DU PONT. A member of the military staff; no.

Senator CLARK. This letter, "Exhibit No. 523", is on the letter-head of Longley, Bogle & Middleton and is dated May 27, 1933, and it reads:

GENTLEMEN: I have had brought to me by Capt. Del Fungo Giera, of Pelham, N.Y., a contract dated February 15, 1933, executed between himself and your company, relating to the sale of military propellants and military explosives. He has also left with me a copy of his contract executed February 1, 1933. Captain Giera has related to me the history of the transaction and advised me of the negotiations leading up to the execution of these documents.

Under date of February 14, 1933—

Mr. LAMMOT DU PONT. That is wrong, that date.

Senator CLARK. It was actually in April.

Mr. LAMMOT DU PONT. It should be April.

Senator CLARK. I will read the letter as it is. [Reading:]

Under date of February 14, 1933, you gave notice of termination of your contractual relationship with him, and it is of this he complains. This action obviously creates considerable financial loss to Captain Giera, for funds expended in the interests of your company, and I may say very serious embarrassment through his failure to carry out his business with the people to whom he expected to sell your products. He advises that deliveries under this agreement were assured to both himself and Count Westarp, of the German military staff.

Captain Giera has been put to an out-of-pocket expense of upwards of \$36,000, and you have agreed that he should be reimbursed for the expense which he has incurred in this business of yours. In this figure he has not included any allowance for his own services, but states that he does feel that you should see him repaid for the amounts disbursed in your company's behalf.

I trust that I may hear favorably from you at an early date.

Mr. A. FELIX DU PONT. I want to make an exception to that date, February 14. It is April 14.

Senator CLARK. I simply read the exhibit as it was. I understand that it was in April. I think I have a communication somewhere which was addressed to Captain Giera. I will ask you again, Mr. du Pont, whether you actually had any direct negotiations with Count Westarp, who is mentioned in this letter, or any other representative of the German military staff?

Mr. A. FELIX DU PONT. Giera brought a man who he introduced to us as Westarp; brought him down and introduced him to me.

Senator CLARK. Where was that; Wilmington?

Mr. A. FELIX DU PONT. In Wilmington; yes, sir. I was not at all sure that he was a representative of the German military staff. He represented him as an assistant of his, as I remember it. I think I had even more misgivings about the contractual relations that we were in at that time when I met this man.

Senator CLARK. Was that while the contract of February 15 was in effect?

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. And he brought Westarp down there?

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. Do you recall about when it was with reference to the negotiation of the contract?

Mr. A. FELIX DU PONT. No. I think it was shortly after the working contract was signed.

Senator CLARK. He did not tell you at that time that Westarp was a member of the German military staff?

Mr. A. FELIX DU PONT. I don't remember, but I think he did.

Senator CLARK. Did this statement, in the letter from the firm of lawyers I just read, that Westarp was a member of the German staff occasion any disturbance on your part?

Mr. A. FELIX DU PONT. No.

Senator CLARK. What did you do?

Mr. A. FELIX DU PONT. We did nothing.

Senator CLARK. What was the nature of the conversation of Westarp and Giera when they came down there?

Mr. A. FELIX DU PONT. Giera told me Westarp was going to Germany right away, and, as I understand, he did sail a few days afterward.

Senator CLARK. When was the contract with Giera actually canceled, referring now to the contract of February 15?

Mr. A. FELIX DU PONT. May I ask someone who has knowledge of that?

Senator CLARK. Yes. I think I can find it myself.

Mr. A. FELIX DU PONT. I have a note here that I informed our executive committee by letter dated April 18 that I had given notice of the cancellation of the contract, so it was directly before that date of April 18.

Senator CLARK. That contract provided for cancellation on 6 months' notice?

Mr. A. FELIX DU PONT. Yes; I think it was 6 months.

Senator CLARK. And this notice that you gave here to terminate the contract in accordance with its terms was 6 months in the future?

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. That is, 6 months after April 18, or whatever date you sent this letter?

Mr. A. FELIX DU PONT. I am not just sure what the communication to him was.

Senator CLARK. At that time you paid Giera \$25,000, did you not?

Mr. A. FELIX DU PONT. Yes, we did; but sometime afterward?

Senator CLARK. When did you pay the \$25,000?

Mr. A. FELIX DU PONT. I do not remember that exactly. We got this letter from the lawyer asking for \$36,000, and we discussed it a number of times with various officers of the company and finally took it up in executive committee meeting. Then, finally it was decided we would offer the lawyer \$25,000, and that was for immediate cancellation.

Senator CLARK. You did not owe him \$25,000 or anything else, did you? The contract itself had provided he was to pay all expenses of any negotiations he might conduct on any business he might transact for your company, and you were to pay him a straight commission?

Mr. A. FELIX DU PONT. Yes; but he represented to us that he had a 6-month contract, and that having entered into that contract in good faith he went ahead with certain expenses of his own which were necessary, and which, by the way, I think he greatly exaggerated, and therefore we offered to him a sum of money for immediate cancellation of the contract to reimburse him for the expenses he said he had incurred.

Senator CLARK. Did the letter with the photographic copy of the contract have anything to do with that payment?

Mr. A. FELIX DU PONT. No; I never saw that photographic copy.

Senator CLARK. I understand, but it is stated that the lawyer had been shown a photographic copy of the contract of February 1 with Mr. Giera.

Mr. A. FELIX DU PONT. No; that did not affect us at all.

Senator CLARK. And subsequently you had an arrangement with Mr. Giera for handling some Japanese business for you?

Mr. A. FELIX DU PONT. I guess that is true. I will ask Major Casey to answer that, as he is more familiar with it.

Senator CLARK. Major Casey, did you conduct those negotiations?

Mr. CASEY. Yes, sir.

Senator CLARK. Yes; I believe this letter is signed by you.

Mr. CASEY. I believe you have the first and last page.

Senator CLARK. I have the complete letter here.

Mr. CASEY. What is the page number?

Senator CLARK. 1 and 2.

Mr. CASEY. What is the date of that?

Senator CLARK. That is dated January 10.

Mr. CASEY. There is one before that, in December.

Senator CLARK. I have a letter from Giera to you in December.

Mr. CASEY. Is it December 7?

Senator POPE. When was this; paying the \$25,000?

Mr. A. FELIX DU PONT. I beg your pardon?

Senator POPE. What date was the payment of this \$25,000?

Mr. A. FELIX DU PONT. I have not the date here. It was not long after the letter from Giera's lawyer which has been given you.

Senator POPE. After that payment you made an arrangement with him about the Japanese business?

Mr. A. FELIX DU PONT. Yes.

Senator CLARK. You are correct, Major Casey; it is the letter of December 7 to Giera, of which I have the first and last pages. This letter of December 7 has to do with the sale to Japan through Giera of some equipment for the manufacture of powder.

Mr. CASEY. Yes.

Senator CLARK. That was not a proposition for the sale of powder, but the sale of equipment?

Mr. CASEY. That is correct.

Senator CLARK. What became of that negotiation?

Mr. CASEY. At that time Giera said in connection with his mysterious explosive powder he had made a contract with the Japanese, and in connection with that contract they were anxious to buy powder machinery. I said, "Why do they want to do that, when they have plenty of their own and can make their own?" He said, "They want it." I said, "All right; I don't think they do, but what makes you think they want to buy machinery?" He said, "They have \$500,000 they want to spend for equipment"; and he said, "I want 10-percent commission." I said, "In other words, you mean they have \$450,000", and he said, "Yes." I said, "All right; I will give you a proposition, but I am willing to bet you nothing ever will be heard about it."

So I prepared this letter, the interior pages giving a list of equipment, and incidentally any textbook would give the same equipment. We gave no prices or anything, but said this is about what they would be able to get.

However, an interesting paragraph was put in there, and that was that no blueprints would be given and absolutely no information about the manufacture of powder. Of course, what I anticipated was this: That if they bought the machinery they would say, "Now, we would like to see this machinery in operation", and that would mean they would want to visit our plant, and the answer is obvious.

In the letter I knew that was the end of the entire proposition. We gave them 3 months, and in the meantime I went right down to Washington and took it up with the Army and Navy and the State Department and showed them that particular paragraph I have referred to, and they all practically agreed with me that was the end of it; and it was the end of it. We never heard another word about it.

Senator CLARK. You got an answer on December 12 from Giera?

Mr. CASEY. Yes; but there was another letter of mine later.

Senator CLARK. In this letter of December 12 Giera says:

Will you please confirm in your next letter to me that I will be protected with 10-percent commission and the outlay of the German venture and your dealings with the Japanese from now on?

What does he mean by that?

Mr. CASEY. He was still insisting that we owed him \$12,000 after our having given him \$25,000, as he had spent \$37,000. So in our next letter we decided to clear that up once and for all.

Senator POPE. Did you not get a receipt from him in full for all claims when you paid the \$25,000?

Mr. CASEY. Yes; but he claimed he needed this money in his development work on the high explosive.

Senator VANDENBERG. What is he doing now, do you know?

Mr. CASEY. The last I heard, I would not give the source of the information, but I would call it authoritative, and I heard from one source that he was given \$50,000 by the Japanese Government for a quantity of this explosive and another told me \$150,000. I cannot say either is correct.

Senator CLARK. You mean this hydrogen explosive you were talking about awhile ago?

Mr. CASEY. Yes. We went out to see a demonstration of it in a gun, and we saw three shots fired and all I can say is I hope the Japanese buy a lot of it.

Senator BONE. Speaking of the Japanese, was the State Department contacted when the proposal came up to sell this nitrogen machinery to Japan?

Mr. CASEY. I did not handle that, but I believe they were.

Senator BONE. Did they acquiesce in that proposal?

Mr. CASEY. I could not tell you that, but I asked them to.

Senator BONE. Can anyone in the group reply to that question?

Mr. LAMMOT DU PONT. You refer to the nitrogen machinery and I think your recollection is incorrect as to that.

Senator BONE. My memory may be defective, but what was the machinery?

Mr. LAMMOT DU PONT. Contact conversion process.

Senator BONE. That is what I mean; were those matters brought to the attention of the State Department?

Mr. LAMMOT DU PONT. Yes.

Senator BONE. Do you know whether they acquiesced in this?

Mr. LAMMOT DU PONT. There was a letter introduced in the testimony this morning about that.

Senator CLARK. Now, Major, these negotiations with the Japanese were continued for some time, because some time after that here is a letter of yours dated January 10, 1934, to Captain Giera signed "A. Felix du Pont, vice president", and "K. K. V. Casey, director of sales", in which you actually give a memorandum for a contract?

Mr. CASEY. Give what?

Senator CLARK. Give Giera a memorandum for a contract.

Mr. CASEY. Yes.

Senator CLARK. This is in relation to the Japanese sale, and I read from this letter as follows:

With reference to the letter dated December 7, 1933, addressed to you and signed by Maj. K. K. V. Casey, of this company, relative to furnishing smokeless-powder-making equipment to the Government of Japan, and to your letter of December 12, 1933, in reply thereto, addressed to Major Casey, you are hereby advised as follows:

If you present duly authorized representatives of the Government of Japan at our offices in Wilmington, Del., and if as the result of conferences and negotiations between such representatives and representatives of the du Pont Co., a contract is definitely concluded between the Government of Japan and the du Pont Co. for the manufacture and sale by the du Pont Co. to the Government of Japan of smokeless-powder-making equipment, the du Pont Co. will pay you as full compensation for your services in that connection a commission equal to 10 percent of the delivered prices, c.i.f. Japanese port, of all smokeless-powder-making equipment sold to the Government of Japan under any such contract. Any such commission shall be payable to you promptly



upon receipt by the du Pont Co. of the selling price upon which such commission is based. Such commission shall be paid in the then existing United States currency.

Did anything ever come from that?

Mr. CASEY. Would you read the rest of it?

Senator CLARK. Yes. It reads further as follows:

It is understood that any such contract for the sale of smokeless-powder-making equipment to the Government of Japan will be negotiated directly between the representatives of the du Pont Co. and the representatives of the Government of Japan.

It is to be further understood that all of the foregoing is dependent upon the negotiation and final conclusion of such contract within a period of 3 months from the date of this letter.

With reference to the German venture referred to in the second paragraph of your letter of December 12, 1933, we call your attention to the fact that this matter was finally settled, and our company was released from all claims resulting therefrom by agreement with you dated July 10, 1933.

Did anything further come from that?

Mr. CASEY. The next move was to wait until April 10, which I think would be the date. I know I kept a ticker on it and consulted with the legal department as to whether we should send a termination notice, and they said that we should wait until the time passed, and then advise them that the whole deal is off.

Senator CLARK. So nothing further came of the Japanese negotiations?

Mr. CASEY. Not at all.

Senator CLARK. Have you any agency agreement with Giera of any sort, now?

Mr. CASEY. Not a bit.

Senator CLARK. Now, I call your attention, Major Casey, to a letter of date June 30, 1933, signed by yourself and directed to Colonel Taylor, your agent in France, and which letter I offer as an exhibit under the appropriate number.

(The letter referred to was marked "Exhibit No. 524", and is included in the appendix on p. 1382.)

Senator CLARK. In this letter, "Exhibit No. 524", you say:

DEAR TAYLOR: Because of uncertainties regarding possible flare-back, it is decided best to cancel our agency arrangement with Giera and the same has now been arranged, this cancellation taking effect immediately.

What do you mean by a possible flare-back?

Mr. CASEY. At the time we negotiated with Giera there was considerable talk of the likelihood of Germany being allowed to rearm, and we felt this way, if that would happen, it might not happen for months or years, and whoever was in there at that time, was in a better position to effect a sale than if they had to wait until the actual occurrence.

Of course nothing could happen until they were permitted by treaty or otherwise to rearm, and almost immediately after this contract with Giera was started, the situation in Europe looked very much as if any idea of Germany being allowed to rearm was almost hopeless, and with the forthcoming events at that time we figured we had better terminate these contracts. That was the original termination. Then on the basis of the original termination where he still had 6 months to operate, we thought it was to our advantage to get a prompt termination on the best terms we could.

The flare-back I referred to is this, that there was a possibility that our having made that contract it would flare-back on us as an undesirable thing. After events have shown that it was desirable to terminate it, and that is the reason we canceled it.

Senator CLARK. Did this letter from Sir Harry McGowan informing the du Pont Co. that this contract should not be made have nothing to do with that flare-back?

Mr. CASEY. Not a thing. I never saw the letter, and it did not influence me.

Senator CLARK. Did it have any influence on you, Mr. Lammot du Pont, in canceling that contract, this letter from Sir Harry McGowan informing you your German associates were unquestionably expecting to have a monopoly of the German market?

Mr. LAMMOT DU PONT. That letter did not state such a thing.

Senator CLARK. The letter in effect said so.

Mr. LAMMOT DU PONT. Not to me.

Senator CLARK. Did that have any effect on you, Sir Harry McGowan's language?

Mr. LAMMOT DU PONT. Not any effect on me; no.

Senator CLARK. This language had no effect on you whatever?

Mr. LAMMOT DU PONT. No, sir; not as I recall it.

Senator CLARK. It was just as though the letter had never been written?

Mr. LAMMOT DU PONT. As I recall it; yes.

Senator CLARK. Mr. du Pont, do you know whether other companies, either in this country or abroad, were making arrangements to move in on the German business in case the Treaty of Versailles should be modified?

Mr. LAMMOT DU PONT. Mr. Giera told me they were.

Senator CLARK. Who did he tell you?

Mr. LAMMOT DU PONT. He did not mention any names, but he told me it was a well-known fact, and I believed it was, but afterward I did not.

Senator CLARK. How is that?

Mr. LAMMOT DU PONT. I believed him at the time, but afterward I did not.

Senator CLARK. When did you quit believing him—after the Japanese negotiations fell through?

Mr. LAMMOT DU PONT. No.

Senator CLARK. Apparently after the consummation of the German contract you were willing to make another contract, in spite of his well-known record and in spite of the German matter, so when did you quit believing him?

Mr. LAMMOT DU PONT. I think when we got that letter from the attorney was when I had the grave doubt.

Senator CLARK. You were willing to negotiate a contract with him to be your agent in Japan some months after that.

Mr. LAMMOT DU PONT. I did not do that.

Senator CLARK. Didn't you know about the proposed contract of agency in Japan in January of this year, when Mr. Felix du Pont and Major Casey wrote that letter?

Mr. LAMMOT DU PONT. I think perhaps I did know about it.

Senator CLARK. Did you have any other official contract or association with I.G. other than your contracts with D.A.G. in Germany?

Mr. LAMMOT DU PONT. There are no contracts we have.

Senator CLARK. Any agreements of any sort?

Mr. LAMMOT DU PONT. No, sir; I think not. I will take that back. I think we had an arrangement with them with respect to the manufacture of ventube. Ventube is a coated soft material used for mine-ventilating ducts, like a canvas pipe to carry air into mines. We had a general arrangement with I.G. for the manufacture of that, and we had a number of patent license agreements granting licenses to dyestuff patents, also in settlement of patent interferences.

Senator CLARK. You did not have any direct agreement with them?

Mr. LAMMOT DU PONT. I think not, except this ventube contract.

Senator CLARK. Do you have any agreement of any sort with anybody at the present time, looking to entering into German business in case the Treaty of Versailles should be modified?

Mr. LAMMOT DU PONT. No.

Senator CLARK. I mean of the same general nature as your contract with Giera.

Mr. LAMMOT DU PONT. No.

Senator CLARK. Do you know whether these other companies have?

Mr. LAMMOT DU PONT. No.

Senator CLARK. Your purpose in making this contract with Giera, originally you were informed by Giera other companies were preparing to enter into the German field, and you wanted to get your share from a rather lucrative field?

Mr. LAMMOT DU PONT. I do not know whether it was lucrative or not.

Senator CLARK. I mean you hoped it would be lucrative.

Mr. LAMMOT DU PONT. Yes; we hoped it would be lucrative.

Mr. CASEY. There was another time when this matter was broached. We could not understand it, because the German powder manufacturers would be able to get in production fast enough so that as fast as Germany was allowed to rearm they could carry on the necessary requirements. But we were assured that was not the case; it would take them a long time.

Senator CLARK. Assured by whom?

Mr. CASEY. By Giera, because we thought it was a foolish venture on his part, and a thing for which we would not put up our own money. He seemed to be so certain of it he was willing to venture his own money for his expenses.

Senator CLARK. What I have been trying to get at, Mr. du Pont, is this. Is it really helpful, in your opinion, to the peace of the world, to have a bunch of private munitions manufacturers working and jockeying around to arm anybody who has money to spend for arms?

Mr. LAMMOT DU PONT. Do I consider it helpful to the peace of the world? No, sir.

Senator CLARK. The competition among private armament companies does have a tendency to exert a tremendous pressure toward armament, does it not?

Mr. LAMMOT DU PONT. I do not think so. I do not believe a nation would buy munitions or munitions-making equipment because somebody comes along and offers to sell it to them.

Senator CLARK. Is it a matter of your knowledge, and I am asking you as a man whom I know keeps abreast of the conditions throughout the world in your own business, is it not a fact that situations come when a country will be taken advantage of by great war scares and the purchase of armament in another country?

Mr. LAMMOT DU PONT. I do not know about that.

Senator CLARK. For instance, it is a matter of common knowledge that Hitler was partly financed by Skoda, which is controlled by Schneider in France, in Berne, and is it not a fact that Hitler's rise was used in France to stimulate the purchase of armament?

Mr. LAMMOT DU PONT. I do not know.

Mr. CASEY. I have heard it.

Senator CLARK. Colonel Taylor has not reported those things to you?

Mr. LAMMOT DU PONT. I have read a statement to that effect from magazines and such.

Mr. CASEY. The real truth on this armament is every nation has what they call a "mobilization plan", and I do not believe that there is one nation in the world today that has the material sufficient for the needs of the mobilization plan.

Senator CLARK. You mean no nation keeps on hand in time of peace as much material as they would require at the outbreak of a war?

Mr. CASEY. That is not what mobilization means. It means material that they would need at the outbreak of war and until they can manufacture what they need for a continuation. But there is not one nation, as far as I know, that has anything like what is called for in their tactical studies which they call the mobilization plan.

Senator CLARK. If any nation did have the material to meet its mobilization plan, they would immediately raise the mobilization plan to require more material. That is the tendency of all nations of the world.

Mr. CASEY. But there is the money that is called for. When there is any new idea of mobilization they cannot get the money, and they are always crying they cannot get the money to put their nation in a position to defend itself.

Senator CLARK. Of course all of them are defensive wars and not offensive wars. You never heard of a mobilization plan in the world or any military or naval propaganda that openly contemplated an offensive war.

Mr. CASEY. That is true.

Senator BONE. Do you think every nation should be as completely prepared as possible for hostilities, with stores and supplies on hand which are sufficient to carry them over into production?

Mr. CASEY. That is not a question for me to decide.

Senator BONE. Would you be a judge and answer that question?

Mr. CASEY. Why not apply it to our own country, and then you answer it? Don't you think we should be prepared for emergency?

Senator BONE. Our purpose here is to get all of the information we can to prepare some kind of a report. We are going to prepare that report on what evidence we get here and what we get other-

wise, and I am asking you whether a government should equip itself with supplies to carry itself on until it can get into production, in case of a war?

Mr. CASEY. I think you will find the National Defense Act of 1920 carries that very thing.

Senator BONE. I am asking your opinion.

Mr. CASEY. My opinion coincides with that.

Senator BONE. How do you think that preparedness should be effected—exclusively through private agencies or exclusively through public agencies, or in part from each?

Mr. CASEY. The combination is the thing.

Senator BONE. What sort of combination do you think would be the ideal one?

Mr. CASEY. I would say this, talking not for the company, but as an individual if that is perfectly agreeable?

Senator BONE. When I seek your opinion, that is the opinion I want to get.

Mr. CASEY. Private manufacture should be continued because of information on research and raw materials and the trained personnel and the ability to go ahead. Have the Government plants for the purpose at least of training technical men—trained to act as inspectors when the emergency arises.

Senator BONE. You would not go beyond the mere training aspect in that sort of thing?

Mr. CASEY. I think, as Mr. Irénée du Pont brought out yesterday, when it comes to the actual outbreak of hostilities, when there is a limited amount of what you may term educational orders placed with the manufacturers to keep the art alive, when the time of expansion comes you will find the private manufacturers can make that expansion much more readily.

Senator BONE. You would not be in sympathy with keeping the art alive through governmental agencies instead of private agencies?

Mr. CASEY. I would, if that was the most efficient method.

Senator BONE. You would base your objection, if you had objection to public preparation for war, solely on the ground of efficiency?

Mr. CASEY. I think efficiency is what gives you performance when you need that performance.

Senator BONE. To what extent do you think that lack of efficiency would be the cause of war?

Mr. CASEY. We might take as an illustration the experience of the last war. In one respect the United States was unusually efficient, because by reason of orders placed by the Allies they found facilities existing in this country that, had the United States been brought into the war in 1914, would not have been in existence.

The result of that was that some of our people got a full picture of the proposition. We realized also that a great many features of equipment were really in the nature of a laboratory proposition, and when they were put out on a production basis the manufacturers had great difficulty in putting out a manufactured article, and they found in a great many cases that the specifications based on laboratory work had to be suited to manufacturing conditions. It was really as a result of that, immediately after the war, that the Army Ordnance Association was started with this idea in mind: The As-

sistant Secretary of War's job is this question of industrial preparedness. In order to have industrial preparedness, there is only one thing. The manufacturers had to be familiar with just what they were going to be called on to undertake when an emergency arose, and the designs had to be of such a nature to manufacture, so that the manufacturers, whether they were ordnance manufacturers or just manufacturers who converted their materials to certain uses, would be able to put those things into production.

For instance, you take fuses. Fuse parts are made on automatic screw machines. Any manufacturer with automatic screw machines, as long as he is able to tool up, can begin producing those metal parts. If he has had some experience in the tooling up for that job by educational orders, he can then tool up and probably every week turn out just a certain number of fuses.

Senator BONE. I quite agree with you, but I just want some information. What is to prevent a government agency from doing that very thing? What I am getting at is this: Why is it deemed inexpedient for the Government to do that thing? Is it simply the element that it will interfere with profit?

Mr. CASEY. No.

Senator BONE. What is it?

Mr. CASEY. That does not come in.

Senator BONE. Can you tell me why there is such a determined effort now to prevent the building of additional battleships in Government navy yards?

Mr. CASEY. I cannot speak for the Government navy yards upon battleships.

Senator BONE. You understood that there is a very insistent effort from very high quarters to prevent the building of additional battleships in the navy yards, do you not?

Mr. CASEY. I have heard that.

Senator BONE. And along with that goes the demand for more preparedness. Why is it deemed unwise for the Government to prepare itself for times of emergency? Do you not think it is well for the Government to be fully prepared in that respect, or is there something ill-omened or unpatriotic about the Government doing it for itself?

Mr. CASEY. No; on the other hand I think that is what the American Government has been doing.

Senator BONE. I think the country would like to know about this campaign being carried on against the Government's doing this. You are business men, engaged in this business and are qualified to express an intelligent opinion on that particular isolated point.

Mr. CASEY. You see, Senator, we really manufacture but one type of component. We do not supply finished munitions except since we have taken the Remington Arms, they could produce small arms ammunition and small arms.

Senator BONE. I do not think it has been seriously suggested. Major, that the Government should own sources of supply, but merely complete the finished product for actual military and naval combat.

Mr. CASEY. If they can do it; yes.

Senator BONE. How do we know if they can do it or not, until it is tried?

Mr. CASEY. Why not ask them for an estimate on what it would cost?

Senator BONE. We spent \$36,000,000,000 in the last war and asked no questions about cost; that is, this Government did.

Mr. CASEY. Yes, sir.

Senator BONE. Constituting today one of the almost insuperable barriers to normal recovery in this country. I think we will all be in harmony on that point.

Mr. CASEY. We will all agree on that.

Senator BONE. It is a very serious thing, because a repetition of that sort of thing may very completely undermine our whole system, and when I say "system" I am taking in our economic and social system, as we know it and understand it. For instance, I have an article here which I just read last night, where a very prominent defender of the principles of exclusive operation in munitions says: "Another great international conflict will probably destroy all civilization, as we now know it."

It is conceivable that that might happen, is it not?

I am going to ask you this one other question: Why is it that there is such a barrage of criticism laid down against Government building, the criticism being tantamount to the statement—and I do not use it in an invidious sense—that there is something unpatriotic in the idea of this Government building its battleships and doing its own work? Can you tell us why that is?

Mr. CASEY. Senator, frankly, I cannot, because as I stated yesterday, our position is entirely different.

Senator BONE. There is nothing in the suggestion of the Government building battleships which will do away with preparedness, is there, Major?

Mr. CASEY. Not that I know of.

Senator BONE. Of course, nobody knows about it. We have got to try it to find out. If the Government builds a battleship, it is a battleship, is it not?

Mr. CASEY. Yes.

Senator BONE. It is as much a battleship as if a private concern built it, is it not?

Mr. CASEY. There is no question about it.

Senator BONE. Why is it, then, unpatriotic and an assault against preparedness for the Government to build it?

Mr. CASEY. I cannot answer that.

Senator BONE. I have tried to ask every witness coming before this committee wherein lies the lack of patriotism, the lack of love of country, the lack of doing right toward preparedness, in a program where the Government builds its own instruments, and I have not had an answer to that.

Mr. LAMMOT DU PONT. Senator, may I interrupt the questions which you are asking Major Casey to state that that is something on which we have not come down prepared to answer?

Senator BONE. We have been given certain duties to perform and I, as one member of the committee, would like to have those questions answered because the public wants them answered.

Mr. LAMMOT DU PONT. If your committee desire it we would be very glad to prepare a statement, giving some suggestions along the

line you have asked about. We did not come prepared to give any such statement, and they are very proper questions, but they are ones which require a great deal of study to give the right answer. We do not want to give an offhand opinion on a serious matter of that kind, but we are glad to give the matter serious study and will report to the committee, if you desire.

Senator BONE. This question from the very dawn, the very inception of the League of Nations, has been a very active question, the question of whether there shall be public or private preparedness.

Perhaps I got a little afield, but I am trying to elicit from the Major, or any one of you gentlemen, an answer to this question: Why is this propaganda arising from private sources in this country that it is unpatriotic, that it is un-American, that it is an attack on preparedness, for the Government to do that? How could it be an attack on preparedness, when the Government wants the manufacture of as much munitions of war as private agencies could manufacture.

Mr. LAMMOT DU PONT. I think your questions can be satisfactorily answered but I am not prepared now. Mr. Irénée du Pont gave you a partial answer yesterday.

Senator BONE. He was talking about efficiency, and I am not talking of efficiency. I want to know where the lack of patriotism comes in, in the Government building battleships.

Mr. LAMMOT DU PONT. I think that question can be answered, but we are not experts in patriotism.

Senator BONE. Do you have to give any consideration to an answer to the question as to where lack of patriotism comes in? Do you think that will require a long study of the matter?

Mr. LAMMOT DU PONT. I think it will require a very careful consideration of it, sir.

Senator BONE. Is it so much of a question of social ethics so that you would have to determine that?

Mr. LAMMOT DU PONT. I believe it is.

Senator BONE. As to whether it is patriotic for the Government to do this, would that require study?

Mr. RAUSHENBUSH. Senator, the company was not put on notice that they would be examined on this point.

Senator BONE. If I have transgressed I am sorry.

Senator CLARK. Mr. Irénée du Pont made a statement yesterday on this subject at some great length.

Mr. IRÉNÉE DU PONT. I have never heard it was not patriotic for the Government to prepare for war. I think it is the most patriotic thing it can do. My claim is it hurts preparedness in that if you lean on a Government bureau or the Army or the Navy for preparedness, when war breaks out, for building up from the minimum amount to get under way this source of war consumption, you are going to overwork that personnel so that you cannot train and recruit troops and in the endless preparation for war, the bureau having charge of Government plans, you might say, will have become a system, like the post office. I never heard of a postmaster being moved up from Chester, Pa., to Providence, R.I. There is no business possible under the circumstance, and orderly advance in a bureaucracy, and it cannot be done.



Senator BONE. There is a very orderly handling of the letters in that bureaucracy, is there not?

Mr. IRÉNÉE DU PONT. Mr. Wanamaker, when he was Postmaster General under President Cleveland, made the announcement at one time that if he was given a private contract to carry the mails, he could do it for 1 cent less. It costs us 3 cents or 2 cents in the same town to deliver a letter, and it costs a milkman 2 cents to deliver 1 quart—2-pound bottle—of milk, and we have competition with five men going up the same street every day, cutting down the efficiency very much, because they cannot get together.

I cannot believe that the way the post office must be run, as a bureau, that it is an efficient organization. I am not critical of them. It is a part of the system. You have appointed postmasters, and did you ever select one of the opposite party—I do not know your political party—who ought to be moved up from a smaller town? Could that be done and could a political party attempt to do that and survive? That is a bureaucracy. You will have an enormous bureaucracy manufacturing munitions, and if you do not have that bureaucracy, you must put it on the service man, the Army and Navy, which will greatly increase the personnel, which I believe would be all to the good, but those are the men who must train the soldiers and get them under way in time of war.

Senator BONE. That is his business and the business they are hired for, and the business everyone is paying taxes for, and perhaps that might be wise.

Mr. IRÉNÉE DU PONT. Perhaps it might be, but my opinion differs from yours. For the Government to prepare this thing, they have got to call on an organization and have the personnel for the organization. The plants are not as important as the organization. The du Pont Co. was only able to function during the war because we had a loyal organization; we knew each other and each other's capabilities and could work as a unit. Our chief engineer was called by the United States Government to leave us and go and build a plant at Charleston. He told them he could not do it. He said, "I am the chief engineer and we could not do such a thing without some organization."

It is the men of our organization, not Mr. Lammot du Pont, not me, or not the gentlemen around here that do it, but the organization trained to work together; and you would be sunk if you possibly went from one kind of manufacturer to another and expected to get a whole new organization in time of war and get it functioning on that.

Senator BONE. You are referring in some respects to a skeleton crew of trained men, are you not?

Mr. IRÉNÉE DU PONT. No; it is more than a skeleton crew. You must bring in a large body prepared to act in time of war.

Senator BONE. To what extent did you expand your personnel in your factories during the war?

Mr. IRÉNÉE DU PONT. Before the United States came in?

Senator BONE. From 1914 to 1918.

Mr. IRÉNÉE DU PONT. I think that was in an annual report, but it was perfectly enormous. It took 5 years to do it.

Senator BONE. You took a skeleton crew of men and expanded it into an enormous organization. So why cannot the Government do the same thing?

Mr. IRÉNÉE DU PONT. I do not know whether you would call it a skeleton from which it gradually grew, but, if so, it was quite a good-sized skeleton—fifteen or twenty thousand men.

Senator BONE. I understand; but it was not a thing which could not be duplicated.

Mr. IRÉNÉE DU PONT. Our organization for this part alone started with perhaps 15,000 men, knowing each other thoroughly, and from 1914 until 1918 I suppose we had 85,000 men, but very much more efficient.

Senator BONE. We have gotten off into a discussion of the relative merits of private and public ownership, which was not my purpose in the beginning. However, I am willing to discuss it with you, Mr. du Pont, and anyone else at any time and get all the information I can; but my primary purpose in asking the question is to ascertain from you why it is that in hundreds of articles appearing in the press and magazines of this country, all avenues of publicity, that there have been the suggestions repeatedly made, reproduced a thousand times, that there was something rather immoral and "shady" about the Government doing something for itself.

Mr. IRÉNÉE DU PONT. I never heard it discussed as either unpatriotic or immoral. I think it fits better with the adage, "Less government in business and more business in government."

Senator BONE. It is an assault on our civilization. That is what I am getting at.

Mr. IRÉNÉE DU PONT. Our civilization grew in 100 years more rapidly, and with greater benefits for the public, than any civilization in history, without exception. We worked it on the basis of individual effort. The kings of only 200 years ago did not have anything compared to what the ordinary laborer today has. They had a miserable existence. Their lives were shorter. There were many diseases and they had no electric lights. They had not even a toilet in the house. They had no running water; they had no electricity, no telephone, no radio, no automobile.

Senator CLARK. There are a great many people in the United States today, Mr. du Pont, who do not have those luxuries, are there not?

Mr. IRÉNÉE DU PONT. There are a great many, but we got those luxuries under that system, and the thing is to stop interfering with business. You blame the business man for the depression; you blame the banker for the depression. I blame the Government for the depression.

Senator BONE. On this question which I am going to ask you, it is nothing personal—and I want you to understand that—I have read stories about you and your brother having made contributions to the Republican Party. You might have made them to the Democratic Party for that matter.

Mr. IRÉNÉE DU PONT. I might have as far as the results are concerned.

Senator BONE. Why have you contributed to a political party which has practiced the things you referred to as to postmasters?

Mr. IRÉNÉE DU PONT. Both parties have.

Senator BONE. Have you ever raised a voice against appointing postmasters?

Mr. IRÉNÉE DU PONT. I suggested to one of the Senators from Delaware that instead of appointing a local postmaster, he might get one from Bridgeport, Conn. I do not know whether they have a postmaster there, but he might get an assistant, and he burst into laughter.

Senator BONE. When I was a small boy it was my job to work in a post office, and I am going to tell you something in strict confidence. Off the record, Mr. Reporter.

(Informal discussion off the record.)

Senator BONE. Do you think the average man who works in one of the big industrial plants and stands at a belt for week after week doing two or three little jobs is doing something where he would have the chance you referred to?

Mr. IRÉNÉE DU PONT. One suggestion was made to Felix du Pont. Maybe he will tell you about a man and an elevator to take the powder upstairs instead of the man carrying it. We began to think about that. He said, "Mr. Felix, it is awful hard to carry this up on my back. Why not put in an elevator?" Those things come in all the time and we offer rewards for that kind of thing, and the bright men are brought up.

Senator CLARK. The fellow carrying powder upstairs lost his job?

Mr. IRÉNÉE DU PONT. He did. He got a better job.

Breaking away on that thing, I cannot believe that it is possible under a bureaucracy, where the head men are constantly changed by election, to get as great efficiency as under a continuous management running maybe for some three generations, as is the case with the du Pont Co.; the same principles are applied and the men at the top are expected to work just as hard, or harder, than most of them under them, and I think it has been demonstrated that it has been a wonderful thing.

It was not done by the men at the top but done by the organization. Organization is just the difference between success and failure. We saw that during the World War. I do not know whether you were in Washington during 1917, but there were flocks of these cardboard houses. It was shocking to me to go down there and it made me sick, the waste motion, passing the buck, and everybody did not want to make a mistake which would be chalked up against them. What was the result? Nobody took the initiative. It was very difficult to get men to take the initiative.

I used to go down with the Major on different things. Take the efficiency on alcohol, to which I referred the other day. We had a small plant, and it was not worth while to be gone after, but when we built up the organization so that it could look into the details, we found out that we could save alcohol, and toward the finish of the war we got from nine-tenths of a pound down to three-tenths of a pound. That is only one item.

Senator BONE. I am glad you disclaim any responsibility for or any sympathy with the idea than there is something inherently immoral in the Government doing this thing.

Mr. IRÉNÉE DU PONT. It cannot be helped. I do not blame you fellows, but the trouble is with the system.

Senator CLARK. There are inherent defects in any democratic government.

Mr. IRÉNÉE DU PONT. We still put up with a Democrat—democratic government. [Laughter.]

Senator CLARK. I am not speaking of any party.

Mr. IRÉNÉE DU PONT. I am very serious about that.

Senator CLARK. So am I.

Mr. IRÉNÉE DU PONT. I think the danger of a central tyranny, with all power, is that we become slaves to that power. Today the Government is, at least in theory, the servant of the people, and those in our office today have before them the extremely difficult task of maintaining the peace and safety of the country and such difficulties as those.

Senator CLARK. Defects are inherent in a democratic form of government as distinguished from an autocracy?

Mr. IRÉNÉE DU PONT. I question if we have a democratic form of government today, and my reason for joining the Liberty League was, I think, our Constitution is on the verge of going into the scrap-basket. I have nothing against Mr. Roosevelt and voted for him and contributed to his campaign—

Senator VANDENBERG. Mr. Chairman, I want to follow up Mr. Lammot du Pont's statement. Nobody is more familiar with conditions, of course, than the du Pont organization. Nobody knows better than you do, and I think no one would agree quicker, that there are reprehensible features of it, and no one is better able to give a constructive viewpoint than you; and, for one, I would very much appreciate a brief from your group indicating what you think should be done by way of improvement in this general situation, and I am sure the committee would be very glad to see it.<sup>1</sup>

The CHAIRMAN. Of course we would.

Senator CLARK. I want to offer a couple of exhibits for the record, Mr. Chairman; one being a report from Mr. Taylor to Major Casey, dated April 10, 1933, and the second being a report from Mr. Taylor to Major Casey, dated February 6, 1933. It is not necessary to read them. Major Casey knows what they are. These things were forbidden by the Treaty of Versailles.

The CHAIRMAN. Those will be given appropriate numbers and be exhibits in the record.

(The two reports referred to were marked "Exhibits Nos. 525 and 526", and are included in the appendix on pp. 1382 and 1386.)

Senator VANDENBERG. I would like to ask Mr. Lammot du Pont one more question.

Referring again to this letter of Sir Harry McGowan, dated March 6, to Mr. Lammot du Pont, in which he says that the German associates are expected to take a prominent position in the business and one which will be in keeping with our arrangement with them, on blasting explosives, he says that that is after the Treaty of Versailles is to be modified and that "We have in fact kept in mind that possibility."

I would like to ask, Mr. du Pont, if the Treaty of Versailles was modified in that particular, if the du Pont Co. would feel called upon

<sup>1</sup> In response to this request, Mr. Lammot du Pont submitted a memorandum for the consideration of the committee on November 14, 1934. This memorandum appears in the appendix on p. 1411.

to enter into a similar agreement with your present German associates as that at present in effect with regard to blasting powders.

Mr. LAMMOT DU PONT. No obligation to do so; no, sir.

Senator VANDENBERG. You do not feel as Sir Harry does, that that is included?

Mr. LAMMOT DU PONT. He is referring to the I.C.I. obligation.

Senator VANDENBERG. Yes. He says that the Germans would expect an agreement which would be in keeping with the present arrangement. You would not feel any such obligation?

Mr. LAMMOT DU PONT. No, sir.

Senator VANDENBERG. That is all.

The CHAIRMAN. Mr. du Pont, where is Colonel Simons?

Mr. LAMMOT DU PONT. At this time?

The CHAIRMAN. Yes.

Mr. LAMMOT DU PONT. I understand he is ill. I presume he is at home.

The CHAIRMAN. Is he in the country?

Mr. A. FELIX DU PONT. He is in Wilmington, Del.

The CHAIRMAN. If it is not already thoroughly covered in the record, what are his connections with the company?

Mr. A. FELIX DU PONT. He is an assistant to Major Casey, engaged in military sales contacts.

Mr. CASEY. I think, Senator Nye, I explained that yesterday, but you might not have been present at the moment.

The CHAIRMAN. I must have been distracted at the time.

Mr. du Pont, coming back to this reference which was made yesterday to the class of your investments during and since the war, you had agreed that you would prepare for us a statement covering just how many of the companies involved through capitalization and spending of new money, how much of it came out of the surplus of the company, and so forth. I hope that in that work, when you do prepare it, that you will make a very distinct division as between the companies that were organized during the war and those which were organized after the war.

Mr. LAMMOT DU PONT. I think Mr. Carpenter explained, Senator, that we could not make a sharp line of division between them.

The CHAIRMAN. As best you can, of course.

Mr. LAMMOT DU PONT. We put all the money into one pot, and we could not tell which dollar it was we were drawing out.

Mr. CARPENTER. Would a statement showing our investment in each new industry each year over that period cover what you have in mind, Senator?

The CHAIRMAN. I might suggest that back in April 1915 you acquired the plant of the Smokeless Powder Co.

Mr. CARPENTER. International Smokeless Powder.

The CHAIRMAN. For \$5,760,000. Indicate there whether there was a new issue of stock floated, or whether that was bought and paid for with money out of the funds of the company.

Mr. CARPENTER. That was practically the du Pont Co. at that time.

The CHAIRMAN. If you would pursue that course with respect to all of them, we would appreciate it.

Mr. CARPENTER. On that point it was actually a cash payment made.

The CHAIRMAN. On that particular one you paid cash?

Mr. CARPENTER. We paid cash for that particular company.

The CHAIRMAN. Mr. du Pont, do you possess any newspaper properties in Delaware?

Mr. LAMMOT DU PONT. No, sir.

The CHAIRMAN. Do your brothers?

Mr. LAMMOT DU PONT. No, sir.

Mr. IRÉNÉE DU PONT. The Christiana Securities, in which you and I are interested, possess newspaper properties. I do not think you take much interest in the details.

The CHAIRMAN. What is the name of the company?

Mr. IRÉNÉE DU PONT. They changed the name of the paper and change it ever so often, and it is the Journal Every Evening or the Every Evening Journal. It was a consolidation of the two papers the Journal and the Every Evening, and I do not know which way it reads this year.

The CHAIRMAN. Do you have any newspaper interests outside of Delaware?

Mr. LAMMOT DU PONT. No, sir.

The CHAIRMAN. Have you recently negotiated for newspaper properties outside of Delaware?

Mr. LAMMOT DU PONT. I have not, and the company to which Irénée refers has not.

The CHAIRMAN. Have any of you, as individuals, negotiated for a newspaper?

Mr. IRÉNÉE DU PONT. The name of this paper is the Journal Every Evening. It is the only paper in which I have any interest, and we have not negotiated for a paper for years. We took it on several years ago, and to save us any trouble we leased it out and we have no say-so in the operation at all. The Morning News was bought at the same time and is in this consolidation.

The CHAIRMAN. I might repeat this question, because we were diverted. Have you or your brothers or your company entered into recent negotiations concerning the purchase of a paper outside of Delaware?

Mr. IRÉNÉE DU PONT. Not that I know of.

Mr. PIERRE S. DU PONT. I have not.

The CHAIRMAN. Have you entered into negotiations involving a loan to one who is to purchase a newspaper or newspapers?

Mr. PIERRE S. DU PONT. No.

The CHAIRMAN. And that is true of all of you?

Mr. PIERRE S. DU PONT. Mr. Senator, I might say that the day before I came down here a friend of mine in Philadelphia sent a telegram to me, asking me to confirm the rumor that we had made a purchase of a Philadelphia paper, which I denied, because we had made no such purchase of any kind.

The CHAIRMAN. I was trying to avoid the reference to any place or any particular name.

Mr. PIERRE S. DU PONT. I know that rumor was abroad, but it has no foundation.

The CHAIRMAN. There has been no foundation for that rumor that has existed as of recent days?

Mr. PIERRE S. DU PONT. So far as I know, none whatever.

The CHAIRMAN. Are we to assume that when you speak of non-ownership of newspapers, you have reference as well to magazines?

Mr. PIERRE S. DU PONT. Yes, sir.

Mr. LAMMOT DU PONT. Yes, sir.

The CHAIRMAN. Mr. du Pont, the letter of May 29, 1933, addressed to you, "My dear Lammot", by Sir Harry McGowan, states:

I have been following with interest and no little satisfaction the improvement in industrial conditions obtaining in the States as a result of the policy introduced by your new President. The improved stock markets and the favorable developments in both business and political fields must encourage in you all that confidence which has, not unnaturally, been lacking during past years.

Particularly am I interested in the press announcements of prospective legislative action which should give incentive to international industry and, notably, the suggestions of lower tariffs and modifications of the Sherman antitrust laws. In these I can see hope for real progression and, as an early outcome, improved commodity prices and regained prosperity.

Indicating, as this language does, a very decided interest upon the part of your British associates in the organization which was devised to aid in accomplishing national recovery. Were you or your associates conferred with at all in the drafting of that national recovery program?

Mr. LAMMOT DU PONT. I think not, sir. I do not know of anything.

Mr. IRÉNÉE DU PONT. I did not quite follow the question.

The CHAIRMAN. Were any of you invited into conferences at which these programs were devised and planned?

Mr. IRÉNÉE DU PONT. I do not quite follow that.

The CHAIRMAN. The N.R.A. organization, to speak frankly.

Mr. IRÉNÉE DU PONT. I was never invited in. You were in the N.R.A., Pierre.

Mr. PIERRE S. DU PONT. I was a member of the Industrial Advisory Board.

The CHAIRMAN. Yes, but before N.R.A. was created, before any of this set-up was brought about, did you participate in conferences looking toward the formulation of legislation which made place for it?

Mr. PIERRE S. DU PONT. No.

Mr. LAMMOT DU PONT. I appeared as a representative of the National Association of Manufacturers, in, I think it was, a public hearing, granted by Senator Wagner with respect to the N.I.R.A.

The CHAIRMAN. These were the public hearings on the legislation?

Mr. LAMMOT DU PONT. Yes. I represented the National Association of Manufacturers as a member of a committee.

The CHAIRMAN. Were you, at the time Sir Harry McGowan was enthused about the prospect, looking upon this program as entertaining a large prospective recovery?

Mr. LAMMOT DU PONT. I think I was, in some respects. My reply to that letter, I think, is a very good indication of my feelings at the time.

The CHAIRMAN. That I have not seen.

Mr. LAMMOT DU PONT. I think I have a copy of it here. Shall I read this, Senator?

The CHAIRMAN. Is it extended?

Mr. LAMMOT DU PONT. Two pages.

The CHAIRMAN. All relating to this?

Mr. LAMMOT DU PONT. It is a reply to Sir Harry's letter of May 29.

The CHAIRMAN. If it relates to this particular question, please read it.

Mr. LAMMOT DU PONT. It is dated June 17, 1933.

Sir HARRY MCGOWAN,

*Imperial Chemical House, Millbank, Westminster,  
London, S.W.1., England.*

DEAR SIR HARRY: Your letter of May 29, commenting on the improvement in the industrial conditions in this country, and referring to the prospective changes in the international relations, was duly received.

I am much interested in what you say and heartily approve your attitude toward our patents and processes agreement and the relations between the two companies. I feel the same; namely, that our relations have been so happy and have produced such satisfactory results that we should let nothing in the way of international agreements interfere in any way with the progress we have made, or may make in the future. If any legislation or international agreements are brought about which affect these I.C.I.-du Pont relations, I am sure we will be able to adjust ourselves so as to get the continued benefit of our agreement.

It is difficult to say how much of our improved business activity has been due to Governmental action, either prospective or accomplished. We have certainly had a wonderful improvement in business, but when I look at our chart showing the course of our sales from 1929 up until today it is perfectly apparent to me that something happened about a year ago which changed the trend materially. Since July 1932, every month, after allowing for the normal seasonal variations, has shown either an improvement or holding steady as to volume of business, except February and March 1933, when our volume suffered a terrific slump, due, of course, to the financial situation which ended in our bank holiday. Since the bank holiday the improvement has been very much more rapid, so that I think the public, generally, attribute the improvement in business to something which the administration has done.

I am enthusiastic about many of Mr. Roosevelt's policies, but cannot go along with him as to others, but I think the facts and figures show that the putting into effect of his policies was not what made business "turn the corner."

Yours sincerely,

PRESIDENT.

The CHAIRMAN. You were ready to cooperate, though, were you not, under the national recovery program?

Mr. LAMMOT DU PONT. Yes, sir.

The CHAIRMAN. Why were you so long in having a code adopted covering the chemical industry?

Mr. LAMMOT DU PONT. We started to negotiate that code, as I recall it, about August after the enactment, and we did everything we thought was possible and proper to urge the adoption. We could not get one approved by the administration until the following February.

The CHAIRMAN. Until February 10 of this year?

Mr. LAMMOT DU PONT. Yes, sir.

The CHAIRMAN. Were we with more time I think I should want to have you discuss certain features of that code. As a reference was made to it, and as I think it was then suggested that it should be incorporated in the record, if it has not yet become a part of the record, I shall ask that it be made an exhibit at this time.

(The code of the chemical manufacturing industry was marked "Exhibit No. 527" and is included in the appendix on p. 1389.)

The CHAIRMAN. We come now to a question which in the interest of saving time—



Mr. LAMMOT DU PONT. May I interject one moment on the code matters? Mr. Carpenter reminds me that the chemical industry generally did comply with the increase in wages and the reduction of hours voluntarily while the code was in negotiation.

The CHAIRMAN. You were operating under the so-called "blanket code"?

Mr. LAMMOT DU PONT. Yes.

The CHAIRMAN. Did the code increase the rate of pay to employees in your plants?

Mr. LAMMOT DU PONT. The minimum wages were prescribed. I think it did not affect any of the du Pont Co.'s employees. They were all above the minimum.

The CHAIRMAN. They were all above that minimum before the code was adopted?

Mr. LAMMOT DU PONT. Yes.

The CHAIRMAN. To save time and to insure accuracy, the committee shall ask you to furnish at your earliest convenience a statement revealing campaign contributions to party or parties during the period starting in 1919.<sup>1</sup>

Mr. LAMMOT DU PONT. By whom?

The CHAIRMAN. Well, of course, your corporation is not making contributions.

Mr. LAMMOT DU PONT. Certainly not.

The CHAIRMAN. As to the individual members of your family.

Mr. LAMMOT DU PONT. Only the members of the du Pont family?

The CHAIRMAN. How many directors do you have in the E. I. du Pont de Nemours & Co.?

Mr. LAMMOT DU PONT. About 34.

The CHAIRMAN. Let us for the time being make it cover only the members of your family.

Mr. LAMMOT DU PONT. The members of the du Pont family?

The CHAIRMAN. Yes.

Mr. LAMMOT DU PONT. Whether they are employees or directors or otherwise? I do not think we can answer for—

The CHAIRMAN. Are not all members of the family directors or officers of the company?

Mr. LAMMOT DU PONT. No, sir.

The CHAIRMAN. Then give us the statement covering all directors and all officers of the company.

Mr. LAMMOT DU PONT. Who are of the du Pont family?

The CHAIRMAN. No; the entire directorate and all officers.

Mr. LAMMOT DU PONT. Very well.

The CHAIRMAN. On yesterday, Mr. du Pont, one of your number testified that it was the policy, as nearly as you knew, of all of the companies over which the E. I. du Pont de Nemours & Co. held control to deal in the matter of the munitions trade as your company did. That is, you were trying to avoid relationships abroad that smacked of some of these that we have had testimony of during the past 2 weeks. Now, you all own the Remington Arms, do you not?

<sup>1</sup> The campaign contributions to political parties of officers and directors of E. I. du Pont de Nemours & Co. appear in the appendix on p. 1403. At the date of publication of this volume the committee was not in receipt of the entire list.

Mr. LAMMOT DU PONT. We own a large proportion of the stock. I think it is some 56 percent.

The CHAIRMAN. I do not want to prolong the discussion here tonight, but do you not feel that even as relates to your own company there are experiences that reveal that success in the business really depends upon the ability to build up suspicions and fears and maybe real wars between nations?

Mr. LAMMOT DU PONT. I do not think so; no, sir.

The CHAIRMAN. Do you not think that is the attitude of salesmen, representatives of the company?

Mr. LAMMOT DU PONT. I do not think so; no, sir.

The CHAIRMAN. Here, under date of December 27, 1933, we find one Frank Sheridan Jonas, a South American representative of the Remington Arms writing to Mr. Owen Shannon of the Curtiss-Wright Aviation Corporation, using this language:

The Paraguayan-Bolivian fracas appears to be coming to a termination. So business from that end is probably finished. We certainly are in one hell of a business where a fellow has to wish for trouble so as to make a living. The only consolation being, however, that if we don't get the business someone else will. It would be a terrible state of affairs if my conscience started to bother me now.

That is the attitude of one Remington Arms salesman seemingly. Do you not find that attitude existing in a more general way?

Mr. LAMMOT DU PONT. I do not find it so; no, sir. I never saw that letter or heard of it, so far as I know. What was the date of that?

The CHAIRMAN. That became a matter of record last week, I think. The date is December 27, 1933.

So difficult has been the task of conducting hearings in this particular chamber, so unsatisfactory has proved the loud-speaker system which we had installed, that the committee will plan to resume its hearings next Monday morning at 10 o'clock in another chamber. another room in this building to be selected over the week-end. I thought merely for the information of those who must be back here at that time that they would like to know that there would be a change of location.

Mr. LAMMOT DU PONT. Senator, you said this morning that we would not be called on Monday. Is there a change in that plan?

The CHAIRMAN. I was just about to excuse you now and say that you might be called again at some later date. But unless other members of the committee have questions to ask you now, you may understand yourselves to be excused. The committee recesses until 10 o'clock Monday morning.

Mr. LAMMOT DU PONT. Senator, I want to thank you on behalf of my associates and myself for the courteous reception we have had. We may have appeared a little nettled at times, but I think we all realize that your purpose is sincere, and we appreciate very much the treatment that we have received.

The CHAIRMAN. The feeling of appreciation is mutual, Mr. du Pont.

Mr. PIERRE S. DU PONT. May I add my expression of appreciation for your courtesy, Senator, and wish that instead of waiting for 20

years before we have these reunions we might have them once or twice a year?

The CHAIRMAN. Like this?

Mr. PIERRE S. DU PONT. Yes; like this. Do not let us wait 20 years, but have one every year. We will not need so much time to rehearse.

The CHAIRMAN. The committee will stand in recess until 10 o'clock on Monday morning.

(Whereupon, at 6:27 p.m., the committee recessed until 10 o'clock on Monday morning, Sept. 17, 1933.)



## APPENDIX

EXHIBIT No. 450

### MOODY'S MANUAL OF INDUSTRIALS

(American and Foreign 1933)

#### E. I. DU PONT DE NEMOURS & COMPANY

*History.*—Incorporated under the laws of Delaware in 1915, and on October 1st took over the entire properties of New Jersey corporation known as E. I. du Pont de Nemours Powder Company, incorporated May 19, 1903, in New Jersey, to consolidate the various explosive manufactories controlled by E. I. du Pont de Nemours & Co. This later company and its predecessor, a partnership of like name, had been engaged in the manufacture and sale of explosives for over 100 years, having started in business in the year 1802. Acquired General Explosives Co. in August 1924. Company and subsidiaries operate plants throughout the country for the manufacture of explosives, cellulose products, pyralin, paint, rayon, dyestuffs, ethyl alcohol and cellophane, latter being a transparent sheet material used extensively for wrapping and other purposes. In Dec. 1927 acquired business of Excelsior Powder Manufacturing Co.; and in March 1928, purchased the minority interest in du Pont National Ammonia Co., Inc., and also acquired stockholdings of the same group in Lazote, incorporated. After this purchase the du Pont National Ammonia Co. was dissolved. In Nov. 1928 du Pont company acquired entire assets and business of Grasselli Chemical Co. of Ohio in exchange for 149,392 du Pont common shares which were distributed to Grasselli stockholders on basis of  $\frac{1}{2}$  share of du Pont for each Grasselli common share. The explosive business of Grasselli Chemical was merged with the du Pont explosive department; the Canadian plant and business was transferred to Canadian Industries, Ltd., and the remaining business together with the acids and heavy chemical business of du Pont was transferred to a new company, Grasselli Chemical Co. of Delaware. During 1929, du Pont company acquired the entire minority interests in du Pont Rayon Co., du Pont Cellophane Co., Inc., and du Pont Ammonia Corp. (formerly Lazote, Incorporated) (majority interests in same having been already owned by du Pont company); acquired all of the properties and business of Krebs Pigment & Chemical Co. and increased its interest in Canadian Industries, Ltd. During 1929 company also joined in the formation of two new German companies to undertake the manufacture and sale in Germany of pyroxylin finished, including Duco, and of Ventube, a rubber-cemented fabric tubing used for mine ventilation and in tunnel construction work. In April 1930 acquired for 241,130 common shares, all the assets and business (subject to liabilities) of Roessler & Hasslacher Chemical Co. (N.Y.), the business formerly conducted by that company first being operated by a wholly owned Delaware corporation of the same name and since the latter part of 1932, by a newly organized "The R. & H. Chemicals Department."

In Aug. 1931 acquired the dyestuffs and organic chemical properties and business of the Newport Co., including that company's investment in the common stock of Acetol Products, Inc. (see appended statement), the capital stock of Newport Manufacturing Co., and the business and assets of Newport Chemical Corp. and its other wholly owned subsidiaries, and paid in consideration therefor 103,500 shares of du Pont 6% debenture stock. The Newport business was subsequently merged with du Pont Organic Chemicals Dept.

Number of employees, Dec. 31 1932 (including wholly owned subsidiaries), approximately 28,000.

*Plants and products*

Location of plants, together with products manufactured follows:

*Organic chemicals*.—Deepwater Point, N.J.; Carrollville, Wis.; New Brunswick, N.J.

*Smokeless powder*.—Carney's Point, N.J.

*Explosives*.—du Pont, Wash.; Seneca, Ill.; Repauno, N.J.; Louviers, Colo.; Nemours, W.Va.; Fairchance, Pa.; Connable, Ala.; Moorar, Iowa; Belin, Pa.; Consumers, Pa.; Birmingham, Ala.; Ashburn, Mo.; Barksdale, Wis.; Carl Junction, Mo.

*Fabrikoid*.—Newburgh, N.Y.

*Rubber goods*.—Fairfield, Conn.

*Pyralin products*.—Arlington, N.J.; Leominster, Mass.

*Film*.—Parlin, N.J.

*Rayon*.—Buffalo, N.Y.; Richmond, Va.; Waynesboro, Va.

*Explosives laboratory*.—Gibbstown, N.J.

*Paints and varnishes*.—Philadelphia, Pa.; Everett, Mass.; Chicago, Ill.; Flint, Mich.

*Experimental laboratory*.—Newbridge, Del.

*Machine shop*.—Wilmington, Del.

*Synthetic ammonia*.—Belle, W.Va.

*Cellophane*.—Buffalo, N.Y.; Richmond, Va.; Nashville, Tenn.

*Caps and fuses*.—Pompton Lakes, N.J.

*Chemicals and lacquers*.—Parlin, N.J.

*Wood pulp*.—Newhall, Me.

*Shoosks*.—Deering Junction, Me.

*Alcohol*.—Deepwater Point, N.J.

*Tetra ethyl lead*.—Deepwater, N.J.

*Acids, heavy chemicals, pigments, and colors*.—Beaver Falls, Pa.; Birmingham, Ala.; Baltimore, Md.; Canton, O.; Cleveland, O.; Detroit, Mich.; East Chicago, Ind.; Fortville, Ind.; Grasselli, N.J.; Lockland, O.; Meadowbrook, W.Va.; Newark, N.J.; New Castle, Pa.; Newport, Del.; Niles, O.; Paulsboro, N.J.; Philadelphia, Pa.; Terre Haute, Ind.; Toledo, O.; Weirton, W.Va.; Wurtland, Ky.

*Ammonia and ammonia products*.—Belle, W.Va.; Philadelphia, Pa.; St. Louis, Mo.

*Chemical specialties*.—Nashville, Tenn.; Perth Amboy, N.J.; Niagara Falls, N.Y.; El Monte, Cal.

## EXHIBIT No. 451

## DIRECTORS OF E. I. DU PONT DE NEMOURS &amp; COMPANY AND SUBSIDIARY COMPANIES

(Information compiled from Poor's Industrial Volume, 1933, and from other sources where noted)

## SUBSIDIARY COMPANIES WHOLLY OWNED

American Glycerin Company.  
 Associated Securities of Canada, Ltd.  
 du Pont Building Corp.  
 du Pont Cellophane Company, Inc.  
 du Pont, S. A.  
 du Pont Rayon Company.  
 du Pont Securities Company.  
 du Pont Viscoloid Company.  
 The Pacific R. & H. Chemicals Corp.  
 The Grasselli Chemical Company.  
 Hotel du Pont Company.  
 International Freightling Corp., Inc.  
 National Ammonia Company, Inc.  
 Rokeby Realty Company.

## SUBSIDIARY COMPANIES NOT WHOLLY OWNED

	<i>Percent of stock owned</i>
Acetol Products, Inc.	72.22
Bayer-Semesan Company, Inc.	50.00
Canadian Industries, Limited.	46.85
Celastec Corporation.	50.00
Compania Mexicana de Explosivos.	50.00
Compania Sud-Americana de Explosivos.	42.43
du Pont Film Mfg. Corp.	51.00
Gardinol Corp.	55.00
General Motors Securities Company.	
Kinetic Chemicals, Inc.	51.00
Krebs Pigment & Color Corp.	70.00
C. G. Bartlett & Cia. Ltda.	60.00
Leathercloth Proprietary, Limited.	49.00
Nobel Chemical Finishes, Ltd.	49.00
Old Hickory Chemical Company.	50.00
Societe Francaise Duco, S. A.	35.00
Societe Francaise Fabrikoid, S. A.	25.00
Remington Arms Company:	
Common stock.	56.00
Series A pfd.	91.00

## DIRECTORS OF E. I. DU PONT DE NEMOURS &amp; COMPANY

1. P. S. du Pont, chairman of the board.	19. A. B. Echols.
2. Irene du Pont, vice chairman.	20. J. B. D. Edge.
3. W. P. Allen.	21. T. S. Grasselli.
4. Donaldson Brown.	22. W. F. Harrington.
5. H. Fletcher Brown.	23. H. G. Haskell.
6. J. Thompson Brown.	24. J. P. Laffey.
7. R. R. M. Carpenter.	25. C. R. Mudge.
8. W. S. Carpenter, Jr.	26. F. W. Pickard.
9. Chas. Copeland.	27. H. M. Pierce.
10. Wm. Coyne.	28. J. J. Raskob.
11. J. E. Crane.	29. C. L. Reese.
12. F. B. Davis, Jr.	30. Wm. Richter.
13. A. Felix du Pont.	31. A. P. Sloan, Jr.
14. Eugene du Pont.	32. Fin Sparre.
15. Eugene E. du Pont.	33. W. C. Spruance.
16. H. F. du Pont.	34. C. M. A. Stine.
17. L. du Pont.	35. F. G. Tallman.
18. Wm. du Pont, Jr.	36. L. A. Yerkes.

## OFFICERS OF E. I. DU PONT DE NEMOURS &amp; COMPANY

P. S. du Pont, chairman of board.  
 Irene du Pont, vice chairman of board.  
 Lamont du Pont, president.  
 H. Fletcher Brown, vice president.  
 J. Thompson Brown, vice pres.  
 R. R. M. Carpenter, vice pres.  
 W. S. Carpenter, jr., vice pres.  
 Wm. Coyne, vice pres.  
 Jasper E. Crane, vice pres.  
 A. Felix du Pont, vice pres.  
 A. B. Echols, vice pres.  
 J. B. D. Edge, vice pres.  
 W. F. Harrington, vice pres.  
 H. G. Haskell, vice pres.  
 J. P. Laffey, vice pres.

F. W. Pickard, vice pres.  
 J. J. Raskob, vice pres.  
 W. C. Spruance, vice pres.  
 F. G. Tallman, vice pres.  
 C. M. A. Stine, vice pres.  
 J. B. Eliason, treasurer.  
 W. F. Raskob, asst. treas.  
 Maxwell Moore, asst. treas.  
 J. S. Dean, asst. treas.  
 G. L. Naylor, asst. treas.  
 Chas. Copeland, sec'y.  
 M. D. Fisher, asst. sec'y.  
 E. A. Howard, asst. sec'y.

**DIRECTORSHIPS OF DIRECTORS OF E. I. DU PONT DE NEMOURS & COMPANY**

(Information compiled from Poor's Register of Directors, 1934)

1. Pierre Samuel du Pont, chairman of Board:
  1. General Motors Corp., director.
  2. Bankers Trust Co., director.
  3. Philadelphia National Bank, director.
  4. Wilmington Trust Co., vice president.
2. Irene du Pont, vice chairman of board:
  1. General Motors Corp., mem. fin. comm. & dir.
  2. The Reading Co., director.
  3. Ethyl Gasoline Corp., director.
3. William P. Allen:
  1. Childs Co., N.Y., chairman exec. comm. & dir.
4. Donaldson Brown, director of E. I. du Pont:
  1. General Motors Corp., vice pres. & dir.
  2. St. Louis-San Francisco Ry., director.
  3. National Bank of Detroit, director.
5. H. Fletcher Brown:
  1. E. I. du Pont de Nemours & Company, director.
6. J. Thompson Brown, vice president & director:
  1. Canadian Industries, Ltd., director.
  2. Remington Arms Co., Inc., director.
7. R. R. M. Carpenter, vice pres. & director:
  1. Philadelphia National Bank, director.
  2. Christiania Securities Co., director.
  3. Grasselli Chemical Co., director.
  4. Philadelphia National Co., director.
  5. Girard Trust Co., director.
8. W. S. Carpenter, Jr., vice pres., chr. fin. com. & dir.:
  1. Du Pont Rayon Co., chairman.
  2. Du Pont Cellophane Co., chairman.
  3. General Motors Corp., mem. fin. com. & dir.
  4. Wilmington Trust Co., dir.
  5. Chase National Bank of N.Y., dir.
  6. Bell Telephone Co. of Penn., director.
  7. Diamond State Telephone Co., director.
9. Chas. Copeland, secretary & director:
  1. Wilmington Trust Co., director.
10. Wm. Coyne:
  1. E. I. du Pont de Nemours & Company, director.
11. Jasper E. Crane, vice pres. & director:
  1. D. Van Nostrand Co., director.
  2. Canadian Industries, Ltd., director.
12. Francis B. Davis, Jr., director:
  1. U.S. Rubber Co., chr., pres., dir., mem. fin. comm. & exec. comm.
  2. Columbus Rubber Co. of Montreal, Ltd., dir.
  3. Dispersions Process, Inc., chairman & director.
  4. Rubber Regenerating Co., Ltd., director.
  5. N.Y. Trust Co., mem. exec. comm. & trustee.
  6. Dominion Rubber Co., Ltd., chr. of board & dir.



12. Francis B. Davis, Jr., director—Continued
  7. Dominion Rubber Co., Ltd. (London), director.
  8. General Rubber Co., director.
  9. General Rubber Co., Ltd., director.
  10. Gilette Rubber Co., mem. exec. comm. & dir.
  11. The Sampson Corp., pres. & dir.
  12. Rubber Mfrs. Assn., pres. & dir.
  13. Malayan American Plantations, Ltd., director.
  14. Meyer Rubber Co., director.
  15. The Nangatuck Chemical Co., director.
  16. Si Pare' Rubber, Maatschappij, director.
  17. U.S. Rubber Products, Inc., pres. & dir.
  18. U.S. Rubber Export Co., Ltd., chr. & dir.
  19. U.S. Rubber Plantations, Inc., dir.
13. A. Felix du Pont:
  1. E. I. du Pont de Nemours & Company, director.
14. Eugene du Pont:
  1. E. I. du Pont de Nemours & Company, director.
15. Eugene E. du Pont:
  1. E. I. du Pont de Nemours & Company, director.
16. H. F. du Pont, director:
  1. General Motors Corp., director.
17. Lamont du Pont, president and director:
  1. General Motors Corp., chairman & director.
  2. General Motors Acceptance Corp., director.
  3. Chemical Bank & Trust Co., director.
  4. Fidelity-Philadelphia Trust Co., director.
  5. Wilmington Trust Co., director.
18. Wm. du Pont, Jr.:
  1. E. I. du Pont de Nemours & Company, director.
19. Angus B. Echols, vice pres. in charge finance & director:
  1. The Grasselli Chemical Co., director.
  2. Du Pont Building Corp., director.
  3. Hotel du Pont Company, director.
  4. Du Pont Viscoloid Co., director.
  5. Du Pont Film Mfg. Corp., director.
  6. Associated Securities Ltd. of Canada, director.
20. J. B. D. Edge:
  1. E. I. du Pont de Nemours & Company, director.
21. Thomas S. Grasselli, director:
  1. The Grasselli Chemical Co., president & director.
  2. The Wheeling & Lake Erie Railway Co., director.
22. W. F. Harrington:
  1. E. I. du Pont de Nemours & Company, director.
23. H. G. Haskell, vice president & director:
  1. Canadian Industries, Ltd., director.
  2. Triplex Safety Glass Co. of N. Amer., director.
  3. Noranda Mines, Ltd., director.
  4. Equitable Trust Co., Wilmington, Delaware, director.
  5. International Mining Corp., director.
24. J. P. Laffey:
  1. E. I. du Pont de Nemours & Company, director.
25. C. R. Mudge:
  1. E. I. du Pont de Nemours & Company, director.
26. F. W. Pickard:
  1. E. I. du Pont de Nemours & Company, director.
27. H. M. Pierce:
  1. E. I. du Pont de Nemours & Company, director.
28. J. J. Rascob, vice pres. & director:
  1. General Motors Corp., director.
  2. Bankers Trust Co., director.
  3. Lawyers County Trust Co., director.
29. C. L. Reese:
  1. E. I. du Pont de Nemours & Company, director.
30. Wm. Richter:
  1. E. I. du Pont de Nemours & Company, director.

81. Alfred Pritchard Sloan, director:
  1. General Motors Corp., pres. & dir.
  2. Pullman, Inc., director.
  3. Waldorf Astoria Corp., director.
  4. Johns-Manville Corp., director.
  5. Revere Copper & Brass, Inc., director.
  6. National Bank of Detroit, director.
82. Fin Sparre.
  1. E. I. du Pont de Nemours & Company, director.
33. W. C. Spruance:
  1. E. I. du Pont de Nemours & Company, director.
34. C. M. A. Stine:
  1. E. I. du Pont de Nemours & Company, director.
35. Frank Gifford Tallman, vice president & director:
  1. Wilmington Trust Co., director.
  2. American Manganese Bronze Co, director.
36. Leonard A. Yerkes, director:
  1. Du Pont Rayon Co., president & director.
  2. Du Pont Cellophane Co, president & director.
  3. Seaboard Air Line R.R., director.

**DIRECTORATES OF OFFICERS (NOT DIRECTORS OF E. I. DU PONT DE NEMOURS & COMPANY) OF E. I. DU PONT DE NEMOURS & COMPANY**

1. James Bayard Eliason, treasurer:
  1. Du Pont Film Mfg. Co., treasurer.
  2. Bayer-Semesan Co., treasurer & director.
  3. Kinetic Chemicals Co., director.
  4. Remington Arms Co., Inc., the director.
2. J. Simpson Dean, asst. treas.:
  1. Wilmington Trust Co., director.
3. Merrett D. Fisher, asst. sec. of co., sec. of fin. & exec. comm.:
  1. Du Pont Film Mfg. Co., sec.
  2. Du Pont Viscoloid Co., sec.
  3. National Ammonia Co., Inc., sec.
  4. International Freighting Corp., Inc., sec.
  5. Duco, Inc., secretary.
  6. Acetol Products, Inc., sec.
  7. Kinetic Chemicals, Inc., sec.
  8. General Motors Securities Co., sec.

**DIRECTORS AND OFFICERS OF ACETOL PRODUCTS, INC.**

(Information compiled from Poor's industrial volume, 1933)

E. H. Killheffer, president and director.  
 Dr. Max Mueller, director.  
 Otis Glazebrook, Jr., director.  
 L. M. Blanke, director.  
 Frederico Lage, director.  
 George B. Bradshaw, vice president and director.  
 Wm. F. Raskob, treasurer and director.  
 M. D. Fisher, secretary.  
 E. A. Howard, asst. secretary.  
 William Harris, assistant treasurer.

**DIRECTORATES OF DIRECTORS AND OFFICERS**

**OF**

**ACETOL PRODUCTS, INC.**

(Information compiled from Poor's Directory of Directors—1934)

**Max Mueller, chr. of board and director:**

1. Technical Equipment Corp., pres., treas. & dir.
2. New Era Specialties Corp., pres. & dir.

Otis Allen Glazebrook, Jr., director:

1. G. M. P. Murphy Co., partner.
2. Army & Navy Journal, director.
3. Cowan & Denglar, Inc., director.
4. Chromlum Corp. of Amer., mem. exec. comm. & dir.
5. The Examinations Corp., pres., mem. exec. comm. & director.
6. Omnibus Corp., director.
7. Aeronautical Industries, pres., mem. exec. comm. & dir. & chr. of board.
8. National Aviation Corp., mem. exec. comm. & chr. of board.
9. American Hide & Leather Co., mem. exec., comm. & dir.
10. Investors of Washington, director.
11. Amalgamated Leather Companies, Inc., mem. exec. comm. & dir.
12. Bank of Manhattan Co., mem. adv. comm.
13. U.S. & General Securities Co., dir.
14. National Distributors Corp., dir.
15. Lektophone Corporation, dir.
16. Tri-Continental Corp., dir.
17. N.Y. Railways Corp., dir.
18. Finance & Trading Corp., pres., mem. exec. comm. & dir.

Leo M. Blancke, Director:

1. Hemphill, Noyes & Co., partner.
2. Shur On Properties Co., director.
3. Shur On Standard Optical Co., Inc., mem. exec. comm. & dir.
4. General Optical Co., dir.
5. Columbia Pictures Corp., dir.
6. Brentano's Books Stores, Inc., dir.
7. North American Cement Corp., dir.

Frederico Lage, Director:

1. Tung Sol Lamp Works, Inc., dir.
2. McCoy Laboratories, dir.
3. Bernhard & Lage, partner.

#### DIRECTORSHIPS OF DIRECTORS OF SUBSIDIARIES CONTROLLED BY E. I. DU PONT DE NEMOURS & COMPANY

(Information compiled from Poor's Directory of Directors—1934.)

**BAYER-SEMESAN CO., INC.** (50% STOCK OWNED BY E. I. DU PONT DE NEMOURS & COMPANY) DIRECTORSHIPS OF DIRECTOR

William E. Weiss, pres. & dir.:

1. Sterling Products, Inc., chr. of board, gen. mgr. & dir.
2. The Bayer Co., Inc., vice pres. gen. mgr. & dir.
3. American I. G. Chemical Corp., dir.
4. Wells & Richardson Co., Inc., vice pres. & dir.
5. The Chas. H. Phillips Chemical Co., vice pres. & dir.
6. Antidolar Mfg. Co., dir.
7. Cook Laboratories, Inc., dir.
8. H. A. Metz Laboratories, Inc., dir.
9. Three in One Oil Co., dir.
10. Winthrop Chemical co., Inc., dir.
11. The Pepsin Syrup Co., dir.
12. The Centaur Co., dir.
13. Wheeling Dollar Savings & Trust Co., dir.

#### DIRECTORS AND OFFICERS OF CANADIAN INDUSTRIES, LTD.

Hon. C. C. Ballantyne, director, Montreal.  
 Winthrop Brainerd, director and vice pres., Montreal.  
 Sir Charles B. Gordon, director, Montreal.  
 R. H. McMaster, director, Montreal.  
 Arthur B. Purvis, pres., mgr. & director, Montreal.  
 Lieut.-Col. Herbert Molson, director, Montreal.  
 Sir Harry McGowan, director, London.  
 Sir Harry McGowan, director, United States.  
 J. Thompson Brown, director, United States.  
 H. G. Haskell, director, United States.  
 Jasper E. Crane, director, Wilmington, U.S.

G. W. White, director, New York, U.S.  
 G. W. Huggert, secretary and treasurer.  
 R. C. Dougherty, asst. treasurer.  
 Russel Smith, asst. secretary.

(Information compiled from Poor's Industrials Volume 1933)

**DIRECTORSHIPS OF DIRECTORS AND OFFICERS OF CANADIAN INDUSTRIES, Ltd.**

**Sir Charles Blair Gordon, director :**

1. Bank of Montreal, president.
2. The Royal Trust Co., president.
3. Dominion Glass Co., Ltd., president.
4. Montreal Cottons, Ltd., president.
5. Hillcrest Collieries, Ltd., president.
6. Ritz Carlton Hotel Co., president.
7. Dominion Textile Co., Ltd., chr. of board.
8. Penman's Ltd., chr. of board.
9. Bank of Montreal (France), director.
10. Canadian Pacific Railway, mem, exec. comm. & dir.
11. Ogilvie Flour Mills Co. Ltd., director.
12. Canadian Bronze Co., Ltd., director.
13. Brinton-Peterboro Carpet Co., director.
14. Dominion Rubber Co., Ltd., director.
15. U.S. Rubber Co., director.
16. Tuckett Tobacco Co., director.
17. Royal Exchange Assurance, chr. of Canadian Board.
18. Standard Life Assurance Co., director.
19. Guarantee Co. of North America, vice pres.
20. Title Guarantee Co., director.
21. International Mining Corp., director.
22. Montreal Locomotive Works, director.
23. St. Lawrence Corp., director.
24. Drummondville Cotton Co., director.
25. Sherbrooke Cotton Co., director.
26. Paton Manufacturing Co., director.
27. Bordens Ltd., director.
28. McGill University, governor.
29. Royal Victoria, governor.
30. Montreal Light, Heat & Power Consolidated, dir.
31. Canadian Pacific Express Co., Ltd., director.
32. Canadian Airways Co., director.
33. American Locomotive Co., director.
34. Dominion Steel & Coal Corp., Ltd., director.

**Ross Huntington McMaster, director :**

1. The Steel Co. of Canada, Ltd., pres. & dir.
2. Canadian Pacific Railway Co., director.
3. Dominion Rubber Co., director.
4. Royal Trust Co., director.
5. Dominion Glass Co., vice pres. & director.
6. Sun Life Assurance Co., director.
7. Canada Steamship Lines, Ltd., director.
8. Consolidated Mining & Smelting Co., director.
9. Canadian Pratt & Whitney Aircraft Co., Ltd., dir.
10. Bank of Montreal, director.
11. American Iron & Steel Inst., dir.
12. Dominion Bridge Co., Ltd., dir.

**Arthur Blaikie Purvis, pres. & managing director :**

1. Barclay's Bank (Canada) Ltd., vice pres. & dir.
2. Bell Telephone Co. of Canada, Ltd., director.
3. Canadian Safety Fuse Co., Ltd., director.
4. Dunlop Tire & Rubber Goods Co. of Can., Ltd., pres. & dir.
5. General Motors Corp., director.
6. Canadian Invest. Trust Co., Ltd., director.
7. Sun Life Assurance Co., Ltd., director.
8. Consolidated Paper Corp., Ltd., director.
9. Liverpool & London & Globe Insurance Co., Ltd., dir.

**Herbert Molson, director:**

1. Molson's Brewery, Ltd., pres.
2. Bank of Montreal, director.
3. Royal Trust Co., director.
4. Montreal City & District Savings Bank, dir.
5. Dominion Rubber Co., Ltd., director.
6. Dominion Oilcloth & Linoleum, Ltd., dir.
7. St. Lawrence Paper Co., dir.
8. Standard Clay Product, Ltd., pres.
9. Liverpool, London & Globe Assurance Co., dir.
10. Canada Creosoting Co., dir.
11. Bell Telephone Co. of Canada, dir.
12. Shawinigan Water & Power Co., dir.
13. Canadian Foreign Investment Co., dir.

**J. Thompson Brown, director:**

1. E. I. du Pont de Nemours Co., vice pres., mem. exec. comm. & dir.
2. Remington Arms Co., Inc., dir.

**Harry G. Haskell, director:**

1. E. I. du Pont de Nemours Co., vice pres. & dir.
2. Triplex Safety Glass Co. of North America, dir.
3. Noranda Mines, Ltd., dir.
4. Equitable Trust Co., dir.
5. International Mining Corp., dir.

**Jasper E. Crane, dir.:**

1. E. I. du Pont de Nemours & Co., vice pres. & dir.
2. D. Van Nostrand Co., director.

**Sir Harry McGowan, director:**

1. African Explosives & Industries, Ltd., deputy chr.
2. British Overseas Bk., Ltd., director.
3. Imperial Chemical Industries, Ltd., chr. & managing dir.
4. Cape Explosives Works, Ltd., deputy chr.
5. Finance Company of Gr. Britain & Amer., Ltd., chr.
6. General Motors Corp., N.Y., director.
7. Imperial Chemical Industries (China), Ltd., dir.
8. Imperial Chem. Industries of Australia and New Zealand, Ltd., dir.
9. Imperial Chemicals Insurance, Ltd., chr.
10. International Nickel Co. of Canada, Ltd., dir. & mem. of advisory comm.
11. Midland Bank Limited, dir.
12. Naylor Bros. (London), Ltd., chr.
13. Nobel Chemical Finishes, Ltd., chr.
14. Portland Glass Co., Ltd., chr.

(Information compiled from Directory of Directors for 1934, Thomas Skinner & Co., London.)

#### DIRECTORSHIPS OF DIRECTORS OF REMINGTON ARMS CO., INC.

(Information compiled from Poor's Directory of Directors, 1934)

#### DIRECTORS AND OFFICERS OF REMINGTON ARMS CO., INC.

(Controlled by E. I. du Pont de Nemours & Company)

M. H. Dodge, chairman of board.  
 George Bingham, director and vice president.  
 J. T. Brown, director.  
 Wm. Crawford, director.  
 C. K. Davis, director, president, and general manager.  
 J. B. Eliason, director.  
 F. W. Pickard, director.  
 S. F. Proyor, director.  
 Fin Sparre, director.  
 E. E. Handy, vice president.  
 W. W. Reisinger, secretary and treasurer.  
 L. K. Larson, asst. sec. and asst. treas.  
 M. D. Fisher, assistant secretary.  
 P. C. Netland, assistant treasurer.  
 F. H. Carpenter, assistant treasurer.  
 (Moody's Manual of Investments, American and Foreign, 1934.)

## DIRECTORSHIPS OF DIRECTORS OF REMINGTON ARMS CO., INC.

**M. Hartley Dodge, chr. board of directors:**

1. Remington Cash Register Co., director.
2. Delaware, Lackawanna & Western R.R., dir.
3. Columbia University, clerk & trustee
4. Crocker Wheeler, director

**George Bingham, vice pres. & sec'y.:**

1. Remington Cash Register Co., vice pres., sec'y, and dir.
2. Remington Cutlery Works, vice pres., sec'y, & dir.
3. Plainfield Trust Co., dir.

**J. Thompson Brown, director:**

1. E. I. du Pont de Nemours & Co., vice pres., mem. exec. comm., & dir.
2. Canadian Industries, Ltd., dir.

**William Crawford, director:**

1. William Crawford, Sr., partner
2. Crawford-Bradley Co., pres. & dir.
3. Two Hundred Three W. 77 Corp., treas.
4. Central Hanover Bank & Trust Co., trustee
5. McMillan Realty & Construction Co., vice pres.
6. 580 Park Ave., Inc., dir.

**C. K. Davis, pres., gen'l. mgr., & dir:****J. B. Eliason, dir.**

1. E. I. du Pont de Nemours & Company, treas.
2. Du Pont Film Mfg. Co., treas.
3. Baker-Semesan Co., treas. & dir.
4. Kinetic Chemicals, Inc., dir.
5. Delaware Trust Co., dir.

**Frederick W. Pickard, dir.:**

1. E. I. du Pont de Nemours, vice pres. & dir.
2. Du Pont Viscoloid Co., chr. board of dir.
3. Brookdale Land Co., pres.

**Lloyd K. Lawson, treas., sec. ast., & dir.:**

1. Remington Cash Register Co., treas., asst. sec., & dir.
2. Remington U.M.C. of Canada, Ltd., asst. sec., treas., & dir.
3. Remington Mfg. Co., asst. sec., treas., & dir.

("Exhibit No. 452" is the annual report of the E. I. du Pont de Nemours & Co. for the year 1916 and is filed with the committee.)

(There was no Exhibit marked "No. 453.")

## EXHIBIT No. 454

*Relation of bonus to earnings.*—The following statistics show the total awards of "B" bonus in relation to the published earnings (for the years 1914 to 1919, inclusive).

Year	Total published earnings	Total B bonus	Bonus as percent of earnings	Year	Total published earnings	Total B bonus	Bonus as percent of earnings
1914.....	\$4,997,772.55	\$171,520.00	3.43	1917.....	\$49,258,661.58	\$2,927,477.19	5.94
1915.....	86,409,424.53	3,775,327.82	4.37	1918.....	43,098,074.72	3,170,902.07	7.36
1916.....	82,107,692.55	6,514,615.36	7.93	1919.....	17,682,991.74	857,536.89	4.85

<sup>1</sup> This figure includes profit on "Contracts" realized by E. I. du Pont de Nemours Powder Co. amounting to \$20,152,117.

Relation to published earnings of disbursements for salaries and bonus (merit and class "B")

Year	Published earnings		Total salaries		Officers' salaries		Salaries principal men		Total bonus		Officers' bonus		Bonus principal men	
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	
	Amount	Amount	% of B (C ÷ B)	Amount	% of B (E ÷ B)	Amount	% of B (G ÷ B)	Amount	% of B (I ÷ B)	Amount	% of B (K ÷ B)	Amount	% of B (M ÷ B)	
1913	\$4,533,901.15	\$2,719,639.79	59.98	\$234,000.00	5.16	\$110,000.04	2.43	\$143,955.20	3.18	\$530,292.07	1.08	\$15,272.00	0.34	
1917	49,258,661.58	9,444,897.63	19.17	390,758.15	5.79	155,162.79	1.32	2,927,477.19	5.94	231,151.80	1.16	184,075.40	.37	
1920	14,563,232.36	17,231,281.62	118.32	733,743.88	5.04	215,265.00	1.48	724,752.00	4.98	708,830.00	1.11	68,197.15	.47	
1928	64,097,797.83	18,468,545.88	28.84	852,632.97	1.38	988,227.70	1.54	2,691,763.24	4.20			1,078,238.21	1.68	
1932	26,234,778.58	19,966,948.15	76.11	671,479.93	2.56	990,631.40	3.78							

With the exception of 1928 the "Total salaries" represent payments disbursed by the Wilmington office. For the year 1928, salaries paid by Du Pont Rayon Company and Du Pont Viscoloid Company are included. For the year 1932 Wilmington office disbursed all salaries for parent company and subsidiaries.

For the years 1913, 1917, and 1920 "Officers' salaries" include disbursements made to elected officers and directors of the parent company, which figures are comparable to those shown for the years 1928 and 1932, which were reported to the Federal Trade Commission.

For the years 1913, 1917, and 1920 the amounts shown as "Salaries principal men" include department heads and assistant department heads of parent company, as well as a few of the more important men who do not fall in these classifications. For the years 1928 and 1932 the salaries of men participating in the executives stock purchase and merit bonus plan are included together with principal officers of subsidiary companies (exclusive of those included in "Officers salaries").

"Total bonus" for the years 1913, 1917, and 1920 represent "B" bonus awards made by E. I. du Pont de Nemours & Company. For 1928 there is included merit bonus and "B" bonus awards by the parent company and awards made under the Du Pont Rayon Company and Du Pont Viscoloid Company bonus plans.

The figures are believed to be accurate within reasonable limit of error. Especially in the earlier years the individuals included under "Principal men" were selected from recollections of known positions and do not comprise as broad a list as the 1928 and 1932 groups, which latter include the participants in executives stock purchase and merit bonus plan.

## EXHIBIT NO. 455

*Financial statement of E. I. du Pont de Nemours & Company, successor (Sept. 4, 1915) to E. I. du Pont de Nemours Powder Company, 1910-27, compiled by the Federal Trade Commission from published sources*

	Dec. 31, 1910	Dec. 31, 1911	Dec. 31, 1912	Dec. 31, 1913	Dec. 31, 1914	Dec. 31, 1915	Dec. 31, 1916	Dec. 31, 1917	Dec. 31, 1918
Cash, accounts receivable and inventories, etc.	\$22,947,530	\$21,365,159	\$21,653,164	\$17,515,828	\$26,379,478	\$61,804,107	\$82,325,103	\$145,028,074	\$222,033,582
Investments in short-time notes, etc.						49,332,874	57,172,511	36,079,887	1,793,918
Securities held for permanent investment	4,208,201	4,801,912	6,036,311	12,826,822	11,135,018	21,235,388	26,840,689	16,843,100	18,843,966
Realty—not including plant real estate	831,601	873,181	913,967	636,411	530,969	636,411	504,023	508,421	515,960
Investment in plant, property, patents, etc.	53,089,577	56,189,069	56,518,746	43,818,765	45,086,350	122,224,174	51,361,323	70,291,113	65,115,202
<b>Total</b>	81,099,909	83,238,261	86,021,288	74,817,826	83,432,445	258,263,221	217,851,640	283,393,195	308,846,297
Preferred stock 5-percent cumulative, par \$100.				16,068,801	16,068,801				
Debtenture stock 6 percent, par \$100.						60,771,033	60,813,950	60,813,950	60,813,950
Common stock	20,382,083	20,382,083	20,382,083	20,382,083	20,382,083	58,854,200	58,854,200	58,854,200	58,854,200
Minority interest in subsidiary companies not owned.	76,313	76,313	76,313	76,313	76,313	76,313	76,313	76,313	76,313
Advance payments—reserves for depreciation, etc.	2,645,133	2,986,188	3,253,413	3,262,490	10,352,197	116,370,037	42,165,226	54,017,863	62,060,537
Accounts and notes payable	1,434,426	1,573,521	1,573,521	3,218,214	2,081,760	9,108,628	7,883,623	22,750,517	38,337,763
Funded debt	16,518,000	16,674,000	16,738,000	16,922,000	17,045,000				
Deferred liabilities, Federal taxes, etc.	1,527	1,527	335,372	170,317	201,629	4,102,674	19,461,171	22,125,662	20,478,956
Profit and loss	15,151,026	16,602,756	18,561,055	5,082,289	7,518,413	8,968,217	28,567,038	44,154,571	68,300,891
<b>Total</b>	81,099,909	83,238,261	86,021,288	74,817,826	83,432,445	258,263,221	217,851,640	283,393,195	308,846,297
Surplus increase before deducting dividends.	5,432,465	5,814,711	6,215,967	4,526,431	4,991,322	57,257,308	82,101,243	49,251,907	43,097,231
Dividends paid on preferred and debenture stocks	653,317	775,962	791,804	803,427	803,430	1,715,033	3,648,222	3,648,822	3,648,822
Dividends paid on common stock	4,740,148	5,038,749	5,424,157	3,723,004	4,187,892	55,542,275	78,453,021	45,603,175	39,448,412
Surplus increase after deducting dividends.	3,410,030	3,527,020	3,522,859	110,601,768	2,351,768	254,092,471	58,854,200	30,015,042	315,302,092
Surplus at beginning of year	1,330,118	1,511,729	1,808,298	12,878,764	1,836,121	1,440,804	19,508,821	15,587,333	24,148,320
Surplus at end of year	13,811,908	13,131,026	16,662,755	18,561,055	5,082,289	7,518,413	8,968,217	28,567,038	44,154,571
<b>Surplus at end of year</b>	16,151,936	16,662,755	18,561,055	5,082,289	7,518,413	8,968,217	28,567,038	44,154,571	68,300,891

	Dec. 31, 1919	Dec. 31, 1920	Dec. 31, 1921	Dec. 31, 1922	Dec. 31, 1923	Dec. 31, 1924	Dec. 31, 1925	Dec. 31, 1926	Dec. 31, 1927
Cash, accounts receivable and inventories, etc.	\$108,777,340	\$97,294,460	\$93,555,069	\$98,837,242	\$91,139,114	\$57,312,083	\$54,235,717	\$55,469,736	\$55,469,736
Investments in short-time notes, etc.	1,223,098	1,223,098	1,223,098	1,223,098	1,223,098	1,223,098	1,223,098	1,223,098	1,223,098
Securities held for permanent investment	63,000,707	63,000,707	63,000,707	63,000,707	63,000,707	63,000,707	63,000,707	63,000,707	63,000,707
Realty—not including plant real estate	63,000,707	63,000,707	63,000,707	63,000,707	63,000,707	63,000,707	63,000,707	63,000,707	63,000,707



Investment in plant property, patents, etc.	65,745,526	90,527,629	84,674,231	105,354,335	111,984,792	121,797,662	100,555,933	103,102,552	105,037,166
Deferred debit items	433,053	196,287	2,183,730	1,846,606	1,617,757	503,866	372,705	187,447	146,383
Debit items	240,982,621	253,359,871	252,208,418	259,672,901	279,744,265	275,538,940	305,730,845	322,593,674	351,440,262
Debit items	60,813,950	70,629,050	71,243,250	68,411,280	68,415,780	68,415,780	78,428,763	79,028,883	80,564,398
Minority interest in subsidiary companies not owned	58,864,200	63,378,335	63,378,300	95,090,900	95,090,900	95,090,900	133,082,900	133,082,900	133,082,900
Reserves for depreciation contingencies, etc.	28,754,760	19,015,317	7,311,340	2,901,745	4,365,247	5,680,145	751,140	751,140	751,140
Accounts and notes payable	12,218,528	18,913,260	3,228,379	12,844,517	17,624,084	23,053,762	20,433,262	26,910,284	29,470,316
Advances from controlled companies	4,027,686	7,286,297	4,894,341	8,269,007	7,927,698	5,490,531	7,172,805	13,249,439	7,800,765
Funded debt	6,572,202	4,477,864	574,148	33,576,500	30,926,500	20,007,500	2,441,500	1,711,500	1,698,500
Deferred liabilities, Federal taxes, etc.	71,741,305	69,659,748	66,080,660	37,652,211	54,942,475	55,881,491	62,069,541	66,417,566	97,785,243
Profit and loss	240,982,621	253,359,871	252,208,418	259,672,901	279,744,265	275,538,940	305,730,845	322,593,674	351,440,262
Surplus increase before deducting dividends	17,682,902	12,523,749	5,762,418	12,426,461	27,272,306	12,947,424	60,319,840	41,755,497	72,132,202
Dividends paid on debenture stock	3,048,822	3,813,424	4,273,602	4,103,432	4,104,769	4,104,868	4,103,330	4,770,410	4,833,864
Dividends paid on common stock <sup>14</sup>	14,034,170	8,710,325	1,488,816	8,323,029	23,167,537	8,842,556	56,214,519	37,015,067	67,298,338
Surplus increase after deducting dividends	3,440,414	2,081,557	3,679,048	36,751,478	6,177,273	7,003,540	49,426,469	33,267,052	35,930,661
Surplus at beginning of year	68,300,881	71,741,305	69,659,748	66,080,660	37,652,211	54,942,475	62,069,541	66,417,566	97,785,243
Surplus at end of year	71,741,305	69,659,748	66,080,660	37,652,211	54,942,475	55,881,491	62,069,541	66,417,566	97,785,243

<sup>1</sup> Includes stocks and bonds of Hercules and Atlas Powder companies, amounting to \$14,250,000.

<sup>2</sup> Includes earnings capitalized in reorganization Oct. 1, 1915—\$29,955,799.

<sup>3</sup> Includes 6 percent dividend in preferred stock of du Pont Chemical Co.

<sup>4</sup> \$78,429,765 includes \$10,000,000 full paid receipts for nonvoting debenture stock certificates to be issued Jan. 25, 1926.

<sup>5</sup> A common stock was changed from \$100 par value to stock of no par value in 1926 and two shares of the no par stock exchanged for one of the \$100 par.

<sup>6</sup> Includes addition of \$6,206,236 from transfer of excess war reserves.

<sup>7</sup> Includes deduction of \$2,039,482 for discount on debenture stock.

<sup>8</sup> Includes addition of \$2,980,710 for surplus of subsidiary companies at end of previous year.

<sup>9</sup> Includes addition of \$8,026,086 from sale by General Motors Securities Co. of 30-percent bonds.

<sup>10</sup> Includes \$1,000,000 deduction for appropriation for premium and discount on 7½-percent bonds.

<sup>11</sup> Includes \$23,621,947 increase from investment in General Motors Corporation and \$36,283,893 increase from revaluation of 70-percent interest in General Motors common stock.

<sup>12</sup> Includes \$23,621,947 increase from investment in General Motors Corporation and \$36,283,893 increase from revaluation of Canadian Explosive, Ltd., common stock; \$2,681,294 increase from refund and adjustment of prior years' taxes and a deduction of \$4,880,729 for pension-fund appropriation.

<sup>13</sup> Includes \$28,941,598 increase from investment in General Motors Corporation; \$26,184,371 increase from revaluation of General Motors Corporation stock; \$2,528,942 increase from revaluation of Canadian Industries, Ltd., common stock, and a deduction of \$3,528,942 for reserves for contingencies.

<sup>14</sup> Dividends paid on common stock includes stock dividends of \$4,624,136 paid in 1920; \$31,682,600 in 1922; and \$38,022,940 in 1925.

## EXHIBIT No. 456

*E. I. du Pont de Nemours & Company—Investment in other companies—\$200,000 or more*

	Class of stock	Per- cent of total out- stand- ing class of stock owned	Percent of total voting rights	Investment in capital stock	Advances by du Pont Company as of July 25th	Advances by holding company as of July 31st	Total invest- ment	Remarks
<b>E. I. du Pont de Nemours &amp; Company:</b>								
The Grasselli Chemical Company	Common	100	100				\$42,691,907.40	
Kreos Pigment & Color Corp.	do.	70	70				6,392,470.00	
Old Hickory Chemical Company <sup>1</sup>	do.	15	15			\$560,000.00	75,000.00	
Du Pont Securities Company	do.	100	100		1,000,000.38		38,912,718.72	
Du Pont Rayon Company	do.	100	100		33,921,589.32		43,906,303.66	
Du Pont Cellophane Company, Inc.	do.	100	100		2,969,656.58		10,535,252.19	
Perth Amboy Chemical Works	do.	100	100	\$1,500,000.00	1,728,000.00		2,000,225.67	
Niacet Chemicals Corp.	do.	33½	33½	500,000.00				
Do.	7% preferred	33½	--					
Old Hickory Chemical Company <sup>1</sup>	Common	35	35		2,000,000.00		2,000,000.00	
Du Pont Viscoid Company	do.	100	100		175,000.00		175,000.00	
Societa Anonima Mazzucchelli	do.	90	90					
Do.	6% bonds	100	--		10,868,027.80	(2,569,267.42)	14,328,760.38	
Societa Italiana della Cellu- loide	Common	70	70		758,128.93		758,128.93	
Do.	8% bonds	100	--					
National Anmonia Company, Inc.	do.	100	100	9,080.59	457,384.61		457,384.61	
Du Pont Building Corp.	Common	100	100		1,068,476.60	(415,173.24)	683,303.36	
Associated Securities of Canada, Ltd.	do.	100	100		1,500,000.00	2,930,639.11	3,430,639.11	
Canadian Industries, Ltd.	do.	100	100		2,515,358.00		2,515,358.00	
Common "A"	do.	46.85	46.85		10,239,037.46		10,239,037.46	Equity in total earn- ings of all common stock ("A" & "B"), 42.8%.
The Pacific R. & H. Chemicals Corp.	Common	100	100		100,000.00		312,847.11	
Robbery Realty Company	do.	100	100		1,000.00	706,068.00	706,068.00	



*E. I. du Pont de Nemours & Company—Investment in other companies—\$200,000 or more—Continued*

	Class of stock	Per- cent of total out- stand- ing class of stock owned	Percent of total voting rights	Investment in capital stock	Advances by du Pont Company as of July 25th	Advances by holding company as of July 31st	Total invest- ment	Remarks
E. I. du Pont de Nemours & Co.—Con.								
General Motors Securities Com- pany	Common.....	100	94.3	\$154,546,875.00				
General Motors Corp. 2,095,114 shs. (applicable to G.M. Sec. Co. "A" shares)	do.....	4.81	4.81 \$16,919,997.57					
General Motors Corp. 9,843,750 shs. (applicable to G.M. Sec. Co. common stock).	do.....	23.45	55,580,114.29					
General Motors Corp. 150,250 shares	do.....		23.45	2,453,125.00			\$157,000,000.00	
200,000 shares	do.....							
				4,894,828.25			4,894,828.24	
				202,765,782.55	65,084,296.80		164,445,641.91	

## EXHIBIT No. 457

## DIRECTORS OF GENERAL MOTORS CORPORATION

(Information compiled from Moody's Manual of Investments—American & Foreign, 1934.)

- |                              |                                       |
|------------------------------|---------------------------------------|
| 1. Lamont du Pont, chairman. | 18. P. S. du Pont.                    |
| 2. G. F. Baker.              | 19. John J. Raskob.                   |
| 3. Donaldson Brown.          | 20. A. G. Bishop.                     |
| 4. L. G. Kaufman.            | 21. H. F. du Pont.                    |
| 5. J. D. Mooney.             | 22. C. F. Kettering.                  |
| 6. J. L. Pratt.              | 23. F. J. Fisher.                     |
| 7. Seward Prosser.           | 24. C. T. Fisher.                     |
| 8. J. T. Smith.              | 25. L. P. Fisher.                     |
| 9. A. P. Sloan, Jr.          | 26. W. A. Fisher.                     |
| 10. J. S. Morgan.            | 27. W. S. Knudsen.                    |
| 11. A. H. Swayne.            | 28. C. S. Mott.                       |
| 12. C. M. Woolley.           | 29. De Witt Page.                     |
| 13. George Whitney.          | 30. Sir Harry McGowan (London).       |
| 14. O. D. Young.             | 31. R. S. McLaughlin (Oshawa, Ont.).  |
| 15. Albert Bradley.          | 32. Fritz Opel, Russelsheim (Germany) |
| 16. Irene du Pont.           |                                       |
| 17. W. S. Carpenter, Jr.     | 33. A. B. Purvis (Montreal, Canada.)  |

## OFFICERS OF GENERAL MOTORS CORPORATION

(Information compiled from Moody's Manual of Investments—American & Foreign, 1934.)

- A. P. Sloan, Jr., president.  
 W. S. Knudsen, exec. vice president.  
 J. T. Smith, vice president, New York.  
 Donaldson Brown, vice president, New York.  
 A. H. Swayne, vice president, New York.  
 J. D. Mooney, vice president, New York.  
 J. L. Pratt, vice president, New York.  
 Albert Bradley, vice president, Detroit.  
 C. S. Mott, vice president, Detroit.  
 C. F. Kettering, vice president, Detroit.  
 F. J. Fisher, vice president, Detroit.  
 C. T. Fisher, vice president, Detroit.  
 L. P. Fisher, vice president, Detroit.  
 W. A. Fisher, vice president, Detroit.  
 R. H. Grant, vice president, Detroit.  
 O. E. Hunt, vice president, Detroit.  
 C. E. Wilson, vice president, Detroit.  
 De Witt Page, vice president, Conn.  
 R. S. McLaughlin, vice president, Ontario.  
 T. S. Merrill, secretary.  
 M. L. Prentis, treasurer.  
 E. W. Proctor, comptroller.

## SUBSIDIARIES &amp; AFFILIATED COMPANIES OF GENERAL MOTORS CORPORATION

## PASSENGER &amp; COMMERCIAL GROUP

- |                                      |                                   |
|--------------------------------------|-----------------------------------|
| Buick Motor Division-----            | Assets owned by G.M.C.            |
| Cadillac Motor Car Division-----     | Do.                               |
| Chevrolet Motor Division-----        | Do.                               |
| Olds Motor Works Division-----       | Do.                               |
| Pontiac Motor Division-----          | Do.                               |
| General Motors of Canada, Ltd-----   | All stock owned by G.M.C.         |
| Yellow Truck & Coach Mfg. Co-----    | Majority of stock owned by G.M.C. |
| General Motors Fleet Sales Corp----- | All stock owned by G.M.C.         |

## FISHER BODY GROUP

Fisher Body Division.....	Assets owned by G.M.C.
Fleetwood Body Division.....	Do.
Ternstedt Mfg. Division.....	Do.
The National Plate Glass Co.....	All stock owned by G.M.C.
Fisher Lumber Corp.....	Do.
Fisher Detta Log Co.	

## ACCESSORY &amp; PARTS GROUP

A C Spark Plug Division.....	Assets owned by G.M.C.
Delco Products Division.....	Do.
Delco-Remy Division.....	Do.
Guide Lamp Division.....	Do.
Harrison Radiator Division.....	Do.
Hyatt Bearings Division.....	Do.
Inland Mfg. Division.....	Do.
The McKinnon Industries, Ltd.....	All stock owned by G.M.C.
Moraine Products Division.....	Assets owned by G.M.C.
New Departure Mfg. Division.....	Do.
Packard Elec. Division.....	Do.
Saginaw Malleable Iron Division.....	Do.
Saginaw Steering Gear Division.....	Do.
Sunlight Elec. Division.....	Do.
United Motors Service, Inc.....	All stock owned by G.M.C.

## HOUSEHOLD APPLIANCE GROUP

Delco Appliance Division.....	Assets owned by G.M.C.
Frigidaire Division .....	Do.

## AVIATION GROUP

Allison Engineering Division.....	Assets owned by G.M.C.
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## AVIATION ENGINES, ENGINEERING &amp; MECH. EQUIP.

General Aviation Corp.....	Large stock interest owned by G.M.C.
North American Aviation, Inc.....	Majority of stock owned by General Aviation Corp. & G.M.C.
General Aviation Mfg. Corp.	
B/J Aircraft Corp.	
Eastern Air Transport, Inc.	
Western Air Express Corp.	
Trans. & Western Air, Inc.	

## MISCELLANEOUS GROUP

Kinetic Chemicals, Inc.....	Large stock interest owned by G.M.C.
Ethyl Gasoline Corp.....	One-half interest owned by G.M.C.
Winton Engine Division.....	Assets owned by G.M.C.

## FINANCING, INSURANCE, &amp; ACCOUNTING GROUP

General Motors Acceptance Corp of N.Y....	All stock owned by G.M.C.
* General Motors Acceptance Corp. of Dela.....	All stock owned by G.M.A.C.
* General Motors Acceptance Corp. of Indiana, Inc.....	Do.
* General Motors Acceptance Corp. de Mexico, S.A.....	Do.
* S. Amer., General Motors Acceptance Corp.....	Do.
* Continental, and Allgemeine Finanzierungsgesellschaft m.b.h.....	Do.
* General Exchange Insurance Corp....	Do.

\* General Motors Acceptance Corp. does not control directors' qualifying shares.

General Motors Building Corp-----	All stock owned by G.M.C.
Argonaut Realty Corp-----	Do.
Modern Dwellings, Ltd., Oshawa, Ont-----	All stock owned by G.M.C. of Can- ada, Ltd.
Modern Housing Corp-----	All stock owned by G.M.C.

General Motors Research Labs.  
General Motors Proving Ground.  
General Motors Institute.

**General Motors Export Division.**  
Adam Opel A. G. (German manufacture and distribution of "Opel products" in Germany).  
**Vauxhall Motors, Ltd.** (English manufacture and distribution of "Vauxhall products" in British Isles).

General Motors Export Co.  
General Motors, Argentina, S.A., Buenos Aires.  
Distribution in Argentina, Uruguay, and Paraguay.  
General Motors Holden's, Ltd., Woodville, Australia.  
General Motors do Brazil, S.A., Sao Paulo, Brazil.  
General Motors Continental, S.A., Antwerp, Belgium.  
Distribution of motor cars and trucks in Belgium, France, Austria, Czechoslovakia, Bulgaria, Crete, Holland, Hungary, Yugoslavia, Roumania, and Switzerland.  
General Motors International, A.S., Copenhagen, Denmark.  
Distribution of cars and trucks in Denmark, Norway, Ireland, Latvia, Lithuania, Poland, and Esthonia.  
General Motors Nordiska A/B, Stockholm, Sweden.  
Distribution of cars and trucks in Sweden and Finland.  
General Motors Japan, Ltd., Osaka, Japan.  
Distribution of cars and trucks in Japan, Manchukuo, and Korea.  
General Motors Near East, S.A., Alexandria, Egypt.  
Distribution of cars and trucks in Egypt, Arabia, Hejaz, Iraq, Italian Africa, Aden, Syria, Persia, Abyssinia, Greece, Palestine, and Turkey.  
General Motors New Zealand, Ltd., Wellington, N.Z.  
Distribution of cars and trucks in New Zealand.  
General Motors Peninsular S.A., Barcelona, Spain.  
Distribution of cars and trucks in Spain, Portugal, Canary Islands, Gibraltar, Italy, and French and Spanish Morocco.  
General Motors South African, Ltd., Port Elizabeth, South Africa.  
Distribution of cars and trucks in Union of South Africa, Rhodesia, British Southwest Africa, Portuguese East Africa, Nyasaland, Bechuanaland, and the Katanga District of the Belgian Congo.  
N. V. General Motors, Java, Batavia, Java.  
Distribution of cars and trucks in Dutch East Indies, Siam, and the Straits Settlements.  
General Motors, India, Ltd., Bombay, India.  
Distribution of cars and trucks in British India and Ceylon.  
Delco-Remy & Hyatt, Ltd., London, England.  
Accessory products in British Isles.  
Overseas Motor Service Corp., New York, N.Y.  
Sales and service overseas on all corporation accessory products.  
AC-Sphinx Sparking Plug Co., Ltd., Birmingham, England.  
Frigidaire, Ltd., New York, N.Y.  
Branches in England, France, Germany (Frigidaire G. m. b. H.).

## DIRECTORSHIPS OF DIRECTORS OF GENERAL MOTORS CORPORATION

(Information compiled from Poor's Directory of Directors, 1934, and from other sources where noted.)

**Lamont du Pont, chairman:**

1. E. I. du Pont de Nemours & Co., pres. & dir.
2. General Motors Acceptance Corp., dir.
3. Chemical Bank & Trust Co., dir.
4. Fidelity Philadelphia Trust Co., dir.
5. Wilmington Trust Co., dir.

**George F. Baker, director:**

1. First National Bank, chr. & dir.
2. First Security Co. of N.Y., chr. & dir.
3. General Electric Co., dir.
4. Provident Loan Society of N.Y., dir.
5. American Telephone & Telegraph Co., dir.
6. Pullman Company, dir.
7. United States Steel Corp., dir.
8. New Jersey General Security Co., dir.
9. New York Central R.R. Co., dir.
10. Consolidated Gas Co. of N.Y., dir.
11. Lackawanna Securities Co., dir.
12. Mutual Life Insurance Co., trustee.
13. Pullman, Inc., dir.
14. United States Trust Co., trustee.
15. West Shore Railroad Co., dir.

**Donaldson Brown, vice pres. & dir.:**

1. E. I. du Pont de Nemours & Co., dir.
2. St. Louis-San Francisco Ry., dir.
3. National Bank of Detroit, dir.

**Louis Graveraet Kaufman, director:**

1. Chicago and Erie R.R. Co., dir.
2. Empire State Building, Inc., dir.
3. Manufacturers Trust Co., dir.

**James David Mooney, vice pres. & dir.:**

1. General Motors Export Co., pres.
2. Overseas Motor Service Corp., pres. & dir.
3. Vauxhall Motors, Ltd. (Eng.), dir.
4. Investrad Corp., dir.
5. Adam Opel A. G., dir.
6. American Manufacturers Export Assn., pres. & dir.

**Seward Prosser, mem. fin. comm. & dir.:**

1. Bankers Trust Co., chr. managing comm., mem. exec. comm. & dir.
2. American Locomotive Co., dir.
3. American Surety Co. of N.Y., mem. fin. comm. & exec. comm. & trustee.
4. Braden Copper Co., dir.
5. General Electric Co., mem. exec. comm. & dir.
6. General Motors Acceptance Corp., dir.
7. General Motors Acceptance (Mexico), dir.
8. General Motors Acceptance (S.A.), dir.
9. Bankers Safe Deposit Co., dir.
10. Bantrasco Realty Co., dir.
11. Utah Copper Co., dir.
12. The John & Mary R. Markle Foundation, trustee.
13. General Motors Acceptance Corp., Continental, dir.

**John Thomas Smith, vice-pres. & gen'l. counsel:**

1. Argonaut Mining Co., pres. & dir.
2. White Knob Copper & Dev. Co., Ltd., pres. & dir.
3. Argonaut Consolidated Mining Co., pres. & dir.
4. General Aviation Corp., dir.

**Alfred Pritchard Sloan, Jr., pres. & dir.:**

1. E. I. du Pont de Nemours & Co., dir.
2. Pullman, Inc., dir.
3. Waldorf-Astoria Corp., dir.
4. Johns-Manville Corp., dir.
5. Revere Copper & Brass, Inc., dir.
6. National Bank of Detroit, dir.



**Junius Spencer Morgan, dir.:**

1. J. P. Morgan & Co., partner.
2. N.Y. Stock Exchange, member.
3. U.S. Steel Corp., dir.
4. Chamber of Commerce, State of N.Y., treas.
5. Drexel & Co., partner.

**Alfred Harris Swayne, vice-pres. & dir.:**

1. General Motors Acceptance Corp., chr. of board.
2. Lehigh Valley R.R. Co., dir.
3. Long Island R.R., dir.
4. C. Tennant Sons & Co., dir.
5. St. Louis Southwestern Ry. Co., dir.
6. Irving Trust Co., dir.
7. General Exchange Insurance Corp., dir.
8. General Motors Export Co., vice pres. & dir.
9. National Automobile Chamber of Commerce, vice pres. & dir.
10. North River Savings Bank, trustee.
11. E. W. Bliss Co., dir.
12. North Star Insurance Co., dir.
13. General Reinsurance Corp., dir.
14. General Alliance Corp., dir.
15. Stuyvesant Insurance Co., dir.

**Clarence M. Woolley, director:**

1. American Radiator & Standard Sanitary Corp., chr. of board.
2. Atchison, Topeka & Santa Fe Ry. Co., dir.
3. Continental Insurance Co., dir.
4. Federal Reserve Bank, N.Y., dir.
5. General Electric Co., dir.
6. Gold Dust Corp., dir.
7. Johns-Manville Corp., dir.
8. Lackawanna Securities Co., dir.
9. Texas Gulf Sulphur Co., dir.
10. Delaware, Lackawanna & Western R.R. Co., mem. bd. of mgrs.
11. Mutual Life Insurance Co. of N.Y., trustee.

**George Whitney, director:**

1. J. P. Morgan & Co., member of firm.
2. Alaska Development & Mineral Co., dir.
3. Bank for Savings, trustee.
4. Braden Copper Co., dir.
5. Copper River & Northwestern Ry. Co., Inc., dir.
6. Guarantee Trust Co. of N.Y., dir.
7. Provident Fire Insurance Co., dir.
8. Kennecott Copper Corp., dir.
9. Pullman Co., dir.
10. Utah Copper Co., dir.
11. New Jersey & N.Y. R.R. Co., dir.
12. Royal Exchange Assurance, dir.
13. Teachers Insurance & Annuity Assn., trustee.
14. Texas Gulf Sulphur Co., dir.
15. Johns-Manville Corp., dir.
16. United Corporation, dir.
17. Continental Oil Co., dir.
18. Pullman, Inc., dir.
19. Consolidated Gas Co. of N.Y., trustee.
20. Alaska Steamship Co., dir.
21. N.Y. Edison Co., dir.

**Owen D. Young, dir.:**

1. General Electric Co., chr. of board.
2. National Broadcasting Co., chr. adv. council.
3. Federal Reserve Bank, deputy chr. of board & class C dist.
4. International General Electric Co., dir.
5. American & Foreign Power Corp., dir.
6. National Industrial Conference Board, councillor.
7. National Electrical Mfrs. Assn., exec. rep.
8. Merchants Assn. of N.Y., dir.
9. International Chamber of Commerce, dir.

**Owen D. Young, dir.—Continued**

10. Osram Corporation, Berlin, dir.
11. Allgemeine Elektrizitäts Gesellschaft, dir.
12. Societe Financiere pour le Developpement de l'Electricite, mem. exec. comm.

**Albert Bradley, vice-pres., mem. fin. comm. & dir.:**

1. Yellow Truck & Coach Mfg. Co., dir.
2. Bendix Aviation Corp., chr. fin. comm. & dir.
3. Adam Opal, A. G., dir.
4. General Aviation Corp., dir.

**Irene du Pont, mem. fin. comm. & dir.:**

1. E. I. du Pont de Nemours & Company, vice-chr. of bd.
2. The Reading Co., director.
3. Ethyl Gasoline Corp., director.

**W. S. Carpenter, Jr., mem. fin. comm. & dir.:**

1. du Pont Rayon Co., chairman.
2. du Pont Cellophane Co., chairman.
3. E. I. du Pont de Nemours & Company, vice pres., chr. fin. comm. & dir.
4. Wilmington Trust Co., dir.
5. Chase National Bank of N.Y., dir.
6. Bell Telephone Co. of Penn., dir.
7. Diamond State Telephone Co., dir.

**Pierre Samuel du Pont, director:**

1. E. I. du Pont de Nemours & Company, chr. of board.
2. Bankers Trust Co., director.
3. Philadelphia National Bank, director.
4. Wilmington Trust Co., vice president.

**J. J. Raskob, director:**

1. E. I. du Pont de Nemours & Company, vice pres. & dir.
2. Bankers Trust Co., director.
3. Lawyers County Trust Co., director.

**Arthur G. Bishop, vice pres. & dir.:**

1. First National Bank of Flint, pres.
2. Union Commerce Investment Co., dir.
3. Union Joint Stock Land Bank, dir.
4. Genesee County Savings Bank, pres. & dir.

**H. F. du Pont, director:**

1. E. I. du Pont de Nemours & Company, dir.

**Charles Franklin Kettering, vice-pres. & dir.:**

1. General Motors Research Laboratories, gen. dir.
2. C. F. Kettering, Inc., pres. & dir.
3. Kettering Foundation, Inc., dir.
4. Frigidaire Corp., vice-pres. & dir.
5. Uplands Realty Co., Inc., dir.
6. The Domestic Building Co., dir.
7. The Moraine Development Co., dir.
8. Winters National Bank & Trust Co., chr. of bd. & dir.
9. The Flexible Co., pres. & dir.
10. Moraine Park Co., Inc., dir.
11. The Mead Pulp & Paper Co., dir.
12. United Aircraft & Transport Co., dir.
13. General Aviation Corp., dir.
14. Antioch College, trustee.

**Frederick J. Fisher, vice-pres. & dir.:**

1. Yellow Truck & Coach Mfg. Co., dir.
2. Fisher & Co., pres. & dir.
3. General Motors Securities, dir.
4. Baldwin Locomotive Works, dir.
5. Michigan Bell Telephone Co., dir.
6. Cleveland, Cincinnati, Chicago & St. Louis R.R., N.Y., dir.
7. Postal Telegraph Co., dir.
8. United Chromium Corp., dir.
9. Senior Investment Corp., pres. & dir.
10. General Aviation Corp., dir.
11. Transcontinental & Western Air, Inc., dir.
12. Udylite Process Co., dir.

Frederick J. Fisher, vice-pres. & dir.—Continued

13. North American Aviation, dir.
14. Vickers, Inc., pres. & dir.
15. Adam Opel (Germany), dir.
16. General Motors Management Corp., dir.
17. General Chromium Corp., dir.
18. General Motors Holding Corp., dir.
19. General Motors Truck Co., dir.

Lawrence P. Fisher, vice-pres. & dir.:

1. Cadillac Motor Car Co., pres. & Gen'l mgr.

William S. Knudsen, exec. vice-pres. & dir.

Charles Stewart Mott, vice-pres. & dir.

De Witt Page, vice-pres. & dir.

1. New Departure Mfg. Co., pres. gen'l mgr. & dir.

R. Samuel McLaughlin, vice-pres.:

1. General Motors of Canada, Ltd., pres.
2. The Dominion Bank (Canada), vice-pres. & dir.
3. Canadian Pacific Railway Co., dir.
4. Canadian Consolidated Mining & Smelting Co. of Canada, Ltd., dir.
5. International Co. of Canada, Ltd., dir.

Arthur Blaikie Purvis, dir.:

1. Canadian Industries, Ltd., pres. & managing dir.
2. Barclays Bank, Ltd., vice-pres. & dir.
3. Bell Telephone Co., Ltd., dir.
4. Canadian Safety Fuse Co., Ltd., dir.
5. Dunlop Tire & Rubber Goods Co. of Canada, Ltd., pres. & dir.
6. Canadian Investment Trust, Ltd., dir.
7. Sun Life Assurance Co., Ltd., dir.
8. Consolidated Paper Corp., Ltd., dir.
9. Liverpool & London & Globe Ins. Co., Ltd., dir.

Sir Harry McGowan, director:

1. African Explosives & Industries, Ltd., deputy chr.
2. British Overseas Bk., Ltd., director.
3. Imperial Chemical Industries, Ltd., chr. & managing dir.
4. Cape Explosives Works, Ltd., deputy chr.
5. Finance Company of Gr. Britain & Amer., Ltd., chr.
6. General Motors Corp., N.Y., director.
7. Imperial Chemical Industries (China), Ltd., dir.
8. Imperial Chem. Industries of Australia and New Zealand, Ltd., dir.
9. Imperial Chemicals Insurance, Ltd., chr.
10. International Nickel Co. of Canada, Ltd., dir. & mem. of advisory comm.
11. Midland Bank Limited, dir.
12. Naylor Bros. (London), Ltd., chr.
13. Nobel Chemical Finishes, Ltd., chr.
14. Portland Glass Co., Ltd., chr.

(Information compiled from Directory of Directors for 1934, Thomas Skinner & Co., London.)

#### DIRECTORS AND OFFICERS OF GENERAL MOTORS ACCEPTANCE CORP.

(Information compiled from Moody's Manual of Investments—American & Foreign, 1934.)

A. H. Swayne, chairman.

Donaldson Brown, dir.

A. L. Deane, dir.

Lamot du Pont, dir.

Pierre S. du Pont, dir.

Ira G. McCreery, vice pres. & dir.

J. L. Meyers, vice pres. & dir.

Seward Prosser, dir.

J. J. Schumann, Jr., pres. & dir.

L. L. Short, dir.

A. P. Sloan, Jr., dir.

Glyn Davies, vice pres.

August Frelse, vice pres.

G. F. Benkhart, vice pres.

C. P. Fiske, vice pres.

J. H. McMahon, vice pres.

W. H. Leach, vice pres.

C. G. Stradella, vice pres.

J. D. Deane, vice pres.

N. C. Duzendorf, vice pres.

Reune Martin, treas.

G. H. Bartholomew, sec.

J. T. Smith, counsel.

F. S. Parson, compt. & aud.

R. I. Hewitt, gen. asst. treas.

## DIRECTORSHIPS OF DIRECTORS OF GENERAL MOTORS ACCEPTANCE CORP.

(Information compiled from Poor's Directory of Directors, 1934.)

Alfred Harris Swayne, chr. of bd.

1. Yellow Truck & Coach Mfg. Co., dir.
2. General Motors Corp., vice pres. & dir.
3. Lehigh Valley R.R. Co., dir.
4. C. Tennant Sons & Co., dir.
5. St. Louis Southwestern Ry. Co., dir.
6. Irving Trust Co., dir.
7. General Exchange Insurance Corp., dir.
8. General Motors Export Co., vice pres. & dir.
9. National Automobile Chamber of Commerce, vice pres. & dir.
10. North River Savings Bank, trustee.
11. E. W. Bliss Co., dir.
12. North Star Insurance Co., dir.
13. General Reinsurance Corp., dir.
14. General Alliance Corp., dir.
15. Stuyvesant Insurance Co., dir.

Donaldson Brown, dir.:

1. E. I. du Pont de Nemours & Company, dir.
2. General Motors Corp., vice pres. & dir.
3. St. Louis-San Francisco Ry., dir.
4. National Bank of Detroit, dir.

Lammot du Pont, dir.:

1. E. I. du Pont de Nemours & Company, pres. & dir.
2. General Motors Corp., chr. & dir.
3. Chemical Bank & Trust Co., dir.
4. Fidelity-Philadelphia Trust Co., dir.
5. Wilmington Trust Co., dir.

Pierre Samuel du Pont, dir.:

1. E. I. du Pont de Nemours & Co., chr. of bd.
2. General Motors Corp., dir.
3. Bankers Trust Co., dir.
4. Philadelphia National Bank, dir.
5. Wilmington Trust Co., vice pres.

Seward Prosser, dir.:

1. Bankers Trust Co., chr. managing comm., mem. exec. comm. & dir.
2. American Locomotive Co., dir.
3. American Surety Co. of N.Y., mem. fin. comm. & exec. comm. & trustee.
4. Braden Copper Co., dir.
5. General Electric Co., mem. exec. comm. & dir.
6. General Motors Corp., mem. fin. comm. & dir.
7. General Motors Acceptance (Mexico), dir.
8. General Motors Acceptance (S.A.), dir.
9. Bankers Safe Deposit Co., dir.
10. Bentrasco Realty Co., dir.
11. Utah Copper Co., dir.
12. The John & Mary R. Markle Foundation, trustee.
13. General Motors Acceptance Corp., Continental, dir.

John J. Schumann, Jr., pres. &amp; dir.:

1. General Exchanges Ins. Corp., chr. fin. comm. & dir.
2. General Motors Acceptance Corp. of Del., pres. & dir.
3. General Motors Acceptance Corp. of Mexico, pres. & dir.
4. General Motors Acceptance Corp. of S.A., pres. & dir.
5. General Motors Holding Corp., dir.
6. General Exchange Corp. of Del., pres. & dir.
7. General Exchange Corp., Ltd., dir.
8. General Motors Acceptance Corp. Continental, pres. & dir.

Livingston Lyman Short, dir.:

1. General Exchange Insurance Corp., pres. & dir.

Alfred Pritchard Sloan, Jr., dir.:

1. E. I. du Pont de Nemours & Co., dir.
2. Pullman, Inc., dir.
3. Waldorf-Astoria Corp., dir.
4. Johns-Manville Corp., dir.
5. Revere Copper & Brass, Inc., dir.
6. National Bank of Detroit, dir.
7. General Motors Corp., pres. & dir.

## DIRECTORS AND OFFICERS OF MCKINNON INDUSTRIES, LTD.

(Controlled by General Motors Corporation)

(Information compiled from Moody's Manual of Investments—American &amp; Foreign, 1934.)

H. J. Carmichael, Pres., gen'l. mgr. & dir.	E. W. Proctor, comptroller.
H. A. Brown, vice-president.	C. L. Cotton, asst. sec., treas. & dir.
T. S. Merrill, sec. & dir.	James McEvoy, dir.
M. L. Prentis, treas.	C. E. Wilson, dir.

## DIRECTORSHIPS OF DIRECTORS AND OFFICERS OF MCKINNON INDUSTRIES, LTD.

(Information compiled from Poor's Directory of Directors, 1934.)

Harry John Carmichael, pres.:

1. McKinnon Dash Co., pres. & dir.
2. Conroy Mfg. Co., vice-pres. & dir.
3. National Arbitraries Corp., dir.
4. Toronto, St. Catharine's Transport Co., dir.
5. Marquette Mfg. Co., Ltd., dir.

Thomas S. Merrill, sec. &amp; dir.

1. General Motors Corp., sec.
2. National Bank of Detroit, cashier.

Hanson Ames Brown, vice-pres. &amp; dir.

1. Cadillac Motor Car Co. of Canada, Ltd., vice-pres. & dir.
2. Chevrolet Motor Co. of Canada, Ltd., vice-pres. & dir.
3. General Motors Products of Canada, Ltd., vice-pres. & dir.
4. McLaughlin Motor Car Co., Ltd., vice-pres. & dir.
5. Modern Dwellings, Ltd., vice-pres. & dir.
6. Olds Motor Works of Canada, Ltd., vice-pres. & dir.
7. General Motors Mgt. Service of Canada, Ltd., vice-pres. & dir.
8. Pontiac Motor Co. of Canada, Ltd., vice-pres. & dir.

Meyer Leon Prentis, treas.:

1. General Motors Corp., treas.

## DIRECTORS AND OFFICERS OF YELLOW TRUCK &amp; COACH MFG. CO.

(Controlled by General Motors Corporation)

1. I. B. Babcock, exec. vice pres. & Treas. & dir.
2. Albert Bradley, dir.
3. F. J. Fisher, dir.
4. G. A. Green, vice pres. & dir.
5. E. R. Breech, dir.
6. P. H. Geiper, dir.
7. J. L. Pratt, dir.
8. P. W. Seiler, chairman, president & director
9. A. H. Swayne, dir.
10. T. S. Merrill, sec. & dir.
11. H. C. Grossman, dir.
12. H. M. Hogan, dir.
13. H. E. Listman, dir.
14. V. P. Little, vice pres. & dir.
15. D. L. Tate, comptroller & dir.

(Information compiled from Moody's Manual of Investments, American &amp; Foreign, 1934.)

## DIRECTORSHIPS OF DIRECTORS OF YELLOW TRUCK &amp; COACH MFG. CO.

(Information compiled from Poor's Directory of Directors, 1934, and from other sources where noted.)

Irving B. Babcock, exec. vice pres. &amp; dir.

1. General Motors Truck Corp., exec. vice pres. & dir.
2. Yellow Manufacturing Accept. Corp., pres. & dir.
3. Hertz Drivursel Corp., pres. & dir.
4. The Greyhound Corp., dir.
5. Terminal Cab Corp., dir.

**Albert Bradley, dir.:**

1. General Motors Corp., vice pres.
2. Bendix Aviation Corp., chr. fin. comm. & dir.
3. Adam Opel A. G., dir.
4. General Motors Corp., mem. fin. comm. & dir.
5. General Aviation Corp., dir.

**Frederick J. Fisher, dir.:**

1. General Motors Corp., vice pres. & dir.
2. Fisher & Co., pres. & dir.
3. General Motors Securities, dir.
4. Baldwin Locomotive Works, dir.
5. Michigan Bell Telephone Co., dir.
6. Michigan Central R. R., dir.
7. Cleveland, Cincinnati, Chicago & St. Louis R.R., N.Y., dir.
8. Postal Telegraph Co., dir.
9. United Chromium Corp., dir.
10. Senior Investment Corp., pres. & dir.
11. General Aviation Corp., dir.
12. Transcontinental & Western Air, Inc., dir.
13. Udyllite Process Co., dir.
14. North American Aviation, dir.
15. Vickers, Inc., pres. & dir.
16. Adam Opel (Germany), dir.
17. General Motors Management Corp., dir.
18. General Chromium Corp., dir.
19. General Motors Holding Corp., dir.
20. General Motors Truck Co., dir.

**G. A. Green, vice pres. & dir.:**

1. General Motors Truck Corp., vice pres.

**Ernest R. Breech, dir.:**

1. General Motors Corp., general asst. treas.
2. Transcontinental & Western Air, Inc., dir.
3. General Aviation Corp., dir.
4. North American Aviation Corp., dir.
5. Eastern Air Transport, chr. of board.

**P. H. Geiper:**

1. Yellow Truck & Coach Mfg. Co., dir.

**J. L. Pratt:**

1. Yellow Truck & Coach Mfg. Co., dir.

**Paul Waldo Seiler:**

1. Yellow Truck & Coach Mfg. Co., dir., chr. of bd., pres. & gen'l mgr.

**Alfred Harris Swayne, dir.:**

1. General Motors Corp., vice pres. & dir.
2. General Motors Acceptance Corp., chr. of bd.
3. Lehigh Valley R.R. Co., dir.
4. C. Tennant Sons & Co., dir.
5. St. Louis Southwestern Ry. Co., dir.
6. Irving Trust Co., dir.
7. General Exchange Insurance Corp., dir.
8. General Motors Export Co., vice pres. & dir.
9. National Automobile Chamber of Commerce, vice pres. & dir.
10. North River Savings Bank, trustee.
11. E. W. Bliss Co., dir.
12. North Star Insurance Co., dir.
13. General Reinsurance Corp., dir.
14. General Alliance Corp., dir.
15. Stuyvesant Insurance Co., dir.

**Thomas S. Merrill, sec. & dir.:**

1. General Motors Corp., sec.

**Harry C. Grossman, dir.:**

1. General Motors Truck Corp., asst. sec. & dir.
2. Yellow Mfg. Accept. Corp., asst. sec. & dir.
3. Yellow Sleeve Valve Engine Works, Inc., asst. sec. & dir.
4. Hertz Drivurself Stations, sec. & dir.

Harry C. Grossman, dir.—Continued

5. Sterrett Operating Service, Inc., asst. sec.
6. Atlantic Greyhound Lines, Inc., sec. & dir.
7. Canadian Yellow Cab Mfg. Co., Ltd., asst. sec. & dir.
8. Yellow Manufacturing Credit Corp., asst. sec. & dir.
9. Atlantic Greyhound Lines of N.C., Inc., dir.

H. M. Hogan:

1. Yellow Truck & Coach Mfg. Co., dir.

H. E. Listman:

1. Yellow Truck & Coach Mfg. Co., dir.

V. P. Little:

1. Yellow Truck & Coach Mfg. Co., vice pres. & dir.

D. L. Tate:

1. Yellow Truck & Coach Mfg. Co., comptroller & dir.

#### DIRECTORS AND OFFICERS OF VAUXHALL MOTORS, LTD.

(Information compiled from Moody's Manual of Investments, American & Foreign, 1934.)

Leslie Walton, chairman & director.

C. J. Bartlett, managing director.

H. S. Broom, director.

C. G. Griffin, director.

L. J. Hartnett, director.

W. O. Kennington, director.

C. E. King, director.

A. W. Laskey, director.

Thomas Mackenzie, secretary & director.

J. D. Mooney, director.

A. F. Palmer Phillips, director.

T. A. Simpson, director.

#### DIRECTORSHIPS OF DIRECTORS AND OFFICERS OF VAUXHALL MOTORS, LTD.

(Information compiled from Directory of Directors for 1934, Thomas Skinner & Co., London.)

Charles John Bartlett, dir.:

1. A. C. Sphinx Sparking Plug Company, Ltd., dir.
2. Delco-Remy & Hyatt, Ltd., dir.
3. Vauxhall and General Finance Corp., Ltd., dir.

Harry Skeet Broom, dir.:

1. Broom & Wade, Ltd., chr. & managing dir.
2. B. E. N. Patents, Ltd., dir.
3. Delco-Remy & Hyatt, Ltd., dir.
4. Frigidaire, Ltd., dir.

Cyril G. Griffin:

1. Vauxhall Motors, Ltd., asst. mng. dir.

L. J. Hartnett:

1. Vauxhall Motors, Ltd., dir. & export mgr.

W. O. Kennington, dir.:

1. A. C. Sphinx Sparking Plug Co., Ltd., dir.
2. Delco-Remy & Hyatt, Ltd., dir.

C. E. King:

1. Vauxhall Motors, Ltd., chief eng.

A. W. Laskey:

1. Vauxhall Motors, Ltd., dir. & gen. supply mgr.

Thomas Mackenzie:

1. Vauxhall Motors, Ltd., sec. & dir.

James David Mooney, dir.:

1. General Motors Corp. of Detroit, dir.
2. Delco-Remy & Hyatt, Ltd., dir.

A. F. Palmer Phillips, dir.:

1. Vauxhall and General Finance Corp., Ltd., dir.

Thomas A. Simpson:

1. Vauxhall Motors, Ltd., dir.

## EXHIBIT No. 458

\* Ms-51

MARCH 2, 1933.

THE E. I. DUPONT DE NEMOURS CO.,  
Wilmington, Delaware.

(Attention Mr. W. W. Rhodes.)

Pleased be advised that the following bill has been introduced in the California Legislature:

California Assembly Joint Resolution #9—memorializes and petitions Congress to enact legislation to end all patent rights for arms, ammunition, and other equipment used for war and that the same should be acquired by the Government and manufactured by governmental establishments.

(S) DENTON JOLLY, *Legal Department.*

DJ: H

## EXHIBIT No. 459

KINETIC CHEMICALS, INC., DuPont Building, Wilmington, Delaware

\* Ms-51  
77  
sp 77

MARCH 6, 1933.

COLONEL AIKEN SIMONS.  
*Smokeless Powder Department.*

I am attaching letter received from Mr. Denton Jolly, of the legal department of the General Motors Corporation, Detroit, and have suggested to Mr. Jolly that all matters pertaining to arms, munitions, etc., be taken up with you.

I presume that this is a complimentary service they are offering us, as they are constantly watching legislative bills.

(S) W. W. RHODES,  
*Sales Manager.*

WWR:ETR  
Encl.

## EXHIBIT No. 460

Ms-157

[Copy to Major K. K. V. Casey (Smokeless Pdr. Dept.)]

MARCH 5, 1934.

Mr. E. A. TAYLOR,  
*Director, Chemical Department, Graselli, Cleveland:*

## WAR DEPARTMENT INQUIRY FOR SUPPLY OF CHEMICALS

I talked with Major K. K. V. Casey about your letter of March 28th and the War Department inquiry attached. Major Casey tells me that this is a part of a general program of industrial preparedness for war and that the War Department has been making tentative allocations of production of the various materials required in volume in time of war. Major Casey also indicated that the du Pont Company has worked closely with the War Department in this matter and that a very large production of war materials has been tentatively allocated to the Du Pont Company. I understand from him that the company's policy is to go rather far in cooperating with the War Department in this matter, both in the way of giving information and in assisting them in planning. Of course, no promises in connection with prices are made.

The major indicated that he would be interested in receiving copies of correspondence between you and the War Department on this subject.

ERNEST B. BENDER,  
*General Asst. Director.*

EBB: E.

\* Pencil marking.



## EXHIBIT No. 461

MARCH 7, 1928.

To: Executive Committee.

From: Chairman of Foreign Relations Committee.

## IMPERIAL CHEMICAL INDUSTRIES LIMITED

I attach hereto list of subsidiary companies and investment and contractual interests in world markets of the Imperial Chemical Industries, Limited, as furnished to me under date of March 6th by this concern.

The wide range of the companies included, as well as the foreign alliances listed, are extremely interesting and will repay perusal.

(S) F. W. PICKARD,

FWP: JMQ.

*Chairman Foreign Relations Committee.*

*Imperial Chemical Industries, Limited, subsidiary companies, and investment and contractual interests in world markets*

## DIRECT I.C.I. COMPANIES

Companies in Great Britain	Manufactures	Percentage holding	Nature of interest
Nobel Industries, Limited.....	Explosives, etc.....	99.5	Merger Co.
Brunner Mond & Co., Ltd.....	Alkalis, etc.....	99.5	Do.
United Alkali Co., Ltd.....	do.....	99.5	Do.
British Dyestuffs Corporation, Ltd.....	Dyestuffs.....	99.5	Do.
British Bergius Syndicate.....		100	Subsidiary Co.
Cassell Cyanide Co., Ltd.....	Cyanides.....	100	Do.
Castner-Kellner Alkali Co., Ltd.....	Alkalis.....	100	Do.
I.C.I. Insurance, Ltd.....		100	Do.
I.C.I. Estates, Ltd.....	Properties.....	100	Do.
Union Acid Co.....	Selling Co.....	100	Do.
Scottish Dyes, Limited.....	Dyestuffs.....	100	Do.

## INDIRECT I.C.I. COMPANIES

Amalgamated Carburettors, Ltd.....	Cycle Carburettors.....	54	Subsidiary Co.
Arthur & Hinshaw, Ltd.....	Agency Co.....	11.8	Investment.
Bickford Smith & Co., Ltd.....	Safety fuse.....	100	Subsidiary.
British Pluvinin Co., Ltd.....	Leather cloth.....	100	Do.
British Leather Cloth Mfg. Co., Ltd.....	do.....	100	Do.
British Westfalte, Limited.....	Explosives.....	100	Do.
British Copper Manufacturers, Ltd.....	Metals.....		Do.
British Electric Detonator Co.....	Electric.....	88	Do.
Buxton Lime Firms Co., Ltd.....	Limestone.....	100	Do.
Chance & Hunt, Ltd.....	Acids.....	90	Do.
Carville Site & Power Co.....		50	Investment.
Cleghorn & Bates, Ltd.....	Foundry iron.....	100	Subsidiary.
Curtis' & Harvey, Ltd.....	Explosives & accessories.....	100	Do.
Cumbran Chemical Co.....	Chemicals.....	100	Do.
Electro Bleach & By-Products, Ltd.....	Bleaching powder.....	100	Do.
Eley Bros., Limited.....	Sporting amm.....	100	Do.
Elterwater Gunpowder Co., Ltd.....	Blasting powder.....	100	Do.
Explosives Industries, Limited.....	Agency Co.....	37.5	Investment.
Elliott's Metal Co., Ltd.....	Metals.....	96	Subsidiary.
Industrial Housing Assoc.....		93	Do.
Jack, R. & T. & Co., Ltd.....	Cotton yarns.....	100	Do.
Kynoch Limited.....	Metals & amm.....	99	Do.
King's Norton Metal Co., Ltd.....	do.....	100	Do.
Lucas & Co., Ltd.....	Accessories & cycles.....	13	Investment.
Lighting Trades, Limited.....	Gas mantles.....	70	Subsidiary.
Lancashire Explosives, Ltd.....	Explosives.....	96	Do.
Lightning Fasteners, Ltd.....	Lightning fasteners.....	87.5	Do.
Malghash Salt Products.....	Salt products.....	34	Investment.
Marston John, Ltd.....	Motorcycles.....	100	Subsidiary.
Nitram, Ltd., agents for British Sulphate of Ammonia Fed.....	Sales Co.....	100	Do.
Nobel's Explosives Co., Ltd.....	Explosives and accessories.....	100	Do.
Nobel Chemical Finishes, Ltd.....	Lacquers, varnishes.....	51	Do.
Naylor Bros., Ltd. (slough).....	Paints.....	51	Do.
Premier Electric Welding Co., Ltd.....	Electrodes.....	92	Do.
Patent Elect. Shot Firing Co., Ltd.....	Electric detonators.....	100	Do.
Paper Goods Manufacturing Co., Ltd.....	Cd. bd. boxes, etc.....	100	Do.

*Imperial Chemical Industries, Limited, subsidiary companies, and investment and contractual interests in world markets—Continued*

## INDIRECT I.C.I. COMPANIES

Companies in Great Britain	Manufactures	Percentage holding	Nature of interest
Portland Glass Co., Ltd.	Bottles	57.5	Do.
Raynes & Co., Ltd.	Lime & limestone	100	Do.
Roburite & Ammonal, Ltd.	Explosives	99.5	Do.
Sedgwick Gunpowder Co., Ltd.	Blasting powder	100	Do.
Synthetic Ammonia & Nitrate, Ltd.	Synthetic nitrogen, etc.	100	Do.
Standard Anhydrous Ammonia Co.	Sales Co.	22.3	Investment.
Thermit, Ltd.	Thermit welding	96	Subsidiary.
Wakefield, W. H. & Co.	Blasting powder	100	Do.
Walker (Alex) & Co., Ltd.	Salt cake hydrochloric acid	100	Do.

## FOREIGN INVESTMENTS

Company	Manufactures	Country	Percentage holding	Nature of interest
Bickford & Co., A.-G.	Fuses	Austria	100	Subsidiary.
Cartoucherie Belge.	Sporting ammunition	Belgium	19	Investment & trading arrangement for manufacture and sale of Eley sporting cases in Belgium.
Societe Anonyme d'Arendonck.	Explosives and powder	do.	30	Investment; limitation of sales.
Vise Co.	Safety fuse	do.	42	Investment.
Cartoucherie Francaise.	Sporting ammunition	France	24	Do.
Compagnie Continentale du Pegamoid.	Artificial leather	do.	11	Do.
Czecho Slovak Explosives, Ltd.	Explosives	Czechoslovakia	32	Do.
Nobel - Bickford A. G. Trencin.	Safety fuse	do.	25	Do.
Dynamit - Action - Gesellschaft.	Explosives & accessories.	Germany	12.5	Do.
I. G. Farbenindustrie A.-G.	Explosives	do.	82	Do.
Roumania Explosives Co.	Explosives	Roumania	20	Do.
Union Espanola de Explosivos.	Explosives & chemicals.	Spain	1	Investment; reciprocal abstention arrangement.
Hungarian Explosives Co.	Explosives	Hungary	12	Investment.
African Explosives & Industries, Ltd.	Explosives & fertilisers.	Africa	50	Do.
Magadi Soda Co., Ltd.	Soda ash	do.	100	Subsidiary.
Cartoucheria Orbea Argentina.	Sporting & revolver amm.	Argentina	60	Investment.
Nobel (Australasia), Ltd.	Explosives & Chemicals.	Australia	97	Subsidiary.
Brunner Mond (Australia), Ltd.	Selling Co.	do.	99	Do.
Standard Ammonia Co. (of Sydney).		Australia	16	Investment.
Canadian Industries, Ltd.	Explosives & accessories.	Canada	<sup>1</sup> 42	Do.
Compania Sud Americana de Explosivos.	Explosives	Chile	<sup>2</sup> 20.03	Do.
Brunner Mond (China), Ltd.	Sales Co.	China	42.5	Do.
Brunner Mond (India), Ltd.	do.	China	99	Subsidiary.
Brunner Mond (India), Ltd.	do.	India	100	Do.
Brunner Mond (Japan), Ltd.	do.	Japan	99	Do.
E. I. du Pont de Nemours & Co.		U.S.A.	37	Investment.
General Motors Corp.		do.	91	Do.
Allied Chemical Co., Ltd.		do.	5.32	Do.
Roessler & Hasslacher Chemical Co.		do.	14	Do.
North American Chem. Co.		do.	100	Do.
Dyestuffs Corporation of America.		do.	100	Subsidiary.

<sup>1</sup> Common.

<sup>2</sup> Preferred.

*Imperial Chemical Industries, Limited, subsidiary companies, and investment and contractual interests in world markets—Continued*

## FOREIGN ALLIANCES

Company	Manufacturers	Country	Percentage holding	Name of interest
Barbier Group Explosives.	Explosives.	Belgium		Abstention arrangement Belgium & U.K.
Comptoir Belge des Engrais Azote.	Nitrogenous fertilisers.	do.		Sales arrangement for Sulphate of Ammonia.
Poudreries Reunies.	Black & sporting powder.	do.		Limitation of markets & sales arrangement.
Societe Anon. de Dynamite de Matagne.	Explosives.	do.		Do.
Societe Anon. de la Poudrerie de Carnelle.	Powder.	do.		Reciprocal abstention agreement.
Societe Belge de la Dynamite Nobel.	Explosives.	do.		Do.
Solvay et Cie.	Fertilisers & chemicals.	do.		Arrangement limiting markets and quantities of soda products.
Casale Ammonia Co.	Ammonia.	France		Agreement re use of Casale process and plant in Eng.
Comptoir Francais de l'Azote.	Nitrogenous fertilisers.	do.		Abstention arrangement.
Davey Bickford Smith & Co.	Safety fuse.	do.		Investment & abstention arrangement.
Societe Centrale de Dynamite.	Explosives.	do.		Abstention arrangement covering explosives.
Etablissement Kuhlmann.	Dyes.	do.		
Westfälische Anhaltische Sprengstoff A.G.	Explosives & accessories.	Germany		Limitation of trading in export markets.
Poudrerie Royale de Weteren Coopall.	Black & sporting powder.	Belgium		Limitation of markets & sales arrangement.
Deutsche Solvay Works.	Chemicals.	Germany		Investment.
Rheinisch Westfälische Sprengstoff A.G.	Detonators, sporting ammunition, etc.	do.		Agreement re Brisks Detonators.
Montecatini.	Synthetic nitrogen.	Italy		Restriction on nitrogen exports.
Societa Italiana Ricerche Industriali.	Casale ammonia.	do.		Abstention and allocation of markets' arrangement for Casale Ammonia.
Norsk Sprengstoffindustri Aktieselskab.	Explosives and accessories.	Norway		Reciprocal abstention arrangement.
Cap Explosives Works, Ltd.	Explosives.	Africa.		Investment.
Durant & Huguenin.	Dyestuffs.	Switzerland		Agreement relating to production of dyes.

(There was no Exhibit marked "No. 462.")

## EXHIBIT No. 463

## I.C.I.—Meetings &amp; Agree

AUGUST 31, 1934.

To: Mr. T. R. Hanley.  
From: J. K. Jenney.

## SUMMARY OF RELATIONS BETWEEN DU PONT AND I.C.I.—I.C.I. PATENTS AND PROCESSES AGREEMENT

In 1897 the Du Pont Co. and various other American explosives companies entered an agreement with the Nobel group of factories in Europe, which included several of I.C.I.'s predecessor companies, providing for exchange of processes, division of territories, and price maintenance. The agreement covered explosives, and military powders were included.

This agreement was later cancelled as the price provisions were deemed to be contrary to the Sherman Law. An agreement was drawn up and signed in 1907 covering exchange of inventions and methods of manufacture. This agreement

had provided for exclusive and nonexclusive sales territories, and military powders were included. It is my recollection that a provision was inserted providing that governmental objection should be an adequate reason for withholding any information, although I presume this had always been understood.

This contract was abrogated as of December 31, 1912, and a patents and secret processes agreement was prepared but I think never signed due to the advent of the war. In any event, from the commencement of and during the war there was no contractual relationship between Du Pont and any of the European factories.

In 1919 a patents and processes agreement covering explosives, including military explosives, was negotiated (signed 1920) with Explosives Trades, Ltd. (later Nobel Industries, Ltd.). There was a provision excluding passing of information contrary to governmental objection.

Under this agreement Nobels were licensed under our I.M.R. patents (1923). It is my understanding that all of this information was given them with the complete approval of our Government during the war and that the licensing was merely a formal matter giving them the right to continue to use information in their possession. (The matter had been delayed due to a controversy over amount of royalties to be paid).

\* \* \* \* \*

#### EXHIBIT No. 464

This agreement made on the first day of July 1928 between E. I. du Pont de Nemours & Company, a corporation organized and existing under the laws of the State of Delaware, United States of America, hereinafter called du Pont, party of the first part, and Imperial Chemical Industries Limited, a corporation organized and existing under the laws of Great Britain, hereinafter called Imperial, party of the second part.

#### WITNESSETH:

Whereas du Pont and Imperial are engaged in the sale of naval and military propellant powders and explosives throughout various countries on the European Continent, hereinafter more specifically referred to, and

Whereas a sales office and organization is maintained by Imperial at Vienna, Austria, and du Pont likewise maintains such an office and organization at Paris, France, and

Whereas the parties hereto have agreed that the aforesaid sales offices shall hereafter offer the products of both parties in the territory hereinafter specified, and upon the terms and conditions hereinafter set forth.

Now, therefore, du Pont and Imperial have agreed and by these presents do agree with each other as follows:

1. The terms and conditions of this agreement shall apply solely to the following products for naval and military purposes only, to wit:

Nitrocellulose powders  
Nitroglycerin powders  
Trinitrotoluol and Tetryl  
Nitrocellulose for propellant powders

2. From and after the date hereof all sales of the foregoing products made on behalf of either du Pont or Imperial in France, Belgium, Holland, Denmark, Sweden, Finland, Esthonia, Latvia, Lithuania, and Poland shall be under the supervision of the manager of du Pont's Paris office, the expenses of which office shall be exclusively borne by du Pont, and all such sales made on behalf of either du Pont or Imperial in Albania, Austria, Czechoslovakia, Jugoslavia, Roumania, Bulgaria, Greece, and Turkey shall be under the supervision of the Manager of Imperial's Vienna Office, the expenses of which office shall be exclusively borne by Imperial.

3. The aforesaid offices of du Pont and Imperial shall use their best efforts to apportion the total annual sales of the above products by said offices in accordance with the following percentages, to wit:

Nitrocellulose powders—du Pont 70%—Imperial 30%.  
Nitroglycerin powders—Imperial 100%.  
Trinitrotoluol and Tetryl—Imperial 70%—du Pont 30%.  
Nitrocellulose for propellant powders—Imperial 100%.

It being the intention hereof that said proportions shall be maintained as nearly as possible upon the combined sales of both offices.

4. If for any reason sales of the products of the parties hereto, above referred to, shall fail to conform to the proportions above set forth, then it is agreed

that the party whose products are sold in excess of said proportions shall pay to the other ten percent (10%) of the average gross receipts arising out of said excess sales; it being understood and agreed that such adjustment shall be made between the London office of Imperial and the Wilmington office of Du Pont, and for the purpose of such adjustment only deliveries actually made during any year shall be taken into account; it being further understood that total deliveries of each of said offices shall be determined as of the 30th day of June of each year for adjustment purposes.

5. Notwithstanding the proportion of sales above referred to, it is agreed that the quota of Imperial, with respect to nitrocellulose powders, and that of Du Pont, with respect to trinitrotoluol, shall not exceed three hundred (300) tons per annum.

6. The managers for the time being of said Paris office and said Vienna office shall be provided with such powers of attorney, credentials, and other documents executed by both parties hereto as shall be necessary or requisite in order to secure for said managers entrée to War offices and other Government departments to the end that the interests of both of said parties shall be served in accordance with the spirit and intention hereof; it being further understood and agreed that said managers shall be supplied from time to time with directions concerning prices and credit policies to be adopted with respect to the territory served by said offices.

7. Orders placed with either party by armament firms (including Kynoch Limited) shall be excluded from the operation of this agreement.

8. du Pont agrees that any inquiries throughout any of the foregoing territory which it shall receive with respect to industrial explosives shall be referred to the office of Imperial.

9. It is understood and agreed that if, on account of competitive conditions, or for any other reasons, either party hereto shall fail or refuse to accept an order, such order, if accepted by the other party, shall be excluded from the operation of paragraph 3 hereof in the determination of proportionate sales as therein provided; it being further understood and agreed that Czechoslovakia Explosives Limited shall be dealt with by the parties hereto in the same manner as other competitors with respect to competition in countries outside of Czechoslovakia.

10. This agreement shall not obligate either party to exchange any information whatever with respect to manufacturing costs or sales expense.

11. This agreement shall be reviewed and modified in order to meet any change of conditions by reason of an outbreak of war in Europe interfering with the satisfactory operation thereof, or by reason of any change in the German law relative to the sale of naval and military propellant powders, explosives, and ammunition.

12. It is the purpose and intention of this agreement to secure through both of the offices of each party hereto, herein referred to, the greatest volume of sales, and to that end and for that purpose the officials for the time being in charge of said offices shall determine from time to time which party's products will be offered in the territory served by said office, and close co-operation shall be developed and maintained between said offices with the view to increasing the combined sales efficiency of both, and free discussion shall be had from time to time on all facts bearing upon or appertaining to the interests of either party in the proper presentation and sale of the products herein referred to.

13. This agreement shall take the place of and supersede the agreement made on November 10, 1926, between the parties hereto with respect to naval and military powders and explosives, and shall remain in full force and effect for a period of ten years beginning of the 1st day of July 1928.

In witness whereof the parties hereto by their officers, duly authorized, have executed this agreement and have caused their respective corporate seals to be hereunto affixed on the day and year first above written.

E. I. DU PONT DE NEMOURS & COMPANY,  
By (S) H. FLETCHER BROWN, V.P.  
IMPERIAL CHEMICAL INDUSTRIES LTD.  
By (S) H. J. MITCHELL,

Attest:

(S) E. A. HOWARD,  
*Assistant Secretary.*

Attest:

(S) P. MARTIN.

## EXHIBIT No. 465

[This is the final memo G. W. as submitted to I.C.I. for ratification]

*Naval and military explosives*

Memorandum (G.W.) covering extent of sales cooperation between I.C.I. and du Pont and localities where scheme applies.

*A. Principles.—*

1. Participation to greater degree in available open markets, by using sales organization common to both; the economies thus achieved making possible the employment of specialist sales staff.

2. Joint organization to offer indiscriminately the subject materials of both parties, with freedom of choice being left to purchaser.

3. No predetermined division of business is contemplated; but it is the broad desire to see the materials furnished from the most economic source. To enable each party to enjoy benefit of manufacturing experience of all types it is desired that certain nucleus tonnages should be envisaged; these are detailed hereinafter.

4. There should be three sales areas, i.e., South America, Europe, and Asia. The party with the existing trained sales organization shall operate in each of the three areas. Thus du Pont will function in Europe and South America and I.C.I. in Asia.

5. The party securing an order shall pay commission to the other party for assistance rendered.

6. It is understood that neither party shall do anything hereunder incompatible with the laws or desires of its respective government.

7. This memorandum supersedes others of earlier date dealing with similar products.

*B. Products (naval and military types).—*

1. Nitrocellulose powders.

2. Cordites.

3. Other nitroglycerine powders.

4. Trinitrotoluene.

5. Other simple and combined explosives for naval and military uses.

6. Nitrocellulose for manufacture of propellant powders.

7. Other chemical accessories for use in manufacture of naval and military powders; e.g., centralite, diphenylamine, etc.

*C. Definition of sales areas.—*

1. *South America* will comprise all countries in the South American Continent, including Cuba, Haiti, Santo Domingo, Mexico, and Central America.

2. *Europe* will include all countries currently known as "Europe" with addition of Turkey and Persia.

3. *Asia* will cover all countries concurrently known as "Asia" except Turkey and Persia.

4. It is understood that the United States, its possessions and dependencies, as well as the British Empire, its possessions and dependencies, are specifically excluded from the scope of this agreement.

*D. Organization.—*

Both companies wish to adopt the most efficient method of promoting sales that can be devised.

It is believed that this will be accomplished by having sales handled as much as possible by persons entirely devoted to and experienced in military sales.

Therefore, it is proposed to:

Divide the sales area as shown in section C.

Have available for each territory a salesman, assisted if necessary, entirely devoted to the sales of these products.

The duties of these salesmen to be:

1. To study carefully the field and make recommendations as to the course of policy to be followed in his field. These recommendations to be submitted to the smokeless powder department of E. I. du Pont de Nemours and the cordite department of I.C.I. for approval. When approved, the execution will be the responsibility of the salesman.

2. The selection and proposal of agents.

3. Once the agents are chosen, to direct them as to their efforts; to supply them with prices, specifications, and the special information necessary for this work; to prepare all contracts with the customers and sign them when so authorized; to obtain for these agents the assistance of specialists if required; to attend trials and adjudications; to study all new developments of the military business, and particularly in the firearms business. In connection with the agents, suggest new studies and new developments in powder which may lead to sales.

4. To obtain direct from the smokeless powder department of E. I. du Pont de Nemours, in Wilmington, and from the cordite section of I.C.I. of London, prices, specifications, technical information, and the assistance of specialists when required.

5. To report to the smokeless powder department of E. I. du Pont de Nemours, Wilmington, and to the cordite section of I.C.I. all the activities of the agents; of competitions and all military developments in the customer's country. All prices and trade information on military propellants and explosives and such other military materials as may be possible.

6. To decide as to which company's products to offer in a certain case, bearing in mind the chances of sales, and the customer's desire for the products of one or the other company. In each territory, the salesman in charge must make this decision in view of his close knowledge of the field. While the decision of the salesman will have to be followed in this matter, the smokeless powder department of E. I. du Pont de Nemours and the cordite department of I.C.I. reserve the right to change the salesman if his decisions are not considered by them to be in the best interest of the two companies.

7. I.C.I. will be the normal source for cordite of all types; and where possible will supply nitrocellulose powders up to a maximum of 300 tons per annum for progressive manufacturing experience.

8. Du Pont will furnish nitrocellulose powders; and where possible will make cordite to a maximum of 300 tons for manufacturing experience.

The smokeless powder department of E. I. du Pont de Nemours & Company and the cordite department of I.C.I. are to take the responsibility for—

- (a) The establishment of sales prices.
- (b) The approval of the plan of activities in the territory.
- (c) Specifications.
- (d) Manufacture, inspection, and shipping.
- (e) Credit terms and contractual conditions.
- (f) Providing specialists when necessary.

**E. War clause.**—In case of a war of major proportions, where it is found by one or both parties that the continuance of the agreement is an embarrassment, either politically or commercially, the agreement may be suspended during such an emergency by mutual consent.

**F. Duration.**—To end of calendar year 1934; automatically renewable unless six months' prior notice be given.

10th, October, 1932,

. New York, N.Y.

[Memorandum]

EXPLANATORY NOTES ON SALES ARRANGEMENT (G.W.) DATED 10TH OCTOBER 1932, FOR MILITARY EXPLOSIVES

**Para. A.2.**—The salesmen are to give absolutely equal prominence to the products of both companies, as it is desired that both shall have an opportunity of manufacturing all types of military powders and explosives in demand, the quality of both being equal. Should a purchaser, however, insist on preferring the manufacture of one of the companies it will be unwise to oppose freedom of choice, as the first essential is to get business and, if possible, a greater proportion than hitherto of the trade available.

**Para. A.4.**—du Pont will bear the expense of sales organization in South and Central America and all retaining fees paid to agents for the sale of military explosives other than commission on specific sales, which will be paid by the company taking the order. I.C.I. will do likewise for Asia, subject to

Mr. Fowler's report on his investigations in China. As regards the cost of European representation, I.C.I. will contribute 50% of the expense but not more than £2,500 per annum. Du Pont being responsible for retaining fees paid to agents.

*Paras. B.2, B.3, and D.7 and 8.*—I.C.I. will be the source of supply for cordite mark 1, cordite M.D., C.S.P.2, Ardeer cordite and ballistite to be dealt with under this agreement.

In the event of any change in Governments' requirements which may have the effect of substantially altering the types of powder in demand, it is recognized by the parties that discussion should take place with a view to so adjusting the agreement as to bring about an equitable division of trade.

*Para. B.7.*—Du Pont may, if called upon, offer powder made up into charges, but in case of an inquiry for I.C.I. material made up into charges that company must be consulted as to procedure so as to take care of certain domestic arrangements.

Bearing in mind the desire of both parties to discourage as much as possible the erection of factories, it is understood that no project of this kind will be undertaken in South America and China without prior consultation and mutual agreement depending upon circumstances.

In Europe there will also be collaboration between the parties before any factory scheme is proceeded with by either party and it is understood that due to their various commitments in Europe no factory scheme shall be carried out without the express agreement of I.C.I.

*Para. C. 2.*—As regards Spain, Portugal, and Czechoslovakia, it is clearly understood that there is to be no sales activity without prior consent of I.C.I. so as to take into consideration their relations with the Union Espanola de Explosivos and the Czechoslovak Explosives Company.

*Para. D. 1.*—The salesmen for Europe and South America should report any information and particulars of enquiries for military small arms ammunition and components to I.C.I. without being concerned directly in that business.

In order to avoid any possibility of their disturbing the general policy of either of the parties, the salesmen will consult fully with the authorized representatives of the parties in their respective territories.

*Para. D. 2.*—While it will be the duty of the salesmen to select and propose agents, the final decision for the appointment of such agents must rest with the principals of the two companies, and the agent shall be given, as and where necessary, separate contracts from both companies. Quotations and contracts shall, where possible, be signed by the company offering.

LONDON, 1st February 1933.

It is agreed by and between E. I. du Pont de Nemours and Company, a corporation organized and existing under the laws of the State of Delaware, United States of America, and Imperial Chemical Industries Limited, a corporation organized and existing under the laws of Great Britain, that the agreement entered into between them on the first day of July 1928 relative to sales in certain countries of certain products for naval and military purposes, be and the same hereby is terminated and cancelled, this tenth day of October 1932.

E. I. DU PONT DE NEMOURS AND COMPANY,

By -----

Attest :

-----

IMPERIAL CHEMICAL INDUSTRIES, LIMITED,

By -----

Attest :

-----



## EXHIBIT No. 466

\* 135-Nobel Indus Ltd.  
 135-Nobel Indus Ltd.  
 (Special)  
 Ms-124  
 Ms-59  
 APRIL 8, 1932.

Mr. A. FELIX DU PONT,  
*General Manager.*

## COMPETITION IN THE FOREIGN MILITARY FIELD

I.C.I. and du Pont are meeting a considerable growth of competition in foreign military markets. Our competitors are rapidly improving the quality of their products and likewise there has been serious price cutting on the part of Bofors and the Italians.

In addition because of the flux of the political situation in Europe there is danger from possible new groupings of competitors.

To meet the above situation we feel we must stand very closely with I.C.I. and organize with them a strong effort to deal with this situation. This naturally brings up the point as to whether or not our present agreements with I.C.I. place the two companies in a position to meet the changing situation.

The attached memorandum, prepared by Col. W. N. Taylor, indicates that the present European agreement is not in fact as originally planned and may eventually work out to the disadvantage of both companies, particularly Du Pont.

The European agreement was based on a division of business with penalties for over-proportionate sales.

As a contrast to this type of agreement we have in South America and in Asia an agreement based on payments of commissions for mutual assistance.

We have no agreements for either Africa or Central America.

If some arrangement can be made by which the position of I.C.I. and Du Pont will be strengthened the two companies will then be in a much stronger position to handle increasing competition when it develops.

We believe that this is an opportune time to take up with I.C.I. the whole world competitive situation and try to arrive with them at a better solution.

We have talked this matter over with Mr. W. R. Swint as to any possible effect these conversations with I.C.I. may have on the relations of the two companies. To this he can see no objection.

I am, therefore, recommending that Military Sales be authorized to discuss the matter at length with I.C.I. to see if closer and better cooperation can be developed. If it should come about that any modification of existing agreements or that new agreements are necessary, we will then bring the Foreign Relations Department into the negotiations.

K. K. V. CASEY, *Director.*

KKVC:MH

[Memorandum on Paris Office Smokeless Powder Department]

## THE SITUATION TO DATE

During the last ten years the gross sales of the Paris office have averaged \$401,000 a year. Cost, freight and insurance have been \$239,000 a year, average. The sales expenses of the Paris office, including odd charges of somewhat over \$1,000 charged to our account from the Wilmington office, have averaged \$26,400 a year and the net average benefit per year for the last ten years has been \$135,000. To date the total net profits of the Paris office, including cost and Paris office sales expenses, have been \$1,412,801.54.

We have averaged during these ten years around 700,000 pounds a year and there is no reason to suppose that during the next ten years we could not average the same quantities.

The business obtained during the last ten years might all be described as exceptional business and has appeared unexpectedly, and at irregular intervals.

\* Pencil markings.

In this territory all the Governments to which we sell, with the exception of the very small ones, have their own powder factories and manufacture their own current requirements.

The nonmanufacturing countries buy annually altogether about 150,000 pounds and the private loading companies, Kynoch, Fabrique Nationale, Dortrecht, Seller and Bellet about 150,000 pounds.

Nevertheless, there are other opportunities. Each of these countries has a large program for war reserve and in these cases they wish exceptionally good powder, cheap prices and quick delivery for large orders and long time credits on which to buy. In this field Du Pont can successfully compete.

The programs for war reserve in this territory, known to be in contemplation, are about 25,000,000 pounds. We have under discussion at this moment the following:

	<i>Lbs.</i>
Esthonia -----	650, 000
Latvia -----	700, 000
Iceland -----	8, 800, 000

We could normally expect to receive, over the next ten years, about one-third of these war reserve orders, which would average us around 800,000 pounds a year.

There is no reason to suppose that in the future there will not develop sales opportunities similar to those of the past. These will depend on the amount of money available and on the development of collateral equipment.

There is also to be considered the usefulness of the Paris office and its agents in the case of an outbreak of war.

War is of uncertain duration; profiting by it to the utmost means getting orders at the earliest possible date.

The war of 1914-18 had the peculiarity of being a simultaneous outburst involving nearly all of Europe in a very short time and forcing an immediate need for powder production simultaneously by all these countries.

The next war will probably not be a general outburst. The political grouping is very different, and the present mobilization plans suggest a gradual development, one country entering into war after another.

There will be an immediate rush to du Pont by the first countries entering into war but by these countries only. The neutral countries will begin to lay in supplies. However, they will expect to be sold to, and the contracts will be made in Europe. Hence the necessity of having an organization able to sell in the purchasing country and in several countries at once. Otherwise du Pont will be the last to receive orders and only after the European competitors have been filled up. Hence a serious loss of profit.

It appears reasonable to consider that the European military powder field is a territory to be exploited until we have considerably more adverse experience than we have at present.

What are the requirements for the maintenance of our sales in this territory?

1. The I.C.I.-du Pont military sales agreement. This agreement recognizes du Pont's rights to sell within the territory. Without this agreement I.C.I. would undoubtedly contest our rights in this field.

This agreement allowed I.C.I. to profit from our sales experience and our foreign organization in return for not contesting our rights to the European field. The agreement is at present working satisfactorily, as our Paris office sells for I.C.I. probably more than they would sell themselves and I.C.I. is satisfied with its work. A considerable part of the Paris office's time is devoted to I.C.I. work.

On this occasion it is to be noted that I.C.I. in their territory has not made a single sale of any du Pont commodity since making this agreement and have only offered du Pont material in one instance.

Any method of working this territory must be so arranged as to maintain the du Pont rights under this agreement.

2. The maintenance of a good agent in each country. One familiar with our business and interested enough to continually work by good times and by bad times and supported by us so that our customer understands that they cannot go around him, which is necessary in keeping all the different territories active at once. If the agent lets up this pressure, the particular type of exceptional

situation on which our business is based will be lost through oversights, and we are only able to seize these occasions by constant vigilance.

3. An organization capable of selecting agents and keeping them working at all times and not just waiting for what will happen.

4. Sufficient technical oversight by du Pont to follow all the technical and tactical developments in Europe and to keep up to the customer's continually changing requirements and competitive developments.

5. A knowledge of the European credit situation sufficient to insure payment and to profit by the employment of du Pont's superior financial structure over that of our competitors.

6. The actual drawing up of contracts must be done by an authorized Du Pont employee, who knows the policy of the company and who can decide definitely on the spot the various phases of the bargaining that goes on in the making of a European contract.

7. A du Pont employee to handle complaints. If complaints are not handled promptly, the customers immediately drop the seller, so complaints should not be allowed to accumulate. Someone residing in Europe must visit the customers immediately. This need not be a technical man, the principal requirement being tact.

8. du Pont employee capable of handling and following the question of agreement with competitors, permanent or temporary.

Attached is a letter written to the agent by the Paris office in December 1931 and the agent's answers. Note that Birkman took the letter to mean that we contemplated giving up the office.

#### PRESENT DEVELOPMENTS

So far this report covers the situation of the Paris office, provided all external conditions remain approximately the same.

However, these conditions are changing.

The basis of our continuing in Europe is the I.C.I.-du Pont military sales agreement. This is working out differently from what was expected. As originally planned it was expected to result in a division of sales over the whole territory, but, in fact, it has developed into a division of territory.

The contract left the development of each territory in the hands of the manager of the respective sales offices and in the case of the du Pont office they have kept I.C.I. active in their field but the I.C.I. office has not kept du Pont active in its field. They never offer du Pont products and they never invite the du Pont employees to visit the territory or know the agents.

To all attempts made to change this situation from Paris office, they reply that there is no sale of nitrocellulose powder in that territory and it is the condition of the territory and not any ill will on their part that brings about this condition.

The result at this moment is that the du Pont products are unknown in a large part of Europe and du Pont has no direct contacts in these territories. This is the beginning of an evacuation of the European territory and to go unpressed or to diminish our activities would appear to lead inevitably to the territory falling back into I.C.I.'s hands.

Another matter, which is developing, is the improvement in the manufacture of powder in a number of our customers' countries and the possibility of more competition developing. We already have serious price competition on the part of Bofors and in recent adjudications bids are appearing from Muiden in Holland, Coopal in Belgium, Bombrini Parodi in Italy and Zagodzdon in Poland; also the Finnish factory is beginning to offer in the Baltic States.

The developments which are now taking place in Europe are also tending towards regional trading agreements and, if the proposed Danubian Custom Union develops, the Czechoslovakia Explosives Industries, Limited, will undoubtedly claim priority in that territory. In this company I.C.I. are interested to approximately 35%. They also have interests in a Spanish factory, in a factory in Roumania and indirect interest in Italy.

It was largely to protect these interests that they entered into this agreement with us claiming the Baltic and Mediterranean countries for themselves.

Under our present agreement, if any of these factories grow strong enough to handle the export in the other states in the territory, it is possible I.C.I.

will make an arrangement with them and give them the rights in return for other concessions. Hence there is a considerable pressure from all circumstances to push us out of Europe.

Therefore, we may be forced to examine whether or not we should get out or whether or not we should make a struggle to develop the situation to our advantage.

On the other hand du Pont is expanding into South America and Asia and there are other fields of interest such as Central America and Africa and it does not seem quite consistent for us to allow ourselves to be pushed out of Europe, which is a large and potential military market if we desire to extend our export sales.

It would seem that the time was ripe for a discussion with I.C.I. on this agreement, on the basis of the rising competition, to see if a new agreement could be developed either for Europe alone or including the other territories whereby to meet this competition, to find some way of working closer and closer together and forming a strong group which would be able to deal with competitors to a series of temporary arrangements or otherwise and to form an organization sufficiently elastic to meet the constantly changing conditions.

It would appear that either we must face the gradual evacuation of Europe or take steps to consolidate the whole position before competition and new developments overcome us.

We have nothing in the facts before us that would justify us in accepting "death" without a struggle and every reason to think we might successfully work out a more advantageous situation than in the past.

#### SUGGESTIONS FOR DEVELOPMENT

In view of the probability of a Danubian confederation and in view of I.C.I.'s stock holdings in powder companies in their territory, a reconsideration of our European agreement will shortly be forced upon us.

This will undoubtedly start a reconsideration of all our I.C.I. export military sales agreements.

In such a situation we would desire to hold the directing position. Therefore, we should begin at once to prepare our plans.

Therefore, recommend that during 1932 we develop with I.C.I. a suitable world arrangement.

The following points to be considered:

1. To better utilize the present facilities of the two companies and economize, where possible, the duplication of effort.

2. Keeping both companies in touch with the entire field.

3. To assure that there is no possible market without a constant sales effort.

4. To present a united front to competitors. This should be well under way before competition gets stronger or better organized and should be the obstacle against which our competitors must struggle, rather than letting the competitors be the obstacle against whom we struggle. The competition is the same in all the export markets.

5. To be in a position to restrict the activities of the local factories in which I.C.I. has stock interest to their original national territory or to deal suitably with their expansion in case of new political territorial arrangements.

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EXHIBIT No. 467

PO-1058

NOVEMBER 30, 1932.

A. C. MAJOR, ESQ.,

*Imperial Chemical Industries, Imperial Chemical House,*

*Millbank, London S.W. 1.*

DEAR SIR: Regarding the agreement on military materials between Imperial Chemical Industries, Limited, and E. I. du Pont de Nemours & Co., I believe I am right in stating that the memorandum prepared by Mr. White, with some corrections made by Major Casey, and further corrections made by Mr. Major, is considered by both sides to be satisfactory and a sufficient text for the general agreement between the two companies.

I have received, however, a cable from Wilmington with regard to the above, stating that:

"It is important that a war clause be included in the agreement providing for some means of suspending scope of the agreement in any or all territories in the event of the development of hostilities of major proportions."

I, therefore, suggest that an additional clause be added to the White memorandum as follows:

"In case of a war of major proportions, where it is found by one or both parties that the continuance of this agreement is an embarrassment, either politically or commercially, the agreement be suspended during such an emergency by mutual consent."

I understand that the details of how the above agreement is to be put into execution are to be arranged between the foreign dept. of Imperial Chemical Industries and the Paris office of E. I. du Pont de Nemours, and that these details are those mentioned in your memorandum of Sept. 7, under the paragraph entitled "Plan of Execution."

In referring to that document I note that the fact that there should be three sales areas is already covered in the general agreement. It is also mentioned in the document that the du Pont Co. will function in Europe and South America and Imperial Chemical Industries in Asia. Therefore, I propose that the "plan of execution" be covered by a memorandum as follows:

The salesman for Europe will be the manager of the du Pont de Nemours Paris office.

In the execution of his duties he will act in consultation with the manager of the Paris office of Imperial Chemical Industries, who must be kept informed of the activities of this territory in detail and who shall have the duty of coordinating the work of the salesman with the general military explosives and propellant sales policy of Imperial Chemical Industries on the Continent of Europe.

The salesman should, without taking direct part in the sales of military cartridges, report to the manager of the Paris office of Imperial Chemical Industries any information he may obtain along these lines and assist the cartridge salesman in every way in his power.

Imperial Chemical Industries to pay an agreed part (not exceeding half) of the expense of the Paris office, such part not to exceed the sum of £2,500 per annum including traveling expenses, unless with the special consent of Imperial Chemical Industries.

The salesman for South America will be Mr. N. E. Bates, Jr. The du Pont Co. shall pay all expenses covering his work in South America.

The salesman for Asia is to be determined by Imperial Chemical Industries, who will, upon having obtained the necessary information, give the du Pont Co. the name of the salesman and the address where all correspondence should be sent. Imperial Chemical Industries shall pay all expenses covering his work in Asia.

That current questions of cooperation that may arise from day to day shall be settled between the manager of the foreign dept. of Imperial Chemical Industries, at London, and the manager of the Paris office of E. I. du Pont de Nemours who will act as the representative of the military sales dept. of E. I. du Pont de Nemours & Co.

That the question of reports and letters of instructions to the salesman shall be prepared as soon as possible by the manager of the foreign dept. of Imperial Chemical Industries, London, and the manager of the Paris office of E. I. du Pont de Nemours, and when finally determined upon, shall be sent out by each company to their own employees concerned in this matter, setting down in detail their duties and explaining clearly what is expected from them.

Each company will inform their respective interested foreign representative of the changes in the working of the sales arrangements and Imperial Chemical Industries, in the case of South America and Europe, will give the above mentioned joint salesmen, proper credentials to permit them to begin work, and the Du Pont Co. will give the proper credentials to the salesman for Asia.

If the above is agreed upon by you, it appears to me that we can then set to work without any further discussion as to principles.

Very truly yours,

WILLIAM N. TAYLOR.

WNT/MS.

## EXHIBIT No. 468

## TRANSLATION

(11-11-32)

\*135 Nobel Indus.

Ms-80-A

Ms-2-A

135 (Special)

Cipher Word	To Paris Office	Cipher Word	To Paris Office
ADLEJ	No. 838	ALGRE	South America
KOAWJ	Send the following To	MANMU	Stop
ACOCK	Col. W. N. Taylor	ACCEN	We accept
MOOLH	By Telephone	EBYSZ	each other
MANMU	Stop	ELHOW	figures
GCIW	Replying to your Letter	IWIDR	without question
AHOQV	No. 2511	MANMU	Stop
EWIIA	If	IYBM	Payments
ELGYH	50/50	AOFXO	are
AORVA	Arrangement	BEAUF	called
IAZHI	On	BYADI	Commissions
JYWYZ	All Sales	AMCOG	and
DBASY	decided upon	GYRVE	no mention should be made of
EGWAN	For Europe	ISLAI	profits
MUMOT	There is	AIEKV	in agreement
HUWBA	No occasion for	MANMU	Stop
KOYMA	Setting up	ANDOH	Any
BSAYX	A clause providing	BRUWA	Chance
EVIWN	how	KOYMA	setting up
ISLAI	profits	GYVX	Methods of
AOJMZ	Are To Be	DOOYD	determination
DOQIL	determined	HUZY	of
MANMU	Stop	BYADI	commissions
EYJC	In The	EJQUQ	extremely
GYNNA	Meeting	CYWE	dangerous
ODKUH	With	AXCBE	both of us
YDATG	H. J. Mitchell	MANMU	Stop
FOZIA	It was	AIFSD	This agreement
AHZFU	agreed that	ATXWA	based on
OAKWG	we would	HIEP	mutual
DYFUS	do as	CENCY	confidence
OAHXK	We had	AMKLU	and should be
HPIZ	in the past	LIOCS	so
EYHNJ	in	JALAO	regarded

\*Pencil markings.

## EXHIBIT No. 469

135-Nobel (Special)

E. I. DU PONT DE NEMOURS & Co.,  
DYESTUFFS DEPARTMENT, SALES DIVISION,  
No. SW-MS-35, December 29, 1932.

Private &amp; confidential.

DYESTUFFS DEPARTMENT,  
Wilmington, Delaware.

Enclosed herewith please find (1st mail only) original signed copy of a report covering I.C.I.-du Pont cooperation for the sale of military explosives in China. An unsigned copy is also enclosed and another one will follow by second mail. Another signed copy is kept in the Shanghai Military Explosives file.

Very few comments are necessary as I already forwarded you my views on the subject by last mail. You will note in paragraph two that cables on behalf of du Pont will presumably be for our account. I take it that you are agreeable to this.

Please note the fifth paragraph of page one dealing with the arrangements made between I.C.I. and the Jardine Engineering Corporation. You will note that I.C.I. do not propose to change their mode of distribution through Jardine whom they consider entirely satisfactory. You will also note that they desire to exchange the present monthly arrangement for one covering a period of 6 months to 1 year. I do not know how this will appeal to you but I take it that you will have no objection. Regarding the Vickers agency, I.C.I. pointed out to me that they are themselves manufacturers of finished ammunition through the firm of Kynoch. This means that Jardine is in the advantageous position of playing off Kynoch against Vickers but, as mentioned in the report, I.C.I. and Vickers have a close working arrangement so that no difficulties should arise. You will also note that I.C.I. expect Jardine not to get any new competitive agency without the consent of I.C.I. and du Pont. This should automatically avoid any future difficulties.

You will note also paragraph one of page two in which the advantages of operating through Jardine are being stressed. The reason therefor is that I was at first a little bit skeptical about the efficiency of Jardine's which as you know is an old established and very wealthy firm having a large foreign staff. It was my feeling that Jardine's was a rather "expensive" firm which is known through China as the "princely house of Ewo." On the other hand if I.C.I. who have the experience are satisfied that the services of Jardine's are all they should be, I have no objection. Mr. Fowler was particularly insistent that the large foreign staff of Jardine's made it imperative for them to work at top speed in order to cover their overhead and make profits, an argument which appears sound.

You will also note the third paragraph of page two in which the possibility of going to Nanking to introduce the I.C.I. and Jardine people was considered. I discussed the matter with C. Y. Wang who feels that Jardine's ought to have sufficient contacts with Nanking but we finally decided that if I.C.I. feel that such a trip was of interest we shall be very glad to take it.

You will also note that the question of the Jardine Engineering Corporation being guaranteed by Jardine, Matheson & Co. was discussed. This seems to be somewhat far-fetched but after all essentially sound.

After having looked into the report you will doubtlessly communicate with I.C.I.'s headquarters. When you do this please keep in mind that their own copies of the report will take a week or 10 days more to reach London than this letter.

Please let me know if the arrangements made meet with your approval.

SHANGHAI DYESTUFFS OFFICE,

Signed F. A. M. NOELTING.

*Director of Sales for China.*

FAMN:AL  
enclos.

*I.C.I.-du Pont cooperation for sales of military powders and propellants in China*  
China

As arranged in London and in accordance with the cable and memorandum sent to Mr. Fowler while in Japan, on arrival in China meetings were immediately held with Dr. F. A. M. Noelting on the 8th December and with Mr. W. H. Way of Jardine Engineering Corporation Ltd. on the 9th December in order to discuss the best methods for cooperation between I.C.I. and Dupont in China for the sales of military powders and propellants. Dr. Noelting had received from his principals prior to the meeting the same memorandum as was sent to Mr. Fowler and was fully conversant with the suggested new arrangements.

The present I.C.I. arrangements in China are that the Jardine Engineering Corporation are the agents and obtain contracts and owing to their exceptional position with regard to contact with the Government authorities, they are remarkably well placed to obtain the business. If enquiries are received by I.C.I. (China) these are passed on to the J.E.C. I.C.I. (China), however, act as "go-betweens" between the J.E.C. and I.C.I. London and the arrangement is that the 7½% commission is divided, 5% to the J.E.C. and 2½% to I.C.I. (China). This commission is reduced in certain circumstances in order to obtain orders where it is necessary to cut the price. Cable charges are all for London's account, and in the following proposals cables on behalf of Duponts would presumably be for the account of Wilmington.

Duponts have no separate organization in China for the sale of explosives, orders having been secured by Dr. Noelting himself and his Chinese manager, Mr. C. Y. Wang. The latter is an American-trained Chinese and though a dyes technologist and salesman without special experience of munitions business, is a capable man who has now acquired considerable knowledge of explosives. Wang also has good contact with Government authorities and owing to Duponts' dyestuffs selling organization in China having been understaffed by Americans, Wang has for some period been placed in a position of considerable responsibility.

It was pointed out to Dr. Noelting that the J.E.C. has given every satisfaction to us here in the handling of the munitions business in the past and further that after discussion with the board of I.C.I. (China) it had been decided that it was desirable to continue with the J.E.C. and that better results would be

thus achieved than if any change took place, such as the munitions business being taken over entirely by I.C.I. (China).

Another point which would render any change from the present methods undesirable is that in the event of the I.C.I. agency being withdrawn from the J.E.C. it is probable they would retaliate by taking the agency for some competitor, such as Bofors, who are the greatest competitors of both I.C.I. and du Pont in China. Bofors have already some time ago made tentative approach to the J.E.C. regarding giving J.E.C. the agency for their products, but without success, as J.E.C. turned down the proposal. In any new arrangement to be made with J.E.C. it would be advisable to give a longer period of agreement than the present monthly arrangement, say for six months or one year, and to make a condition that J.E.C. would not take on any new agency for competitive products without the consent of I.C.I. and Duponts. The reason for saying "new" agency is that J.E.C. hold the agency for Vickers Armstrongs, and though this is not competitive except for cartridges, and I.C.I. and Vickers have close working arrangements, it is possible that a clause to prohibit any competitive agency being handled by J.E.C. might cause difficulties if it were attempted to obtain this.

Bearing in mind all these facts Dr. Noelting was informed that it is the opinion of I.C.I. representatives in China that the most desirable arrangements for the cooperation between I.C.I. and du Pont would be for the J.E.C. to handle the combined sales of I.C.I. and du Pont in China.

Dr. Noelting has not sufficient knowledge of the J.E.C. to be able to form a personal opinion as to whether they are suitably placed to take over the combined sales of the two companies, but in view of the fact that the I.C.I. representatives are of the opinion that no change is desirable and furthermore are more than satisfied with the service being rendered by the J.E.C. Dr. Noelting is prepared to abide by the recommendations of the I.C.I. representatives which are based on past experience, and in all the circumstances Dr. Noelting agreed that the best arrangements for the cooperation between I.C.I. and du Pont in China were for Jardines to take over the agency of du Ponts and for I.C.I. (China) to act for du Ponts as "go-betweens" in a similar way as they are acting now for I.C.I.

This agreement having been reached, discussion took place as to whether various individuals in China could be utilized under the new regime to any advantage. It was agreed that Mr. Montague-Smith of I.C.I. (China) would be best placed to act as salesman for China in accordance with the plan laid down in the minutes of the meeting held in London on September 7, 1932. It might be advisable for Smith to have available expert technical assistance. Dr. Noelting indicated that so long as he remained in China he would always be glad to be called upon in a consultative capacity. Dr. Noelting was asked what his opinion was regarding Mr. de Fremery and whether de Fremery could be of use either in a technical or influential capacity. The opinion of Smith regarding de Fremery's usefulness is not too favourable as he considers that de Fremery has little or no say in the matter as to which firm should or should not get business and is only employed in the capacity of technical advisor to the Nanking Government. Dr. Noelting's opinion was that Mr. de Fremery was a clever technical man and very conscientious worker but he was unable to state whether de Fremery is in a position to influence business. The question of paying a retaining fee to de Fremery with a view to obtaining his assistance in aiding the joint interests of I.C.I. and du Ponts was considered and while it was admitted that it might be advantageous to take this step it was decided to make further enquiries about him before making any definite approach.

The possibility of obtaining useful assistance from the contact already obtained by Wang was considered. It is quite possible that Wang might be able to introduce Jardines and Smith to influential people in Nanking now unknown to them but it was pointed out that as Jardines contact with Nanking is the best possible one, it is more than probable that Wang would not be able to introduce Jardines to any new point of contact. On the other hand, in order to prevent any possibility of Wang prejudicing the interests of I.C.I. and du Ponts owing to objecting to the new arrangement it was agreed that serious consideration should be given to the desirability of Wang accompanying Dr. Noelting, Jardines's representative and Smith to Nanking and explaining the new arrangement to the individuals with whom du Pont has contact in Nanking, namely, that Jardines will in future be handling du Pont's sales and that



du Ponts would be glad if the individuals they know should continue friendly relations with Jardines.

At the meeting with Mr. Way of the J.E.C., the situation was fully explained and Mr. Way was asked whether J.E.C. would willingly handle du Ponts' explosives in addition and on similar lines to I.C.I.'s explosives. Mr. Way replied that his firm would be very glad to accept this proposal.

The question of terms was raised and it was agreed with Mr. Way that it was desirable to leave this question over for the time being, as recommendations would have to be put to London and then forwarded to du Ponts for their consideration. The J.E.C. are a separate concern from Jardine, Matheson & Co. and Mr. Way was asked as to whether Jardine, Matheson would be prepared to guarantee J.E.C. from a financial point of view, and it was ascertained that in all probability such a guarantee could be forthcoming. It is very doubtful if, in the event of J.E.C. failing Jardines would allow anybody to suffer but it is considered that it would be advisable to obtain a guarantee and at this juncture this could probably be done without fear of any offence being caused to J.E.C.

To sum up, the agreed recommendation of the I.C.I. representative and of Dr. Noelting is that du Pont's business in China should be handled by J.E.C. and by I.C.I. (China) in exactly the same way as the present I.C.I. sales in China are being conducted.

(Signed) PERCY FOWLER,  
D. M. STEPHENS,  
F. A. M. NOELTING,  
Shanghai, December 19, 1932.

DMS/EL.

#### EXHIBIT No. 470

T-2564

\* MS-80-A  
MS-140

JANUARY 12TH, 1933.

Major K. K. V. CASEY,  
E. I. du Pont de Nemours & Co.,  
Wilmington, Delaware.

DEAR SIR:

*Review of agents' contracts now in force in the territory of the Paris office of  
Smokeless Powder Dept.*

#### BELGIUM

Mr. Leon d'Haeyère, II rue des Chartreux, Brussels.

*du Pont agency contract, dated December 30th, 1932.*

*Commission:* 5% on all orders of not over 300 tons. If there is an order for more than 300 tons, the amount of commission is to be agreed upon at the time of quotation.

*Cancellation:* Upon six months' notice by the agent. Immediate cancellation by the company. Agent then receives 1½% on all sales during the one succeeding year, not to exceed \$15,000.

*I.C.I.:* By letter of December 18, 1926, Paris office advised d'Haeyère that the du Pont Co. had become the agent for I.C.I. military powders and explosives in Belgium, and that he, as agent for du Pont, would be called upon to offer I.C.I. products for sale. In 1926 we only had a verbal arrangement with the agent, whereby the question of commissions was to be decided on each specific case. I.C.I. have verbal cognizance of the terms under which we work with d'Haeyère.

By letter dated Jan. 15, 1929, addressed to the Belgian Ministry of War, I.C.I. advised that du Pont are their authorized sales agent in Belgium for propellant powders TNT, and NC, and that consequently du Pont, through their representative, Mr. Leon d'Haeyère, are fully authorized to conduct negotiations on behalf of I.C.I.

\* Pencil markings.

## ESTONIA

Mr. G. Burvikov, Valdemara 1 elā 33, RIGA, Latvia.

*du Pont agency contract* dated July 8th, 1929.

*Commission:* 5% on first \$500,000, 2% on next \$1,000,000, 1% on next \$1,500,000; provided, however, that in the event that the total amount of commissions payable in any one year shall exceed the sum of \$50,000, a special agreement as to the percentages during the year shall be made.

By addendum, dated July 8, 1929, to agency agreement, we agreed to pay the agent a commission of 7% instead of 5% on the first \$500,000 of any one contract or order during 2 years from date of agent's acceptance of terms of agency agreement.

*Cancellation:* This agreement to go into effect immediately on receipt of agent's written acceptance of the terms and conditions, and shall continue in force until terminated by six months' written notice from either party to the other.

*I.C.I.:* *du Pont* contract of July 8, 1928, states: "Whereas we have the exclusive sales rights in Estonia for the military propellants and explosives manufactured by I.C.I., it is agreed that this agreement shall cover sales in Estonia of such products manufactured by I.C.I. under the same conditions as above set forth so long as we shall continue to have exclusive sales rights in Estonia for the above-mentioned products manufactured by I.C.I. We agree to notify you immediately upon the occurrence of any change in the agreement between I.C.I. and us as aforesaid."

I.C.I. were given a copy of this contract and by letter of Sept. 23rd, 1929, acknowledged receipt and declared themselves cognizant of the terms.

## HOLLAND &amp; ITS COLONIES

Mr. P. F. T. Van Veen, 72 Zeestraat, The Hague, Holland.

*du Pont agency contract:* Mr. Van Veen was appointed agent for both firms by letter dated July 20, 1927. Contract formerly with the company "Overzee Handelmaatsappij" for which Van Veen was director. Overzee was liquidated in 1927, and by letter of July 20, 1927, we agreed to continue with Van Veen as agent for Du Pont and Nobel; no conditions mentioned.

*Commission:* We have agreed to give 7% commission on all orders when prices permit.

*Cancellation:* Letter of July 20, 1927, makes no mention of cancellation.

*I.C.I.:* The letter of July 20th, 1927, and verbal arrangement include military powders and explosives manufactured by I.C.I. Reported to I.C.I. by letter of July 20, 1927. I.C.I. acknowledged by letter of July 22nd, 1927.

## LATVIA

Mr. P. Birkman, Maskavas iela 64, Riga, Latvia.

*du Pont Agency Contract.* March 16th, 1925.

*Commission:* 5% on each contract or order unless otherwise agreed in specific cases, provided that in case the total amount of commissions in any one year would exceed \$50,000, a new agreement must be made.

*Cancellation:* Either party of this agreement may terminate this agreement after the expiration of six months from the date when he shall have given notice by registered letter of such intention to the other party.

*I.C.I.:* Letter of Nov. 18, 1926, from du Pont to Birkman, states: "You, as du Pont agent, are hereby authorized to offer military propellants and explosives manufactured by Nobel Industries, Ltd.". Letter of Nov. 19, 1926, states: "Your commission will be the same as for us." Reported to I.C.I. by letter of Nov. 19th, 1926; acknowledged by I.C.I. by letter dated Nov. 22nd, 1926.

## LITHUANIA

Capt. Martinkus, % Graham AutomobiliuAtstovybe, Duonelaicio 42, Pasto dezute No. 305, Kaunas, Lithuania.

*du Pont Agency Contract:* Letter dated May 13th, 1932.

*Commission:* 2½% on sale of one order only which was being negotiated at that time, but did not develop.

*Cancellation:* Letter of May 13th, 1932, makes no mention of cancellation. Appointment on trial.

**I.C.I.:** This arrangement agreed to verbally by I.C.I. Trial Agency granted for both du Pont and I.C.I. Reported to Mr. L. W. B. Smith by letter of May 14th 1932.

## POLAND

Mr. Stefan Klawe, 10 Plac. Sw. Aleksandra, Warsaw.

**du Pont Agency Contract.** Nov. 7th, 1922.

**Commission:** Contract of Nov. 7th, 1922: 5% on first \$50,000, 2% on next \$100,000, 1½% on next \$100,000. It was later agreed to pay 7% commission.

**Cancellation:** This contract to be subject to six months' notice of discontinuance by either party.

**I.C.I.:** Letter of Nov. 4, 1926, from du Pont to Klawe, states: "It has been decided that you will take over the joint agency in Poland." Letter of Nov. 10th 1926, from du Pont to Klawe, states: "Enclosed please find copy of a letter written by Nobel Industries Ltd. to me wherein I, as du Pont's representative am authorized to sell Nobel's military propellants and explosives to the Government of Poland, therefore, you, as representative of du Pont, are authorized to conduct negotiations in Poland on behalf of Nobel." Agency confirmed to Klawe by I.C.I. by letter Nov. 18th 1932.

## SWEDEN

Col. HJ. Schmidt, Engelbrektsgatan 35 B. Stockholm.

**du Pont Agency Contract** dated September 29th, 1924.

**Commission:** Unless otherwise agreed in specific cases: 5% on first \$50,000, 2% on next \$100,000, 1½% on all amounts after the first \$150,000, provided, that in case the total amount of commissions in any one year would exceed \$50,000, a new agreement must be made.

**Cancellation:** Either party may terminate this agreement after the expiration of six months from the date when he shall have given notice in writing of such intention to the other party.

**I.C.I.:** Letter from du Pont to Schmidt of Nov. 1926, advises Schmidt that he as agent for du Pont is authorized agent in Sweden for Nobel Industries, propellant powders, T.N.T., and nitrocotton. Situation reported to I.C.I. Oct. 21st, 1926; acknowledged Nov. 19th, 1926.

## DENMARK &amp; NORWAY

Col. HJ. Schmidt, Engelbrektsgatan 35B, Stockholm.

**du Pont Agency Contract:** Col. Schmidt was appointed du Pont agent by letter dated March 25, 1926.

**Commission:** "We will pay you a commission on all business in these countries received through you or by your help."

**Cancellation:** "We must reserve the right to deal directly, and to later establish an agent of the nationality of the country if the circumstances require it. We will notify you before making any permanent agency agreement."

**I.C.I. Denmark:** Letter of Dec. 11th, 1928, from du Pont to Schmidt, enclosing letter from I.C.I. dated Dec. 7th, 1928, addressed to Schmidt, certifying that he is their authorized agent and fully accredited to conduct negotiations on their behalf for propellant powders, T.N.T., and N.C. Situation reported to I.C.I. Dec. 5th, 1928; acknowledged Dec. 7th, 1928.

**I.C.I. Norway:** I.C.I. have no agency, and have agreed not to sell military products in Norway.

Of the above contracts, all of them seem to me to properly protect the du Pont Company against excessive commission claims in case of war or extremely large orders, except those of Holland and Poland, where we have verbal arrangements which have no proper limitation.

All of them have six months' cancellation clause, except Belgium. However, commissions are limited so that undue commitment cannot arise in the case of Sweden, Norway, Denmark, Estonia, and Latvia. The Lithuanian agency is a temporary one, carrying commitment on one sale only, which did not mature. Lithuania is now open for further consideration.

I am now negotiating new contracts for du Pont with our agents for Holland and Poland, and propose to leave the other contracts as they are.

In every case we have informed the agents, either by writing or verbally, that they will act for I.C.I. under the same conditions as they are now acting

for du Pont. In every case I.C.I. have full cognizance of this fact and of the conditions under which we are working, and have confirmed the fact to each agent that they will act as I.C.I.'s agents.

However, there are no formal contracts covering the conditions of agency passed between I.C.I. and the agents.

The agents all take it as implied that I.C.I. accept the same conditions of agency as those of du Pont, and I.C.I.'s correspondence all tends to confirm this belief.

I propose to go over each of the contracts with I.C.I. and get the matter clear.

Very truly yours,

WILLIAM N. TAYLOR

WNT/MS.

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EXHIBIT No. 471

COPY

(285 Madison Avenue, New York)

IMPERIAL CHEMICAL HOUSE,

Millbank, Westminster, S.W. 1, 4th July 1933.

DEAR MR. WHITE: Mr. Haley, of I.C.I., China, had a talk with me today with reference to the difficulty that the Jardine Engineering Corporation have met in working the new military agreement. They say that it is really a most difficult thing to go to the buyers and suggest that it is a matter of indifference to them whether our manufacturer or du Pont's is ordered. They indicate that good salesmanship consists in definitely offering one thing or another. This does not mean that where the buyer has a preference it would not be met, but assuming he has no particular preference they do want to mention the one or the other. My suggestion is that as regards Cordite they can quite definitely mention us. In T.N.T. I think a similar policy should apply. As regards nitrocellulose powder, however, I suppose du Pont should be mentioned, but always assuming that they are willing to meet the competitive prices. At present du Pont do not do so and there has been no change intimated to us in the position. Supposing, however, they were willing to meet the competitive prices then to give us a little nitrocellulose business how would it do to say that if tubular is wanted then it must be du Pont's, if flake, it must be us, but that for small orders tubular in our manufacture could also be offered. The matter of small orders being offered in our manufacture might be explained on the basis that du Pont's capacity is equal to bigger demands and quicker delivery of bigger quantities. I think you will appreciate the difficulty and before we write to China we would be glad to have the frank views of our friends. We must take the difficulties of China in working the agreement seriously into consideration.

Yours very truly,

(sgd.) J. LAING.

P.S. This matter is urgent.

G. W. WHITE, Esq.,  
New York.

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EXHIBIT No. 472

[C/C via air mail]

D-17

135-Nobel (Special)  
MS-176-A  
151-Rem. Arms Co.

Mr. N. E. BATES, JR.,  
% American Consulado, Lima, Peru.

(B-47)

SEPTEMBER 25, 1933.

DEAR NICK: In reply to your letter of September 11th on the subject of the du Pont-I.C.I. agreement and the possible effect of our acquisition of Remington.

Our agreement with I.C.I. is limited to military propellants and explosives; any other products made by either company are entirely outside the scope of

our agreement. The first paragraph of the I.C.I. agency agreement is possible of misinterpretation, but until such time as there is evidence that products other than those first contemplated are being included we have very little to argue about with I.C.I.

I do not believe there will be any arrangement between Remington and I.C.I. similar to the one we have on military, and therefore you can assume that Remington and Kynoch will each go their own way. I do not believe there need be any violation of the spirit of the instructions referred to on the second page of your letter. For instance, it will be perfectly in order for I.C.I. or du Pont to request information regarding possible agents for either Kynoch or Remington, and likewise there would be no harm in your recommending the products of either Kynoch or Remington or both to an agent prospect.

I believe you can avoid any difficulty by insisting that once the agent has been appointed that he then communicate with Kynoch or Remington for any information he desires. While at the same time there is no reason why you should not assist the agent in establishing the proper connection.

As I see it, Nick, it is simply a question of our depending on your usual tact to handle the delicate situation without any difficulty.

I do not believe it advisable at this time for us to include in our agency proposition a statement similar to that in the first paragraph of I.C.I.'s, because we would only be developing trouble for other departments of the company who may and usually do have other agents than those we use, and I think we will be on safer ground if we simply interpret the first paragraph to mean that any other products which from time to time would be agreed upon would only refer to military products connected with propellants and explosives.

Sincerely,

KKVC: MH

K. K. V. CASEY, *Director.*

#### EXHIBIT No. 473

*Nobel Industries, Ltd., license agreement covering patented inventions and secret inventions between E. I. du Pont de Nemours and Company, party of the first part, and Nobel Industries, Limited, party of the second part. Dated, January 1, 1928, extended to July 1, 1939*

This agreement, made in the city of London, England, as of the 1st day of January, A.D. 1928, between

E. I. du Pont de Nemours and Company, a corporation organized and existing under the laws of the State of Delaware, United States of America, hereinafter called "the du Pont Company", party of the first part, and

Nobel Industries, Limited, a corporation organized and existing under the laws of Great Britain, hereinafter called "Nobel Industries", party of the second part,

WITNESSETH,

Whereas upon the terms and subject to the limitations hereinafter set forth, the party of the first part and the party of the second part desire to obtain, each from the other, licenses, as hereinafter provided, relating to inventions, improvements, and secrets in respect of processes, machinery, formulae, and compounds possessed or acquired by the other party, for the manufacture, production, transportation, handling, selling, or use of one or more of the following products, viz: Black powder in all varieties; smokeless propellants for sporting purposes; disruptive explosives of all kinds for industrial purposes; detonators; electric detonators; safety fuses; powder fuses; detonating fuses; electric igniters, and generally all devices for initial detonation or ignition; the components which form the ignition and propellant charges of sporting ammunition; and the ingredient and component parts of the above insofar as they are applicable to explosives; and

Whereas the products referred to in the foregoing recital are hereinafter called, collectively, "explosives", and an invention or improvement aforesaid, for which letters patent shall be obtained, is hereinafter called "patented invention", and a patented invention contained in an explosive is hereinafter called "patented explosive invention", and a patented invention for the manufacture, production, transport, handling, selling or use of an explosive is hereinafter called "patented producing invention", and a secret invention in respect of a process, machine, formula, or compound aforesaid is hereinafter called "secret invention", and a secret invention contained in an explosive is hereinafter

called "secret explosive invention", and a secret invention for the manufacture, production, transport, handling, selling, or use of an explosive is hereinafter called "secret producing invention"; and

Whereas each of the parties hereto desire an option to acquire licenses in respect of the other party's patented inventions and secret inventions, upon the terms and subject to the conditions hereinafter set forth;

Now, therefore, in consideration of the mutual agreements herein contained, and of the sum of one pound sterling and other good and valuable consideration, paid by each of the parties hereto to the other, the receipt whereof is hereby acknowledged, the parties hereto have agreed and hereby do agree as follows:

I. Each party agrees to and until the 31st day of December, A.D., 1935, upon making or obtaining any patented invention or discovering or acquiring any secret invention, to disclose in writing to the other party immediately, or in any event within six months thereafter, full particulars in respect thereof, and thereafter to furnish to the other party, whenever and so often as the other party shall request, copies of all claims, specifications, applications, and patents in respect of any such patented invention, and copies of all writings setting forth any such secret invention and such further information as the other party shall request in respect of any such patented invention or secret invention.

II. Each party shall forthwith appoint one or more competent, trustworthy and experienced persons in its employ for the purpose of receiving such particulars and information from the other party. Whenever and so often as the other party shall request and at the expense of such other party, each party shall supply experienced chemists, engineers, foremen, and other experts to assist such other party in investigating, testing, applying or using any patented or secret invention disclosed as aforesaid.

III. Whenever the du Pont Company shall have disclosed a patented or secret invention to Nobel Industries, as aforesaid, the du Pont Company thereupon shall serve upon Nobel Industries a notice in writing setting forth the terms and conditions upon which Nobel Industries may obtain the following licenses, to wit:

(1) The sole and exclusive license, to the end of the term for which letters patent shall be granted or extended, in respect of any such patented explosive invention, to make, use and employ within the countries of Europe (including Great Britain and Ireland), Asia, Africa, and Australasia, and the islands thereto pertaining, for which such letters patent shall be granted or extended, excepting however the Republic of Germany, Holland, Poland, Austria, Denmark, Bulgaria, and the present and future territories, possessions, colonies and dependencies of the United States of America, any such patented explosive invention for explosives, and to sell within said countries, excepting as aforesaid, any and all explosives containing such invention.

(2) A nonexclusive license, to the end of the term for which letters patent shall be granted or extended in respect of any such patented explosive invention, to make, use and employ within the countries of North and South America, and the islands thereto pertaining, for which such letters patent shall be granted or extended, excepting however the United States of America and its present and future territories, possessions, colonies and dependencies, and the Republics of Mexico, Guatemala, Honduras, Nicaragua, Costa Rica, and Panama, and the Dominion of Canada and Newfoundland, any such patented explosive invention for explosives, and to sell within said countries of North and South America, and the islands thereto pertaining, excepting as aforesaid, any and all explosives containing such invention.

(3) The sole and exclusive license to make, use, and employ, within all the countries of Europe (including Great Britain and Ireland), Asia, Africa, and Australasia, and the islands thereto pertaining, excepting however the Republic of Germany, Holland, Poland, Austria, Denmark, Bulgaria, and the present and future territories, possessions, colonies and dependencies of the United States of America, any such secret explosive invention for explosives, and to sell within said countries, excepting as aforesaid, any and all explosives containing such invention.

(4) A nonexclusive license to make, use, and employ, within all the countries of North and South America, and the islands thereto pertaining, excepting however the United States of America and its present and future territories, possessions, colonies and dependencies, and the Republics of Mexico, Guatemala, Honduras, Nicaragua, Costa Rica, Panama, and the Dominion of Canada and Newfoundland, any such secret explosive invention for explosives, and to sell

within all the countries of North and South America, and the islands thereto pertaining, excepting as aforesaid, any and all explosives containing such invention.

(5) The sole and exclusive license, to the end of the term for which such letters patent shall be granted or extended, in respect of any such patented producing invention, to make, use, and employ within the countries of Europe (including Great Britain and Ireland), Asia, Africa, and Australasia, and the islands thereto pertaining, for which letters patent shall be granted or extended, excepting however the Republic of Germany, Holland, Poland, Austria, Denmark, Bulgaria, and the present and future territories, possessions, colonies and dependencies of the United States of America, any such patented producing invention, to the extent and amount specified in such notice.

(6) A nonexclusive license, to the end of the term for which letters patent shall be granted or extended, in respect of any such patented producing invention, to make, use, and employ within the countries of North and South America, and the islands thereto pertaining, for which such letters patent shall be granted or extended, excepting however the United States of America and its present and future territories, possessions, colonies, and dependencies, and the Republics of Mexico, Guatemala, Honduras, Nicaragua, Costa Rica, Panama, and the Dominion of Canada and Newfoundland, any such patented producing invention for explosives, to the extent and amount specified in such notice.

(7) The sole and exclusive license to make, use, and employ within all the countries of Europe (including Great Britain and Ireland), Asia, Africa, and Australasia, and the islands thereto pertaining, excepting however the Republic of Germany, Holland, Poland, Austria, Denmark, Bulgaria, and the present and future territories, possessions, colonies, and dependencies of the United States of America, any such secret producing invention, to the extent and amount specified in such notice.

(8) A nonexclusive license to make, use, and employ within all the countries of North and South America, and the islands thereto pertaining, excepting however, the United States of America and its present and future territories, possessions, colonies, and dependencies, and the Republics of Mexico, Guatemala, Honduras, Nicaragua, Costa Rica, Panama, and the Dominion of Canada and Newfoundland, any such secret producing invention for explosives, to the extent and amount specified in such notice.

IV. Whenever Nobel Industries shall have disclosed a patented or secret invention to the du Pont Company, as aforesaid, Nobel Industries thereupon shall serve upon the du Pont Company a notice in writing setting forth the terms and conditions upon which the du Pont Company may obtain the following licenses, to wit:

(1) The sole and exclusive license, to the end of the term for which letters patent shall be granted or extended, in respect of any such patented explosive invention, to make, use and employ, within the countries for which such letters patent shall be granted or extended, by the United States of America, or the Republics of Mexico, Guatemala, Honduras, Nicaragua, Costa Rica or Panama, any such patented explosive invention for explosives, and to sell within said countries any and all explosives containing such inventions.

(2) A nonexclusive license, to the end of the term for which letters patent shall be granted or extended, in respect of any such patented explosive invention, to make, use and employ within the countries of North and South America, and the islands thereto pertaining, for which such letters patent shall be granted or extended, excepting, however, the Dominion of Canada and Newfoundland and the countries enumerated in the last preceding paragraph numbered (1) herein, any such patented explosive invention for explosives, and to sell within said countries of North and South America, and the Islands thereto pertaining, excepting as aforesaid, any and all explosives containing such invention.

(3) The sole and exclusive license to make, use, and employ within the United States of America and its present and future territories, possessions, colonies and dependencies, and the Republics of Mexico, Guatemala, Honduras, Nicaragua, Costa Rica and Panama, any such secret explosive invention for explosives, and to sell within said countries any and all explosives containing such invention.

(4) A nonexclusive license to make, use, and employ within all the countries of North and South America and the islands thereto pertaining, excepting, however, the Dominion of Canada and Newfoundland and the countries enumerated in the last preceding paragraph numbered (3) herein, any such secret

explosive invention for explosives, and to sell within all the countries of North and South America and the islands thereto pertaining, excepting as aforesaid, any and all explosives containing such invention.

(5) The sole and exclusive license, to the end of the term for which letters patent shall be granted or extended, in respect of any such patented producing invention, to make, use, and employ within the countries for which such letters patent shall be granted or extended, by the United States of America, or the Republics of Mexico, Guatemala, Honduras, Nicaragua, Costa Rica, or Panama, any such patented-producing invention, to the extent and amount specified in such notice.

(6) A nonexclusive license, to the end of the term for which letters patent shall be granted or extended, in respect of any such patented producing invention, to make, use, and employ within the countries of North and South America, and the islands thereto pertaining, for which such letters patent shall be granted or extended, excepting, however, the Dominion of Canada and Newfoundland and the countries enumerated in the last preceding paragraph numbered (5) herein, any such patented producing invention for explosives, to the extent and amount specified in such notice.

(7) The sole and exclusive license to make, use, and employ within the United States of America and its present and future territories, possessions, colonies, and dependencies, and the Republics of Mexico, Guatemala, Honduras, Nicaragua, Costa Rica, and Panama, any such secret producing invention, to the extent and amount specified in such notice.

(8) A nonexclusive license to make, use, and employ within all the countries of North and South America and the islands thereto pertaining, excepting, however, the Dominion of Canada and Newfoundland and the countries enumerated in the last preceding paragraph numbered (7) herein, any such secret producing invention for explosives, to the extent and amount specified in such notice.

V. Each of the parties to whom any license shall have been granted as herein provided may grant, within the limitations of such license, sublicenses in respect thereof to any or all of its respective subsidiary companies; but every such sublicense shall be subject to all the terms and conditions contained in the grants of the license so sublicensed and shall also contain terms, conditions, and obligations requiring such sublicensee to do such acts as may be necessary or proper to enable the party granting such sublicense to observe all the terms and conditions and to perform all the obligations on its part contained in the grant of the license so sublicensed. No such sublicense in respect of any such license shall be granted by any sublicensee, nor by any of the parties hereto, except as hereinbefore provided, without the consent in writing first obtained from the party that shall have granted the license so sublicensed.

VI. In said notices served as aforesaid, the party disclosing such patented or secret invention shall request the other party to elect, within a period expiring twelve months after service of such notice, whether such other party accepts such licenses or any of them upon the terms and conditions set forth in said notice, and the other party shall elect within said period whether it accepts such licenses or any of them. The election to take any such license shall consist in serving, upon the party disclosing such patented or secret invention, within the period mentioned in said notice, either (1) an acceptance in writing of any such license upon the terms and conditions set forth in said notice or (2) an acceptance in writing of any such license upon such other terms and conditions as the parties, within three months thereafter may agree upon; but if the parties shall fail so to agree within the said period of three months such license shall be deemed not to have been accepted.

VII. Each of the parties hereto agrees that if, at any time during the continuance of this agreement, it shall obtain or acquire a right in or license under any patented or secret invention, which right or license is so limited that it can make no grant or license to the other party upon the terms and conditions herein set forth, it shall use its best efforts to assist such other party to obtain or acquire a right in or under such invention upon the terms and conditions herein set forth; but neither party shall be under any obligation to purchase or pay for any right or license for the benefit of the other.

VIII. Each of the parties hereto agrees not to make or consent to any disclosure or to do or consent to any other act that shall impair or depreciate the value of any sole and exclusive license granted by it in pursuance of this agreement, or that shall impair or depreciate the value of the right, title, and interest in any patented or secret invention not granted to it by the other party, and to take all reasonable care to prevent any such disclosure or act.



IX. Each of the parties hereto agrees, whenever and so often as requested by the other party, to execute and deliver all such other instruments in writing as may be necessary or proper for the purpose of further assuring and confirming the grant of any license that shall have been granted as herein provided, or for the purpose of enabling such grants to be filed or recorded in any public office.

X. Each of the parties hereto agrees, whenever and so often as requested by the other party, but at the expense of such other party, to assist in defending any letters patent under which any licenses shall have been granted as herein provided, and for that purpose to furnish to such other party such information and evidence as it can.

XI. If any difference or dispute shall arise between the parties hereto in respect of this agreement or any matter or thing relating thereto, excepting any term or condition set forth in any notice served as provided in the preceding paragraphs numbered III and IV herein, the name shall be referred to the chairman of the board, for the time being, of the E. I. du Pont de Nemours & Co., or his nominee, and the chairman of the board, for the time being, of Nobel Industries, or his nominee, who shall arbitrate the same and whose award shall be final. If, however, the said arbitrators shall fail to agree they shall appoint an umpire whose award shall be final, which umpire, if the question or matter to be decided relates to a patented or secret invention of Nobel Industries shall be an American, and if the question or matter to be decided relates to a patented or secret invention of the Du Pont Company, shall be an European. If said chairman fail to agree as to the appointment of such umpire, then such umpire, if required, as hereinbefore provided to be an European, shall be appointed by the president for the time being, of the Incorporated Law Society of England, or if required as hereinbefore provided to be an American, shall be appointed by the president, for the time being, of the Association of the Bar of the City of New York. The umpire, if not appointed by the chairman of the respective companies, or their nominees, shall be a person having no direct or indirect financial interest in the explosive industry.

XII. The benefits and obligations of this agreement shall inure to and be binding upon the parties hereto, and their respective legal representatives and successors, but shall not be assignable by either party without the consent in writing first obtained from the other party;

Provided that this agreement shall apply equally to similar licenses relating to inventions, improvements, and secrets of which the respective parties have indirect ownership by reason of their direct or indirect control and ownership of other subsidiary companies by majority shareholding or otherwise.

XIII. It is agreed that patented and secret inventions owned or controlled by said parties respectively relating to products, their manufacture, and sale, other than explosives, shall become subject to this agreement if and when said parties so elect, and to this end either party may from time to time furnish to the other a schedule of products, other than explosives, manufactured by it with an offer that said products be brought under the scope of this agreement. If the party receiving such offer consents that the products named in said schedule shall be brought under the scope of this agreement, it shall endorse its consent on said schedule, and the offer, schedule, and consent shall be attached to and become a part of this agreement; provided, however, that the territorial limitations provided in this agreement with respect to inventions relating to explosives shall not apply to inventions relating to products other than explosives. Territorial limitations, if any, applying to inventions relating to products other than explosives shall be determined by the parties at the time of the granting of licenses and shall be set forth therein.

It is the intent of this article that in respect to products other than explosives the parties hereto shall be entirely free to weigh all economic or other factors pertaining to the particular consideration, and to reach conclusions solely upon the merits of the particular presentation, without prejudice to this agreement in respect to explosives and without influence thereby.

XIV. That the agreement between the parties hereto, made in the city of London, England, as of the 1st day of January 1920 and terminating December 31, 1929, providing for the exchange of patented and secret inventions therein mentioned, be, and the same hereby is, in all respects cancelled and annulled.

In witness whereof, E. I. du Pont de Nemours and Company has caused its corporate seal to be hereunto affixed and this agreement to be signed in its

corporate name by its president and secretary, and Nobel Industries, Limited, has caused its common seal to be hereunto affixed in the presence of and this agreement to be signed by one of its directors and its secretary at the city of London, England, as of the day and year first above written.

E. I. DU PONT DE NEMOURS AND COMPANY,  
By **LENEE DU PONT, President.**  
NOBEL INDUSTRIES, LIMITED,  
By **H. MCGOWAN, Director.**

Attest:

C. COPELAND, *Secretary.*

Attest:

W. H. COATES, *Secretary.*

O.K. from J.P.L.

HMH

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EXHIBIT 474

Articles of agreement made as of the 1st day of July 1929, between Imperial Chemical Industries, Limited, a corporation organized under the laws of Great Britain (hereinafter called "I.C.I."), party of the first part, and E. I. du Pont de Nemours & Company, a corporation organized under the laws of Delaware, United States of America (hereinafter called "du Pont"), party of the second part.

**WITNESSETH,**

Whereas both I.C.I. and du Pont are engaged in the development, manufacture, and sale of a broad line of chemicals and chemical products, both in their respective home countries and in other countries, and maintain research and development organizations for the purpose of expanding their present activities as well as developing new industries; and

Whereas each of the parties hereto desires the right to acquire licenses in respect of the patented and secret inventions of the other party, upon and subject to the conditions hereinafter set forth;

Now, therefore, in consideration of the premises and of the covenants herein contained, the parties have agreed as follows:

**1. Exchange of information.**—(a) Each of the parties shall disclose to the other as soon as practicable, or in any event within nine months from the date of this agreement, or from the date of filing application for letters patent covering patented inventions, or from the time any secret invention becomes commercially established, information in respect of all patented or secret inventions now or hereafter during the life of this agreement owned or controlled by it, relating to the products hereinafter specified, sufficient to enable the other party to determine whether it desires to negotiate for licenses covering any or all of such inventions.

(b) Each of the parties agrees, whenever and so often as requested by the other, to furnish copies of all claims, specifications, applications and patents in respect of any such patented invention, and copies of all writings setting forth any such secret invention, and such further information as the other party shall request in respect of inventions relating to the products specified herein.

(c) Each of the parties shall forthwith appoint one or more competent, trustworthy, and experienced persons in its employ for the purpose of receiving from the other party the information required to be disclosed under the foregoing provisions, and shall notify the other party of such appointment. Whenever and so often as the other party shall request, and at the expense of such other party, each party shall supply experienced chemists, engineers, foremen, and other experts to assist such other party in investigating or testing any invention disclosed as aforesaid, or in applying or using any invention covering which license may have been granted to it hereunder; provided, however, that the party called upon for such technical assistance may arrange to furnish same at such time and in such manner as will not materially impede or interfere with its own activities and operations.

(d) An invention shall be deemed to be controlled, within the meaning of this agreement, whenever either party shall be able to grant to the other a license covering such invention within any territory or territories in which the other party may be entitled to demand exclusive or nonexclusive licenses under the terms hereof.

(e) Governmental objection or prohibition shall be a valid plea on the part of either of the parties to decline to reveal or to convey any rights under an invention which, but for such objection or prohibition, would come within the operation of this agreement.

*II. Rights to acquire licenses.*—(a) I.C.I. shall, upon request, grant to du Pont the sole and exclusive license to make, use, and employ, within the countries of North America and Central America, exclusive of Canada, Newfoundland, and British possessions, but otherwise inclusive of the West Indies, and within all present and future colonies and possessions of the United States of America, any and all patented and secret inventions now or hereafter, during the life of this agreement, owned or controlled by I.C.I., relating to the products hereinafter specified, and to sell within said territories any and all of said products containing such inventions. (As referred to above, Central America shall be deemed to comprise the region between North and South America, extending from about north latitude 7° to N. latitude 18°; that is, from Colombia to Mexico, between the Caribbean Sea and the Pacific Ocean; and the West Indies shall be deemed to comprise those group of islands lying off the south-east coast of North America and extending from near the coast of Venezuela northward to the latitude of North Carolina.)

(b) du Pont shall, upon request, grant to I.C.I. the sole and exclusive license to make, use, and employ, within the countries of the British Empire, inclusive of Egypt, but exclusive of Canada and Newfoundland, any and all patented and secret inventions, now or hereafter, during the life of this agreement, owned or controlled by du Pont, relating to the products hereinafter specified, and to sell within said territories any and all of said products containing such inventions.

(c) Each of the parties shall, upon request, grant to the other a non-exclusive license to make, use, and employ, within any and all countries, other than Canada and Newfoundland, not within the exclusive territories specified above, any and all patented or secret inventions, now or hereafter, during the life of this agreement owned or controlled by the licensor, relating to such of the products hereinafter specified as are now manufactured by both parties, and to sell within said territories any and all of said products containing such inventions.

(d) Countries and territories not within the exclusive license territory of either party as defined above, but which may now or hereafter be administered under mandate by the British Empire or by the United States of America, or which may become a part of either sovereignty by proper authority, shall be considered as part of the British Empire or of the United States, respectively, so long as so administered; but whenever the respective sovereign power no longer exercises full political control over or administers any such country or territory, it shall be considered as nonexclusive territory under subparagraph (c) above.

(e) It is recognized that each of the parties may have established an internal trade in or export trade to a country or countries within the territory which under this agreement is designated as the exclusive license territory of the other party, and that in any such instance the other party as licensee may not be in a position to utilize the license or licenses granted to it with respect to such country or countries for the time being. It is, therefore, understood and agreed that in granting exclusive license or licenses covering any territory in which the licensor may have an established business, either in internal or export, the licensor may, nevertheless, continue and fully enjoy the benefits of its operations therein until given reasonable notice by the licensee that the latter is in a position to utilize adequately its license in such territory.

(f) Licenses granted as aforesaid under any patented invention shall remain in effect to the end of the term for which such letters patent shall be granted or extended in the countries covered thereby, and licenses granted as aforesaid under any secret invention shall remain in effect so long as such invention shall remain secret, or, in event letters patent are subsequently obtained covering such invention, to the end of the term for which such letters patent shall be granted or extended in the countries covered thereby.

(g) Licenses granted as aforesaid shall be subject to adequate and justifiable compensation to be agreed upon by separate negotiations, but it is understood that such compensation will be determined under broad principles giving recognition to the mutual benefits secured or to be secured hereunder, without requiring detailed accounting or an involved system of compensation.

**III. Products.**—The exchange of information provided in section I, and the rights to acquire licenses granted in section II, shall apply to all inventions relating to the following products and industries, subject to the exceptions set forth below:

(a) Explosives, other than military powders.

(b) Compounds of cellulose and its derivatives, including nitrocellulose compounds such as plastics and film, but excluding rayon, cellophane, explosives, and products covered under subparagraph (c) below; provided, however, that the activities of Societa Italia Celluloid and Societa Anomina Mazzucchelli (in which du Pont has substantial stock interests) in this industry within the exclusive license territory of I.C.I. will continue until such time as may be mutually agreed upon between the parties hereto.

(c) Coated textile products, including components of those covered under subparagraph (b) hereof; provided, however, that with respect to inventions relating to such products the countries of Germany, Italy, and France, including colonies and possessions thereof, shall be considered as the exclusive license territory of du Pont, subject to application of subparagraph (e) of section II to the present activities of I.C.I. in said territories.

(d) Paints, varnishes, and lacquers, including the cellulose finishes known as "Duco" and "Belco", and similar chemical finishes, and inclusive of synthetic resins and colloiding agents for use in paints, varnishes, and lacquers, and plastics derived from cellulose; provided, however, that with respect to inventions relating to such products the countries of German, Italy, and France, including colonies and possessions thereof, shall be considered as the exclusive license territory of du Pont, subject to application of subparagraph (e) of section II to the present activities of I.C.I. in said territories.

(e) Pigments, lakes, and colors.

(f) Acids, both organic and inorganic, for both the heavy chemical industry and special industries.

(g) Chemicals of the general heavy chemical industry, excluding products of the general alkali industry.

(h) Dyestuffs, their intermediates, and other organic chemicals, including rubber chemicals; provided, however, that—

(1) While it is recognized that India, as coming within the British Empire, is the exclusive license territory of I.C.I., nevertheless, as an exception, it is agreed that, owing to the exceptional conditions obtaining in and the circumstances appertaining to that market, the dyestuffs activities of du Pont in India may continue until such time as may be mutually agreed upon by the presidents of the two companies, and that in determining the amount of compensation to be paid by I.C.I. under such licenses due consideration shall be given to the extent of du Pont's activities which are thereby terminated in such territory;

(2) The provisions of this agreement shall not apply to tetra-ethyl lead, but licenses with respect to said product may be the subject of separate negotiation;

(3) While inventions relating to dyestuffs and their intermediates are included in this agreement and subject to the provisions hereof, it is mutually agreed that, due to the exceptional conditions of said industry and the tentative negotiations during recent years with I. G. Farbenindustrie A. G., either party shall be free at any time to enter into separate agreement or arrangement with the latter company covering said industry. Upon the execution of such agreement or the entering into of such arrangement this agreement insofar as it relates to the dyestuffs industry shall cease and terminate; provided that all licenses theretofore granted under the terms of this agreement shall continue during the period for which granted, but all exclusive licenses so granted by each shall automatically become nonexclusive. Each of the parties agrees, however, that in negotiating or upon entering into such an agreement or arrangement with said I. G. Farbenindustrie A. G., it shall use its best efforts to extend same to include the other party hereto.

(4) While inventions relating to dyestuffs and their intermediates are included in this agreement and subject to the provisions hereof, it is recognized that existing agreements and arrangements with other parties may prevent a full and mutual exchange of information and licenses relating to particular products of this industry; and it is therefore agreed that neither party shall be obliged to disclose information or to grant licenses under inventions relating to products of this industry whenever in its opinion a full and reciprocal disclosure or grant of licenses relating to such products by the other party may be in conflict with existing agreements or relations of the latter.

(i) Synthetic ammonia, synthetic alcohol, and other products and by-products of the fixed nitrogen industry.

(j) Fertilizers.

(k) Synthetic products from the hydrogenation of coal and oil.

(l) Insecticides, fungicides and disinfectants.

(m) Alcohols manufactured by either synthetic or fermentation processes, other than synthetic alcohol as covered in subparagraph (i) above.

The application of the rights granted hereunder relating to the products specified above, shall be subject to the terms of all existing relations and agreements between the parties hereto and between either or both of the parties hereto and other parties, as provided in section X hereof. For purposes of reference only, a list of such agreements is attached hereto, marked "Schedule A", it being understood, however, that such list is not intended to be all-inclusive.

**IV. Election to accept license.**—Whenever the party owning or controlling an invention relating to the products specified herein shall decide that it is advisable to utilize such invention or to exploit any product containing same within the territory which under this agreement is designated as the exclusive license territory of the other, it shall serve upon the other party a notice in writing setting forth the terms and conditions upon which the other party may obtain such exclusive license thereunder. The other party shall elect within a reasonable time after receipt of said notice whether it accepts such license upon the terms and conditions set forth in said notice, or upon such other terms and conditions as the parties may agree upon; but if the parties shall fail so to agree within a reasonable time, such license shall be deemed to have been rejected, and the party owning or controlling the invention shall be free to use same or to exploit the products containing same, and/or to license others so to use or exploit such invention or products, within such territory; provided, however, that no such license shall be granted to others upon terms and conditions more favorable than those offered to and rejected by the other party hereto, without giving to the latter a reasonable opportunity to accept such license upon such other terms.

**V. Nonexclusive licenses to other parties.**—Each party agrees that it will not sell, convey, or grant licenses or any other interest in or under any patent or invention relating to the products specified, to any other person whomsoever, covering any territory in which a nonexclusive license under such patent or invention has been or may be obtained by the other party under this agreement, without first advising the other party of its intention to make such grant or conveyance.

**VI. Cooperation in securing new licenses.**—Each of the parties agrees that if, during the continuance of this agreement, it shall obtain, acquire, or possess a right in or license under any patented or secret invention relating to the products specified herein, which right or license is so limited that it can make no grant or license to the other party upon the terms and conditions herein set forth, it shall use its best efforts to assist such other party to obtain or acquire a right in or under such invention upon the terms and conditions herein set forth, but neither party shall be under any obligation to purchase or pay for any right or license for the benefit of the other.

**VII. Aid in protecting licenses.**—(a) Each of the parties agree to execute and deliver all such instruments in writing as may be necessary or proper for the purpose of further assuring and confirming any license granted pursuant to this agreement, or for the purpose of enabling such grants to be filed or recorded in any public office, and further to do whatever may be reasonably necessary to carry out the intent of this agreement.

(b) Should it appear at any time that any of the inventions covering which license has been granted to either party is the proper subject for letters patent in any territory for which rights have been so granted, the licensor will in conjunction with the first and true inventor, upon the request and at the expense of the licensee, apply for and use its best efforts to obtain the grant of letters patent or similar protection in respect of any of such inventions in such of said territories as the licensee may require, unless the party disclosing such invention demands that it be kept secret.

(c) Neither party shall be bound to defend any letters patent under which any license shall have been granted hereunder, but each of the parties agrees, whenever and so often as requested by the other party, but at the expense of such other party, to assist to the fullest possible extent in defending or protecting any such letters patent.

(d) Each party shall pay all fees and expenses for the maintenance of any patents in any territory in which the exclusive right shall have been granted to such party, and each party shall pay one-half of the fees and expenses for

the maintenance of any patents in any territory in which joint rights exist under said patents in accordance with this agreement. Maintenance herein shall be deemed to include only payments of official fees, taxes, and incidental expenses, but shall not include expenses of litigation.

*VIII. Duty not to impair rights of other party.*—Each of the parties agrees not to make or consent to any disclosure or to do or consent to any other act that shall impair or depreciate the value of any license granted by it in pursuance of this agreement, or that shall impair or depreciate the value of the right, title, and interest retained by the other party in any such patented or secret invention, and to take all reasonable care to prevent any such disclosure or act, but shall not, in the absence of bad faith or gross negligence, be liable in damages therefor.

*IX. Sublicenses.*—Each of the parties to whom any license shall have been granted as herein provided may grant, within the limitations of such license, sublicenses in respect thereof to any or all of its respective subsidiary companies; but every such sublicense shall be subject to all the terms and conditions contained in the grant of the license so sublicensed and shall also contain terms, conditions, and obligations requiring such sublicensee to do such acts as may be necessary or proper to enable the party granting such sublicense to observe all the terms and conditions and to perform all the obligations on its part contained in the grant of the license so sublicensed. No sublicense in respect of any such license shall be granted by any sublicensee, nor by either of the parties hereto, except as hereinbefore provided, without the consent in writing first obtained from the original licensor.

*X. Effect of existing agreements.*—It is understood that both parties have established business relations through stock ownership in affiliated corporations and under agreements with other companies relating to the products specified herein, and each of the parties expressly recognizes that the provisions of this agreement are subordinate and subject to all such existing relations or agreements wherever it may conflict therewith. Each of the parties agrees, however, that in negotiating for the renewal of any such relations or agreements which may expire during the existence of this agreement, it shall endeavor to effect such renewals on such basis or terms as will harmonize as fully as possible with the provisions of this agreement.

*XI. Arbitration.*—Should any difference or dispute arise between the parties hereto touching this agreement, or any clause, matter, or thing relating thereto, or as to the rights, duties, or liabilities of either of the parties hereto, the same shall be referred to the President for the time being of E. I. du Pont de Nemours & Company and the president for the time being of Imperial Chemical Industries, Limited, who shall arbitrate, and their award shall be final. Should they not agree, they shall appoint an umpire, whose award shall be final, and the following provisions shall apply: If the question or matter to be decided is brought forward by I.C.I., the umpire shall be European; if, on the contrary, the question or matter to be decided is brought forward by du Pont, the umpire shall be an American. Should the presidents disagree as to the appointment of an umpire, then the umpire if an European, is to be appointed by the president of the Incorporated Law Society of England, and if an American, to be appointed by the President of the Association of the Bar of the city of New York.

*XII. Parties in interest.*—(a) The benefits and obligations of this agreement shall inure to and be binding upon the parties hereto, and their respective legal representatives and successors, but shall not be assignable by either party without the consent in writing first obtained from the other party.

(b) The terms and provisions of this agreement shall apply to inventions owned or controlled by the respective subsidiary companies of each of the parties hereto, and each of said parties undertakes and assumes, for and on behalf of its subsidiary companies, all the duties and obligations of this agreement relating to such inventions.

(c) As used throughout this agreement, the term "subsidiary company" shall be deemed to mean any corporation in which either party owns or controls a majority of the outstanding voting stock, and any corporation similarly owned or controlled by any subsidiary or subsidiaries.

*XIII. Termination.*—This contract shall continue in effect for a period of ten years from the date first hereinabove written.

In witness whereof, E. I. du Pont de Nemours & Company has caused its corporate seal to be hereunto affixed and this agreement to be signed in its corporate name by its president and secretary, and Imperial Chemical Industries, Limited, has caused its common seal to be hereunto affixed in the

presence of and this agreement to be signed by one of its directors and its secretary at the city of London, England, as of the day and year first above written.

CRM.

E. I. DU PONT DE NEMOURS & COMPANY.  
By (Sgd.) L. DU PONT, *President*.

Attest:

(Signed) M. D. FISHER,  
*Asst. Secretary.*

IMPERIAL CHEMICAL INDUSTRIES, LIMITED,  
By (Sgd.) J. D. MCGOWAN, *President and Director*.

Attest:

(Signed) R. A. KRUGER, (?)  
*Asst. Secretary.*

### Schedule A

#### EXPLOSIVES

Date	Parties	Subject	Period
1/1/26	I.C.I.-du Pont	Exchange of licenses under inventions...	7/1/39.
1/1/25	I.C.I.-du Pont-Canadian Industries, Limited.	Exchange of licenses under inventions...	15 yrs.

#### NITROCELLULOSE PLASTICS

	du Pont-Rheinische Westfaelsche Sprengstoff A.G.	Informal exchange of technical information on pyroxylin products and the articles fabricated therefrom.	3 mos. cancellation clause.
	du Pont-British Xylonite Co.	Informal exchange of technical information on pyroxylin products and the articles fabricated therefrom.	
12/14/27	du Pont-Pittsburgh Plate Glass Company.	Investment of du Pont Viscoloid Co. in Soc. Italiana Celluloids and S. A. Mazzucchelli.	
4/2/25	du Pont-United Shoe Machinery Corporation.	Joint ownership of DuPlate Corporation, and grant of nonexclusive licenses covering inventions relating to safety glass.	
		Joint ownership of Celastic Corporation for manufacture of pyroxylin-covered box-toe material; grant of rights to patents relating to manufacture of Celastic; and grant of right to non-exclusive license under inventions relating to manufacture of diacetone alcohol or colloid treated fabrics of the general character described in such patents; foreign rights thereunder being assigned to United Shoe Machinery Company de France by agreement between Celastic Corporation and United Shoe Machinery Corporation.	

#### FILM

2/3/25	du Pont-Pathe Exchange Incorporated.	Assignment of option from Pathe Cinema S.A. covering right to manufacture moving-picture films, limiting license and use of information to North America and certain other territories.	75 years.
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#### CELLULOSE ACETATE

12/31/27	du Pont-Rhone Poulenc S. A.	Agreement assigning patents and processes formerly owned by Usines du Rhone remanufacture and sale of cellulose acetate for North America to du Pont, and providing for exchange of technical information.	15 yrs. after construction of plant.
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## Schedule A—Continued

## COATED TEXTILES

Date	Parties	Subject	Period
Not yet signed.	I.C.I.-du Pont.....	Agreement reformation of Leather Cloth Pty., Ltd., for manufacture of artificial leather and rubber cloth in Australia.	
1/1/25.....	I.C.I.-du Pont.....	Agreement whereby du Pont licenses I.C.I. to rights under patent to use tannic acid as a preservative in the manufacture of artificial leather.	
3/13/28.....	du Pont-Dispersions Processes, Inc.	Agreement whereby du Pont is granted license for U.S. and Canada only covering dispersions of rubber in the manufacture of double texture auto top cloth and prohibiting disclosure of information secured.	
	du Pont-Proposed German Ventube Company.	Agreement relative to formation of company to manufacture and sell Ventube in Germany only; du Pont does not have right to sublicense inventions which may be developed by the new company.	
10/1928.....	du Pont-Michel Fontaine...	Agreement whereby du Pont purchased "know how" for manufacture of "imitated suede"; use of information is limited to U.S.	
Apr. 1921...	du Pont-Norman B. Braley.	du Pont obtained license to Braley patents which cover devices for coupling and suspending Ventube for a royalty payment.	
3/21/26.....	du Pont-Soc. Francaise Fabrikoid.	Agreement gives option to S.F.F. to construct plants in other European territories on same conditions as in France when and if du Pont decides to build them.	

## PAINTS, VARNISHES, AND LACQUERS

8/20/26.....	I.C.I.-du Pont Nobel Chemical Finishes, Limited.	Joint ownership of Nobel Chemical Finishes, Ltd., and grant of exclusive license to that company covering manufacture and sale of Duco in British Empire, all other rights being retained by du Pont.	Unlimited.
Being negotiated.	du Pont-Proposed German Duco Company.	Agreement granting new company exclusive Duco rights for Germany only. Agreement provides that information developed by new company may be sublicensed by du Pont to only those associated companies whose developments du Pont is free to pass along to the Germany Company.	
5/31/27.....	du Pont-General Electric Company.	Agreement licensing du Pont to use G. E. Company's patents on glyptal resins in the paint and varnish field. Rights limited to United States.	15 yrs.
12/8/27.....	du Pont-Filintecote Co.....	Agreement licensing du Pont to use asphalt emulsions for "oil pipe line field" for United States only.	
Under negotiation.	du Pont-Ambler Asbestos Company.	Exchange of licenses covering finishing materials used in manufacture of wall-board or wall-tile by Ambler process.	
Under negotiation.	du Pont-Okonite Company.	Agreement re joint development and exploitation of a cellulosic plastic for insulation of wires, cables, etc.	
	du Pont-Penn Standard Sole Cementing Process, Inc.	Agreement re exclusive use of #5400 cement.	
	du Pont-du Pont Cellophane.	Agreement re exclusive use of lacquer for "moisture proof" cellophane.	
	du Pont-A. C. Lawrence Leather Co.	Understanding relative to exclusive use of certain leather solutions.	
	du Pont-Compo Shoe Machinery Corp.	Agreement re exclusive use of Compo cement.	



## Schedule A—Continued

## PIGMENTS AND COLORS

Date	Parties	Subject	Period
	du Pont-N. J. Zinc Company. Grasselli-Commercial Pigments Corporation.	License under certain patents owned by N. J. Zinc Co. relating to manufacture of lithopone. Grasselli has license to manufacture and sell lithopone containing Titanium Dioxide under patents owned by Commercial Pigments Corporation.	

## GENERAL HEAVY CHEMICALS

Being negotiated.	I. C. I.-Solvay & Cie.....	Agreement relating to general alkali industry.	
	du Pont-E. Merck.....	du Pont to acquire license to process for manufacture of C.P. lactic acid for U.S. and Canada. Agreement involves exchange of information.	
	Grasselli-Federal Phosphorus Company.	Agreement involving exchange of exclusive licenses resprayed disodium and trisodium phosphate in globular form.	
	Grasselli-Calco Chemical Company.	Both companies assigned patent applications covering globular bisulphate of soda to Globular Products, Inc., owned 50% by both.	
	Grasselli-Duriron Company, Inc.	Grasselli has license to manufacture under U.S. Patents #1031864 (7-9-12) and #1074287 (9-30-13) reconcentration of nitric acid.	
	Grasselli-Aluminum Company of America & Edwin S. Fickes.	Grasselli has a nonexclusive, nontransferable license to use patented process for manufacture of hydrofluoric acid.	
	Grasselli-American Vulcanized Fibre Company.	Grasselli has license to operate under U.S. Patent #1137871 (5-4-15), Method of Treating Ferruginous Zinc Chloride Solutions.	
	Grasselli-Richard Zeising....	Grasselli has right to use improvements in furnaces covered by U.S. Patents #1270486 (9-17-18) and #1523990 (1-20-25).	
	du Pont-Mitsui, Union Chimique Bolge, Saint Cohain, Lurgi Newport, Atlas, Hercules, Chims-troy.	Agreements granting nonexplosive licenses for du Pont ammonia oxidation process in restricted territories, none of which are in the British Empire, and involving exchange of information.	5 yrs.

## DYESTUFFS AND OTHER ORGANIC CHEMICALS

I. C. I.-Durand & Huguenin..	Agreement relating to solubilization of vat dyes.	Sept. 1937 or expiration of later patents, etc.
I.C.I.-Durand & Huguenin..	Agreement relating to gallo-cyanides....	Tied up with commercial arrangements.
I.C.I.-Rohner.....	Agreement relating to benzidine and homologues.	Feb. 1949.
I.C.I.-Silesia Chemische Verein.	License to I.C.I. to operate British patent #258030.	1941.
I.C.I.-Auer.....	License to I.C.I. to operate British patent 287943 relating to rubber substitutes.	
I.C.I.-Newport Chemical Co.	Agreement relating to anthraquinone dyes and intermediates thereof.	1/1/35.
I.C.I.-Newport Chemical Co.	Agreement re certain types of soluble, or solubilizable, vat dyes. Under this contract I.C.I. are free to license one other party in the United States.	After expiration of patents.
I.C.I.-Soledon Company, Ltd.	Agreement covering British patents #247578; 248802; 247787; 251491.	Patents expire 1940.
I.C.I.-Selden Company.....	License to operate under Selden's patents dealing with the manufacture of phthalic anhydride from naphthalene by catalytic oxidation.	

## Schedule A—Continued

## DYESTUFFS AND OTHER ORGANIC CHEMICALS

Date	Parties	Subject	Period
Not yet signed.	I.C.I.-Selden Co. ....	Agreement relating to production of benzole acid from phthalic anhydride whereby Selden Co. acquires license to operate under patent taken out by Scottish Dyes.	16 yrs. (i.e. date of expiration of patents).
	du Pont-Guggenheim Co. of America.	Agreement relating to certain chemicals for use as flotation reagents.	
	du Pont-American Cyanamid-Dew Chemical Co. National Aniline Company—Rubber Service Laboratories.	du Pont's rights covering production of disubstituted guanidines by Cyanogen Chloride Process subject to determination of pending applications for letters patent by four United States producers, and is subject to any subsequent agreement for adjustment of conflicting claims.	
	du Pont-Rubber Service Laboratories Company.	Cross licenses under patents on acetaldehyde-amine accelerators.	
	du Pont-Rubber Service Laboratories - Goodrich - U.S. Rubber Company.	Cross licenses under patents on butyraldehydes and butylamine aniline accelerators.	
	du Pont-U.S. Rubber Company.	License under patents on thionex (tetramethylthiurammonosulphide).	
	du Pont-Goodyear Tire & Rubber Company.	License under patents on antioxidants of the type represented by phenyl-alpha-naphthylamine and phenyl-beta-naphthylamine.	
6/25/29.....	du Pont-L'Air Liquids.....	Agreement assigning Claude Ammonia patents in North America to du Pont, granting L'Air Liquide non-exclusive licenses covering by-product methanol and higher alcohol for France, Spain, Portugal, Italy, Switzerland, Belgium, Luxemburg, the Netherlands, Czechoslovakia, Poland and Japan, and granting L'Air Liquide one Year's option to Lazote's pressure catalytic hydrogen process for above countries.	
	du Pont-Ammonia Casale, S.A.	Agreement assigning Casale North American Patent to du Pont; modification of agreement by correspondence during June and July, 1929, permitting du Pont to exchange information regarding the Casale process with other parties.	
9/7/17.....	du Pont Norsk Hydro.....	Agreement assigning patents on synthetic nitrogen process for Canada and U.S. to du Pont.	

## FERMENTATION ALCOHOL

11/30/27.....	du Pont-United Molasses Company, Limited.	Agreement between du Pont and National Distillers Products Corp. (succeeded by United Molasses Co.) cancelling prior agreements relating to process for manufacture of fermentation glycerine and assigning rights to process to Eastern Alcohol Corporation. (NOTE.—Prior agreements above referred to relate to joint development of the process.)	
10/29/25.....	du Pont-United Molasses Company, Limited.	Agreement between du Pont and Kentucky Alcohol Corporation (succeeded by United Molasses Co.) relating to formation and joint ownership of Eastern Alcohol Corporation, granting licenses under inventions relating to development of alcohol by fermentation process, and tacit understanding as to future inventions relating to said industry.	

## Schedule A—Continued

## INSECTICIDES, FUNGICIDES, AND SEED DISINFECTANTS

Date	Parties	Subject	Period
7/20/28.....	du Pont-Winthrop Chemical Company.  Grasselli-Eagle Pitcher Lead Company. Grasselli-U.S. Smelting, Refining and Mining Company. I.C.I.-Cooper McDougall & Company.	Agreement covering formation and joint ownership of Bayer-Samesan Company, granting to latter company exclusive rights for United States and its Possessions and Canada, covering present and future inventions, with tacit understanding that said company may be entitled to similar rights covering foreign territories. Grasselli has license to manufacture arsenate of lead under Patent #1172741. Grasselli has license to manufacture calcium arsenate under Patents #1532577 and #1532578 (4-7-29). Agreements relating to insecticides and fungicides.	

## MISCELLANEOUS

1/1/26.....	du Pont - I. C. I. - Canadian Explosives Limited.	Exchange of information and licenses under inventions relating to paints, coated textiles, sporting ammunition, pyralin sheeting and articles, insecticides, muriatic acid, sodium sulphate, etc.	10 years.
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## EXHIBIT No. 475

## I.C.I. AGREEMENT

This agreement, made as of the ---- day of -----, 1933, between Imperial Chemical Industries, Limited, a corporation organized and existing under the laws of Great Britain, hereinafter called "I.C.I."

E. I. du Pont de Nemours & Company, a corporation organized and existing under the laws of Delaware, United States of America, hereinafter called "duPont", and

Canadian Industries Limited, a corporation organized and existing under the laws of the Dominion of Canada, hereinafter called "C.I.L.",

## WITNESSETH:

Whereas I.C.I. and duPont separately own substantial amounts of the capital stock of C.I.L., and have entered into two agreements with C.I.L., dated January 1, 1925, and January 1, 1926, providing for the free use by C.I.L. of their respective inventions and processes in connection with the manufacture and sale of certain products within the Dominions of Canada and Newfoundland; and

Whereas said agreements have been supplemented and modified by reason of informal interpretations, understandings, and practices of the parties; and

Whereas it is desired to redefine and to embody in one instrument the terms of said contractual relationship;

Now, therefore, in consideration of the premises and of the covenants hereinafter set forth, the parties have agreed as follows:

## 1. Definitions.—As used herein—

(1) The term "inventions" shall be deemed to mean inventions, processes, and technical information, whether patented or secret.

(2) The term "British Empire" shall be deemed to mean all present and future countries, colonies, possessions, and mandated territories thereof, inclusive of Egypt but exclusive of Canada and Newfoundland.

(3) The term "United States" shall be deemed to mean the United States of America and all present and future countries, colonies, possessions and mandated territories thereof.

(4) "Central America" shall be deemed to comprise the region between North and South America, extending from about N. latitude 7° to N. latitude 18°, that is, from Colombia to Mexico, between the Caribbean Sea and the Pacific Ocean.

(5) The "West Indies" shall be deemed to comprise the groups of islands lying off the southeast coast of North America and extending from near the coast of Venezuela northward to the latitude of North Carolina, exclusive of British possession.

(6) An invention shall be deemed to be "controlled by any party hereto, whenever such party shall be able to grant rights thereunder, as provided herein, within the territory or territories of the other parties.

(7) The term "subsidiary company" shall be deemed to mean any company in which any party hereto owns or controls a majority of the outstanding voting stock, and any company similarly owned or controlled by any subsidiary or subsidiaries.

(8) Wherever reference is made to any party hereto it shall be deemed to include the present and future subsidiary companies of said party, so long as the latter's ownership or control thereof continues.

(9) The term "principals" means I.C.I. and du Pont.

*II. Grant of rights to C.I.L.*—(a) I.C.I. shall grant to C.I.L., upon request, the exclusive right to practice any and all inventions now or during the term of this agreement owned or controlled by I.C.I., and to make, use, and sell any and all products embodying such inventions, within the Dominions of Canada and Newfoundland; subject, however, to the exceptions permitted under article V hereof; and subject to the right hereby reserved by I.C.I. to practice such inventions and to make such products within, but only for the purpose of export from, said territory.

(b) du Pont shall grant to C.I.L., upon request, the exclusive right to practice any and all inventions now or during the term of this agreement owned or controlled by du Pont, and to make, use, and sell any and all products owned or embodying such inventions, within the Dominions of Canada and Newfoundland; subject, however, to the exceptions permitted under article V hereof; and subject to the right hereby reserved by du Pont to practice such inventions and to make such products within, but only for the purpose of export from, said territory.

(c) The aforesaid grants by I.C.I. shall confer no right on du Pont, and the aforesaid grants to du Pont shall confer no right on I.C.I. to practice said inventions or to make, use, or sell the products embodying the same.

*III. Grant of rights to I.C.I.*—(a) C.I.L. shall grant to I.C.I., upon request, the exclusive right to practice any and all inventions now or during the term of this agreement owned or controlled by C.I.L., and to make, use, and sell any and all products embodying such inventions, within the British Empire as hereinabove defined.

(b) C.I.L. shall grant to I.C.I., upon request, the nonexclusive right to practice any and all inventions now or during the term of this agreement owned or controlled by C.I.L., and to make, use, and sell any and all products embodying such inventions, within any and all countries not designated herein as the exclusive territory of any of the parties hereto, and agrees that during the term of this agreement it will grant no similar right to any party other than Du Pont.

*IV. Grant of rights to du Pont.*—(a) C.I.L. shall grant to du Pont, upon request, the exclusive right to practice any and all inventions now or during the term of this agreement owned or controlled by C.I.L., and to make, use, and sell any and all products embodying such inventions, within the United States, Mexico, Central America, and the West Indies, as hereinabove defined.

(b) C.I.L. shall grant to du Pont, upon request, the nonexclusive right to practice any and all inventions now or during the term of this agreement owned or controlled by C.I.L., and to make, use, and sell any and all products embodying such invention, within any and all countries not designated herein as the exclusive territory of any of the parties hereto, and agrees that during the term of this agreement it will grant no similar right to any party other than I.C.I.

*V. Exclusion of rights.*—(a) It is hereby declared to be the spirit of this agreement that the exploitation of the inventions and products of I.C.I. and du Pont within the Dominions of Canada and Newfoundland shall be conducted by C.I.L. Nevertheless, it is recognized that in exceptional instances the interests of said principals may be served more advantageously by other pro-

cedure; and it is agreed that either I.C.I. or Du Pont may exclude from the operation of this agreement any inventions or products, the exploitation of which by C.I.L. would be contrary to the best interests of such principal.

(b) The exclusions permitted under this article shall be subject to the following restrictions:

(1) No such exclusion shall be made until all the parties hereto shall have been given opportunity fully to discuss the procedure contemplated; provided, however, that notice of pending negotiations with other parties shall be excused if such disclosure would involve breach of confidence reposed by such other parties.

(2) No such exclusion shall be based solely upon the desire of either principal to retain the entire profits (rather than the percentage thereof represented by its stock equity in C.I.L.) to be derived in Canada and Newfoundland from the exploitation of such invention or product.

(3) No such exclusion shall deprive any party of rights to practice specific inventions theretofore conveyed hereunder.

(c) It is hereby recognized that the provisions of this agreement are subordinate and subject to all existing agreements wherever it may conflict therewith. Each of the parties agrees, however, that in negotiating for the renewal of any of such agreements which may expire during the existence of this agreement, it shall endeavor to effect such renewals on such basis or terms as will harmonize as fully as possible with the provisions of this agreement. For purposes of reference only, a list of such agreements is attached hereto, marked "Schedule A"; it being understood that such list is not intended to be all-inclusive.

**VI. Compensation.**—Recognizing the reasonable probability that during the term of this agreement the rights granted to and received from C.I.L. by each of the principals, generally will be of substantially equal value, it is agreed that no royalties or other compensation shall be paid for such rights except as follows:

(1) Whenever any party desires to acquire rights hereunder for any invention which has been obtained by the grantor thereof from others, such party shall reimburse to the grantor such portions of the consideration paid or payable for said invention as is reasonably attributable or allocable to the rights thereunder for the territory of such party. To facilitate the determination of such compensation, any party hereafter contemplating the purchase of rights to an invention within the Territory of any other party, shall notify the latter before the conclusion of negotiations therefor, and shall afford to the latter an opportunity to determine in advance the amount or basis of consideration for the rights applicable to its territory, unless such disclosures would involve breach of confidence reposed by the other party to such negotiations.

(2) Whenever any party desires to acquire rights hereunder for any invention owned or controlled by a subsidiary company in which one of the other parties owns less than all of the outstanding common stock, it shall be obligated to pay a fair and adequate compensation for such rights; and the parent of such subsidiary shall refund immediately to said party such percentage of said payment as the amount of common stock of the subsidiary held by the parent bears to the total outstanding common stock of the subsidiary.

**VII. Aid in obtaining rights.**—Each of the parties agrees that in acquiring rights to any invention it will endeavor, if practicable, to obtain rights thereunder which may be extended to the other parties in accordance with the terms hereof; and agrees that if it acquires rights to an invention which are so limited as not to permit of such extension, it will use its best efforts to assist such other party or parties to obtain rights to such invention. No party shall be obligated, however, to purchase at additional cost any right for the benefit of another party hereto, unless the amount or basis of consideration therefor shall have been determined in accordance with subparagraph (1) of article VI hereof.

**VIII. Disclosure of information.**—(a) Each of the parties hereto, as soon as practicable and in any case within six months after the commercial utilization of any invention for which any other party may be entitled to rights hereunder (other than inventions referred to in subparagraph (1) of this article), shall disclose to such other party information in respect thereto, sufficient to enable such other party to determine whether it desires to utilize the same.

(1) Information concerning inventions or patents relating to an industry in which C.I.L. is not engaged need not be disclosed to C.I.L. unless, in the judg-

ment of the possessor thereof, the information would be of special interest to C.I.L., or unless the information is requested by the latter. Information concerning inventions or patents relating to an industry in which C.I.L. is engaged shall be disclosed by C.I.L. to both of the other parties, regardless of whether either or both of said parties is or are engaged in such industry; provided, however, that C.I.L. shall not disclose to either party any confidential information obtained from the other of said parties, without the latter's consent.

(b) Each of the parties, at the request and expense of such other party, shall supply experienced chemists, engineers, foremen, and other experts to assist such other party in investigating, testing, applying, or using any invention disclosed as aforesaid; provided, however, that the party called upon for such technical assistance may arrange to furnish same at such time and in such manner as will not materially impede or interfere with its own activities and operations.

**IX. Patent protection.**—(a) Each of the parties hereto, as soon as practicable and in any case within six months from the date of the filing of application for letters patent, in the country under the laws of which it is organized, covering any invention for which either or both of the other parties may be entitled to rights hereunder, shall disclose to such other party or parties (except as otherwise provided in paragraph (a) (1) of article VIII hereof) information sufficient to enable it or them to determine whether it is desirable and practicable to secure patent protection therefor in any country or countries in which it or they may be entitled to practice said invention. The party owning the invention shall at the request of the other party or parties, and may in the absence of such request, cause application or applications for letters patent thereon to be filed in any country or countries in which such other party or parties may be entitled to practice the same; and at the request of such other party or parties shall assign to the latter all patent rights covering the invention in any such country or countries.

(b) Neither the grantor nor any grantee of the rights to any invention hereunder shall be bound to defend any letters patent covering the same, but each party agrees, at the request and expense of the other, to assist to the fullest extent in defending or protecting any such letters patent.

(c) Each party shall pay all fees and expenses (not including expenses of litigation) for filing, securing, and maintaining any patent application or letters patent which it may elect to acquire or retain, in any country in which it has been granted the exclusive right to practice the invention covered thereby; and I.C.I. and du Pont shall pay, in such proportions as they shall mutually determine, all such fees and expenses in any country in which they have been granted nonexclusive rights to the invention so covered.

**X. Impairment of rights.**—Each of the parties agrees not to make or consent to any disclosure or to do or consent to any other act that may impair or depreciate the value of any right granted to it under this agreement, or that may impair or depreciate the value of the right, title, and interest retained by any other party in any invention covered hereby. Each party agrees to take all reasonable care to prevent any such disclosure or act, but shall not, in the absence of bad faith or gross negligence, be liable in damages therefor.

**XI. Parties in interest.**—(a) The terms and provisions of this agreement shall apply to the respective subsidiary companies of each of the parties hereto, and each of said parties undertakes and assumes, for and on behalf of its subsidiary companies, all of the duties and obligations of this agreement. To this end each of the parties shall endeavor to obtain promptly from each subsidiary company in which it now or hereafter owns less than all of the outstanding stock, a consent to be bound by the provisions of this agreement.

(b) The benefits and obligations of this agreement shall inure to and be binding upon the parties hereto and their respective legal representatives and successors, and shall not be assigned, transferred or licensed to any party without the consent in writing first obtained from the other parties; provided, however, that any party may assign or license, within its exclusive or non-exclusive territory, the rights conveyed hereunder with respect to specific inventions.

**XII. Duration.**—This agreement shall continue in effect until July 1, 1939. Upon the termination of this agreement the parties hereto shall continue to have and possess the perpetual right to practice any and all inventions acquired hereunder and to make, use, and sell any and all products embodying such inventions, within their respective territories.

**XIII. Cancellation of existing agreements.**—The aforesaid agreements between the parties hereto, dated January 1, 1925, and January 1, 1926, and all amendments and additions thereto, are hereby cancelled and terminated; but the parties shall continue to have and possess the perpetual right to practice any and all inventions acquired thereunder and to make, use, and sell any and all products embodying such inventions, within their respective territories.

In witness whereof, the parties hereto have caused this agreement to be executed in triplicate by their officers thereunto duly authorized, and their common or corporate seals to be hereunto affixed, as of the day and year first above written.

IMPERIAL CHEMICAL INDUSTRIES, LTD.,  
By \_\_\_\_\_, *Director.*

Attest:  
\_\_\_\_\_,  
*Secretary.*

E. I. DU PONT DE NEMOURS & COMPANY,  
By \_\_\_\_\_, *President.*

Attest:  
\_\_\_\_\_,  
*Secretary.*

CANADIAN INDUSTRIES LIMITED,  
By \_\_\_\_\_, *President.*

Attest:  
\_\_\_\_\_,  
*Secretary.*

EXHIBIT No. 476

T-2708

Ms-80-A  
Ms-8

AUGUST 2nd, 1933.

Major K. K. V. CASEY,  
*E. I. du Pont de Nemours & Co., Wilmington, Del.*  
DEAR SIR:

STATUS OF NEGOTIATIONS, JULY 1933

I. Negotiations completed.—None.

II. Prospects under negotiation.—

Estonia: 25 tons T.N.T. Offered I.C.I. Material quotation expired July 31st. No news from Bourvikov.

Estonia: 2 tons blank-fire powder. Offered I.C.I. material. Quoted with the T.N.T.

Greece: 60 tons powder with volatile solvent. 20 tons powder without volatile solvent, for 75 mm Krupp field gun. The former enquiry for 40 tons low nitroglycerine content powder for the 75 mm Krupp field gun has been changed to require 60 tons powder with volatile solvent and 20 tons without volatile solvent. A complete new set of trials is scheduled to take place in September, in which all the former competitors are expected to take part, as well as two additional firms, i.e.: N. V. Nederlandsche Springstofffabrik, Muiden, Holland; Dynamite Nobel, Avigliana, Italy. In the last competition the French powder monopoly won first place, I.C.I. second place, and Bofors third place.

Holland: 80-100 tons powder for the 280 mm Krupp gun C.D. 10-15 tons T.N.T. for shells. Inquiry received. Are obtaining prices from Wilmington and London.

Latvia: T.N.T. We are negotiating the sale of T.N.T. to the Cahn group, who in turn will exchange it for scrap metal from the Latvian Government. Our agent is also prepared to negotiate an offer for a scrap exchange on behalf of I.C.I. should the matter develop this way.

III. Prospects for future negotiations.—

England: Powder for 7.62 mm Estonian cartridges.

Estonia: 18 tons N.C. powder for 12"/50 cal. C.D. gun. 4 tons powder for 18-pounder gun.

Greece: Powder 6.5 mm rifle, S. P. & C. H.

Holland: 100 tons T.N.T. for Army and Navy. N. C. powder for 75 mm gun. Colonial Army.

#### IV. Report for July 1933.—

Bulgaria: I.C.I. has removed Mr. A. W. Douque, senior partner of A. W. Douque & Co., their former Bulgarian representative to Belgrade, and will continue the agency in Bulgaria with Mr. Sirmadjieff, the junior partner. Mr. Sirmadjieff has been informed of the joint arrangement between I.C.I. and Du Pont, and we shall shortly take up with him the question of sales of military material and the Du Pont agency.

Greece: After the recent tests in Greece, so much protest was made for different reasons to the judges of the commission, that the Greeks have decided to reopen the trials in September, and are calling for 20 tons of powder without volatile solvent and 60 tons of powder with volatile, solvent. New specifications are being prepared by the Greeks, and an entire new set of trials will be made.

Mr. Singer intends to be present in Greece during the tests and the opening of the bids.

Holland: When I visited Holland on July 10th, Mr. Vlessing told me that Bofors do not intend to set up a permanent manufacturing ordnance plant in Holland; that the H. I. H. was taken over from him by the Handelsmaatschappij in liquidation of the indebtedness to the bank; that the Handelsmaatschappij did not have the intention of going permanently into the ordnance business, but only had the intention of liquidating the Vlessing account, and that they had sold to Bofors the stock of machinery which was at P. Smith's, and also certain patents and processes which were the property of H.I.H. Siderius; that they have sold some of the stock of heavy guns to the French Government and have finally liquidated the account of the bank; hence the mission of H.I.H. Siderius finished and they now intend liquidating H.I.H. Siderius. Bofors is taking this machinery to Wilton's Machinefabrick to finish the contract which they have for a battleship, and once this battleship is completed they will probably take the machinery to Sweden or sell it. But at the present time there is no idea of Bofors starting a permanent manufacturing establishment in Holland.

I believe this information to be more correct than that supplied in previous notices on this subject.

In connection with this, you will recall that about a year ago there was a great newspaper excitement in France over the 1,500 half finished guns in Holland in the possession of the H.I.H. which, the French newspaper claimed, was a secret stock of heavy guns held in Holland by the Germans. The result of this caused the French Government to buy the most important pieces. It turned out that this whole French newspaper row was originated by Vlessing and Haegen in order to sell this stock and that it was a vast publicity farce which the French newspapers fell for due to their desire for anti-German news. Vlessing said that they managed this whole publicity affair without having to pay a cent to the newspaper. Vlessing and Haegen are extremely proud of this feat and discussed with me in great detail how they got the French Press excited on this matter by constantly denying that they knew anything about it and by making it all very mysterious and leaving the journalistic spirit do the rest.

Vlessing & Co. bought some time ago 8 280-mm sea-coast guns which the Dutch government had ordered in 1918 from Krupp. At the end of the war the guns and cradles were completed, but not the turrets in which they were to be placed, nor the loading device. Vlessing has developed an opportunity to sell these guns to Turkey, but he must also provide the loading apparatus and some 100 charges per gun. He asked for a quotation on complete rounds. After examination of the information it would appear unwise for us to offer to furnish the rounds, due among other things to the fact that the loading apparatus is not yet designed, but we should bid on the powder.

Poland: Poland is still pursuing me for help on the American tank matter.

Portugal: I.C.I. are now reorganizing their agency here. We are awaiting their final report on this.

Roumania: Mr. Boxshall writes that due to present financial difficulties nothing can be done before the autumn.



Spain: I.C.I. is feeling out Spain to see if active direct-sales work will be possible.

Yugoslavia: I.C.I. has made a definite arrangement in Yugoslavia. They have given an agency contract to Sava Veljovic, but insisted that he keep in his office Mr. A. W. Douque, who is on the I.C.I. pay roll, and through whom all correspondence will be sent, and who will keep control over Veljovic. We shall shortly make an arrangement with these gentlemen for Du Pont.

Argentine: Mr. Antonia Carames arrived on the S.S. Avila-Star at Boulogne on July 27th. Col. W. N. Taylor met him on the boat and motored him to Paris, and has entertained him for several days. Mr. Carames appears very pleased with these attentions and is quite expansive and genial.

He told his story over many times, which has been communicated to London. On August 3rd, Mr. L. W. B. Smith will come to Paris for a conference.

Mr. Carames says that it is absolutely decided that the Argentine government will build a factory, and that it cannot be postponed beyond January 1934 at the latest.

Brazil: The Brazilian Mission of General Leite de Castro has just arrived. Mr. Nicolettis, of I.C.I., who is a fervent friend of General de Castro, will make the first contacts.

China: T. V. Soong has been in Europe and is being extremely well taken care of by I.C.I.

Prices: In spite of the fall of dollar exchange, Du Pont prices are considerably higher than those of the European factories. This difference of price makes it out of the question for the moment to have Du Pont quotations accepted. In all our territories it is still a buyer's market, and price dominates the situation.

Very truly yours,

WILLIAM N. TAYLOR.

AK/.

#### EXHIBIT No. 477

[Copy to Imperial Chemical Industries, Ltd., Sec. Anon. Commercial e Industrial Tucuman 681, Buenos Aires, Argentina, and Imperial Chemical Industries, Ltd., 285 Madison Avenue, New York]

Ms-176-A-1  
184-Uruguayan Gov't

Colonel WILLIAM N. TAYLOR,  
PARIS OFFICE, FOREIGN RELATIONS DEPARTMENT,  
June 11, 1934.

Incorporated with limited liability in the State of Delaware, U.S.A.

H-108

IMPERIAL CHEMICAL INDUSTRIES, LTD.,

CORDITE SECTION,

*Millbank, London, S.W. 1, England*

DEAR SIR: Attached is confirmation copy of our cablegram of 7th June informing you that Sr. Manuel Ferreira, our agent in Paraguay who is now in Buenos Aires, asked us for prices c.i.f. Montevideo on 200 kilos Picric acid and 2,000 kilos Flake TNT. We also informed you in our cablegram that we could not quote from this end owing to the embargo on munitions and military propellants decreed by President Roosevelt.

In view of the fact that there is no similar embargo obtaining in England, we suggested that you quote prices to your office in Buenos Aires, who in turn would advise Ferreira.

Although the inquiry distinctly states that prices are wanted c.i.f. Montevideo, we suspect that the material is for Paraguay and since we wish to cooperate with our Government in observing the embargo, we deemed it best not to quote.

Yours faithfully,

FOR E. I. DU PONT DE NEMOURS & COMPANY,  
N. E. BATES, JR.

NEB: AKR.

## EXHIBIT No. 478

Cipher word		Cipher word	
AGIOU.....	Advise.	ICI.....	I.C.I.
FERREIRA.....	Ferreira.	GJEXE.....	London.
IWRPU.....	Cannot quote.	IXCJE.....	Will quote.
EDJEC.....	Owing to embargo.	DSOOX.....	Direct to you.
MANMU.....	Stop.		

Cable to I.C.I., Buenos Aires, June 7, 1934.

("Exhibit No. 479" appears in text on page 1112)

("Exhibit No. 480" appears in text on page 1117)

("Exhibit No. 480-A" appears in text on page 1117)

## EXHIBIT No. 481

[H.J.Res. 282, Seventy-second Congress, first session; House Calendar No. 160; Report No. 941]

In the House of Representatives. February 9, 1932, Mr. Fish introduced the following joint resolution; which was referred to the Committee on Foreign Affairs and ordered to be printed: March 30, 1932, referred to the House Calendar and ordered to be printed.

**JOINT RESOLUTION** To propose a multilateral agreement renouncing the sale or export of arms, munitions, or implements of war to any foreign nations

*Resolved by the Senate and House of Representatives of the United States of America in Congress assembled,* That the American delegates participating in the general disarmament conference now being held at Geneva, Switzerland, be requested to propose a multilateral agreement renouncing the sale or export of arms, munitions, or implements of war to any foreign nations, in accordance with the intent and purpose of the Kellogg-Briand pact renouncing war as an instrument of national policy.

**SEC. 2.** Nothing contained in this joint resolution shall be construed to interfere with the sale and shipment of foodstuffs, cotton, oil, coal, lumber, wool, leather, copper, automobiles, or other manufactured articles not commonly or commercially known as arms, munitions, or implements of war.

("Exhibit No. 482" appears in text on page 1134)

## EXHIBIT No. 483

FEBRUARY 24, 1934.

## FOREIGN RELATIONS DEPARTMENT

To bring your records to date we are attaching a complete list of military sales division agents in South America.

It should be remembered that the agents mentioned are also agents for Imperial Chemical Industries, Limited, for military propellant sales in South America.

NEB:AKR

N. E. BATES, JR.

*Military sales agents, South America*

	Street address	Cable address
Argentina.....	Sr. Don Antonio Carames Avenida Alvear #1760, Buenos Aires, Argentina.	Carames, Buenos Aires.
Bolivia.....	Sres. Webster & Ashton, Calle Loayza, 11-15, La Paz, Bolivia; or, Casilla de Correo 144, La Paz, Bolivia.	Activos, La Paz, Bolivia.
Brazil.....	Casa Mayrink Veiga, S/A, 17-Rua Mayrink Veiga-21, Rio de Janeiro, Brasil.	Mayrink, Rio.
Chile.....	Sr. Don Thomas C. Sargent, Casilla 240-V, Correo 15, Santiago, Chile.	Making, Santiago, Chile.
Colombia:		
Ordinary mail.....	Sr. Stuart Hosie, Correo Nacional 418, Bogota, Colombia.	Hosie, Bogota, Colombia.
Air mail.....	Sr. Stuart Hosie, Correo Aereo 3732, Bogota, Colombia.	
Ecuador.....	Sr. Don Francisco Sefzic, Casilla de Correo Num. 368, Guayaquil, Ecuador.	Sefzic, Guayaquil, Ecuador.
Paraguay.....	Sr. Don Manuel Ferreira, Casilla de Correo 573, Asuncion, Paraguay.	Nolo, Asuncion, Paraguay.
Peru.....	Sr. Don Ernesto de Rossi, Apartado de Correo Num. 1079, Lima, Peru.	Edero, Lima, Peru.
Uruguay.....	Sres. Crocker & Cia, Calle Uruguay 1010, Montevideo, Uruguay.	Crockerco, Montevideo.
Venezuela.....	Sr. Coronel B. de Santa Ana, Villa Pomarosa, La Florida, Caracas, Venezuela.	Colbdesa, Caracas.

## EXHIBIT No. 484

• MS-80-A  
MS-80-D  
MS-8  
MS-35

*Annual report on the situation in the territory of the Paris office smokeless powder department on December 31st, 1933*

Beginning 1933, the Paris office of E. I. du Pont de Nemours & Co. began to take over the territory of Southern Europe from the Paris office of Imperial Chemical Industries, and as I.C.I. had several changes which they wished to make in their agencies in these countries, we waited until these were completed and then adapted our arrangements to theirs. As I.C.I. had suitable agents in the territory, we decided that we would simply take the I.C.I. agents and add to their work the Du Pont representation.

All this is going on smoothly and has been completed, although the agreement with I.C.I. agent for Yugoslavia is for the moment only verbal.

The difficulties encountered by the governments in this territory in obtaining foreign exchange, have made the export of powder and explosives extremely small, although all war departments in this territory have announced their desire for larger quantities than previously considered.

The result has been that while purchases from abroad have not been of interest, there have been larger orders than usual placed on the government factories, and considerable funds have been appropriated to the increasing and development of these factories. It would, therefore, appear that before long every country in Europe will be provided with a local factory sufficiently large to completely cover its current needs.

However, each country has plans for mobilization stocks and these plans call for more and more powder each year, and our opportunity for sales are restricted to supplying these requirements, which will probably become acute on any menace of war.

The causes of conflict are plenty and most of the continental people are seriously afraid that for one reason or another Germany will start a war and that it will come so suddenly that negotiations to prevent it will be impossible.

On every frontier, Germany has a delicate problem, and Germany is taking certain steps which the military people agree are destined to make her a very dangerous adversary in case of war.

The prices in Europe have been up to now going down, as competition for the small amount of business offered has been extremely severe. The different

• Pencil markings.

manufacturers are making tremendous efforts to sell, mainly in view of being well in with the customers in case of larger requirements, as mentioned above.

It looks, however, as if prices had reached their minimum. The prices of raw materials are increasing and the manufacturers who have taken orders at low prices are complaining bitterly.

*Austria.*—We have made no attempt to sell to Austria, as they are only permitted to import under license from the Council of Ambassadors.

Austria has been very active in the reorganization and the equipment of their military establishments.

We understand that their powder is provided by their own factory at Blumau, which is in a position to furnish all they need.

*Belgium.*—Belgium has voted a larger military expenditure than usual and have placed more orders on their own factories than in past years. They have been urging their local factories to increase their capacity and have given them a premium over the prices of foreign manufacturers, which amounts to approximately 20%.

We received a statement from them of quantities of powders and explosives which would eventually be required.

I received a request to proceed to Belgium to discuss this matter, which was later postponed.

*Bulgaria.*—This country can only purchase under license from the Council of Ambassadors, but is making enquiries for supplies apparently disregarding the peace treaty. However, they have no foreign exchange and wish to pay for these goods with tobacco and other products.

I.C.I. have made an agency arrangement with Cr. H. Sirmadjieff & Co., I, Rue Aksakoff, Sofia, and we have also made an agency arrangement with them, as they appear to be suitable people.

*Czechoslovakia.*—We have made no attempt to sell to Czechoslovakia.

*Denmark.*—Denmark has reduced its army to a few thousand men and are making no plans whatsoever for strengthening their military position.

*Estonia.*—The Estonians are buying all they can and prefer to purchase from England, with whom they hope to negotiate a tariff treaty.

*Finland.*—Finland, as a result of a commercial treaty, has decided to buy all her military requirements from England.

The Finns have a factory where they manufacture rifle powder of an excellent quality and they are stocking raw materials instead of finished supplies. They are also planning to stock TNT, which they hope to buy as fast as they can get the money. During the year we sold them a fair order.

I.C.I. completed an agency with Messrs. de Jersey & Co. (Finland) Ltd., Mikonkatu 9, Helsingfors, and we have contracted with them to be Du Pont agents.

For a while and at the request of the War Dept., we endeavored to get along without an agent in this country, but it appeared thoroughly impractical, as we never got requests for supplies and our offers were never promptly handled. The appointment of an agent brought immediate results.

*France.*—We, of course, do not sell to France, but the French are making extensive studies and experiments on new explosives and on nitroglycerin powders. I believe it will be of the greatest interest to follow closely the studies of the French laboratories.

*Greece.*—Greece has been engaged this year in testing samples of powder in view of future purchases. There have been a number of trials and nearly all the powder manufacturers submitted samples.

They offer in payment drachmas, which can only be used to purchase Greek products, which limits seriously the amount of business that can be done with them.

In the various trials of powder the products of I.C.I. have shown extremely well.

The Greeks wish to increase the capacity of their powder factory and have asked for offers to enlarge their factory from the principal manufacturers.

*Holland.*—Holland has reduced her purchases, due to her financial situation, and has made practically no purchase abroad. On the other hand, she has placed more orders than usual with her local factories.

*Hungary.*—We do not attempt to sell to Hungary; but, contrarily to the peace treaty, the Hungarians, who have a powder factory known as "Nitrochemie

**Industrieanlagen A.G.**, have reorganized their powder industry and have come out bodily into the export field. The French have made a protest against this, but apparently there is no one to protest to now, as the Council of Ambassadors, which was charged with the maintenance of the military clauses of peace treaties, appears to have no more real existence.

**Latvia.**—Purchases are restricted due to the lack of foreign exchange.

**Lithuania.**—This country is unable to buy due to her having no money.

**Norway.**—The Norwegian Army has been extremely reduced and no money is being spent abroad.

**Poland.**—Poland has bought no powder or explosives abroad this year. We understand that they have increased Zagozdzon by four times the original capacity and are considering the erection of another factory, and it looks as if this country were lost as a customer.

**Portugal.**—Portugal is discussing with I.C.I. the question of enlarging their local factory at Chelas.

**Roumania.**—Roumania has had so many scandals in her army this year that, according to our agent, there is no immediate possibility of business, although he hopes that when the matter is straightened out, there will be some.

We have appointed Mr. F. G. Boxshall, 107 Cales Victoriei, Bucarest, agent for Du Pont. He is the agent for I.C.I. in that territory.

**Spain.**—We have done no business with Spain, as I.C.I. have an arrangement with "Union Espanola de Explosivos."

It is our understanding that the Spanish Army buys some powder from abroad.

Spain is having its powder factories entirely renewed and reorganized by the Germans.

**Switzerland.**—This country has voted an extremely large military budget this year. As Switzerland must of necessity buy considerable material abroad, there is a great deal of excitement among the military suppliers as to whom will get the orders.

We are looking into this matter of powder and explosives and will shortly know whether it is possible to sell them or not.

**Turkey.**—Turkey is a possible market, but they wish to pay with Turkish goods. At the recent adjudication held for made up charges, Bofors took the order at a price which appears a loss.

We hear that the Turks have made a contract with Nitrochemie of Hungary to build a TNT plant, in return for which they placed their orders for TNT with the Hungarians.

**Yugoslavia.**—Yugoslavia has been spending money to develop her local military industry and her powder factory. She is, however, short of raw materials and has tangled up her factories through insufficient facilities. She recently erected a TNT plant, but could not get toluene and she is very perplexed as to what to do. She would like to lay up a stock of toluene and various raw materials for her factories.

Up to a certain point, the development of her local factories went on all right, but it has now gotten beyond the general industrial development of the country, and the Yugoslavians are now beginning to wonder whether they were right in doing this or whether they should not get supplies of finished materials.

Yugoslavia is also short of foreign exchange and wishes to pay for these materials in barter.

**Prospects for 1934.**—The prospects for obtaining orders for current military supplies in Europe are practically out of the question. The only countries in our territory which are unable to supply their requirements are: Estonia, Latvia, Lithuania & Denmark, and their current needs are very small.

However, as mentioned above, all these countries desire large reserve stocks and our prospects for sales lay largely in getting these orders, which is a very possible undertaking. It will probably mean some financing on our part, and as these are extra-budgetary operations, they must be handled with different methods than those used in meeting ordinary adjudications.

WILLIAM N. TAYLOR.

WNT/MS

Paris office, smokeless powder department, military sales division, chart no. 1,  
forecast no. 1, 1st quarter 1934

## NITROCELLULOSE POWDER

Country	Du Pont-I.C.I. sales					Forecast				
						1934				1935
	1929	1930	1931	1932	1933	1st Qt.	2nd Qt.	3rd Qt.	4th Qt.	1st Qt.
Belgium.....			1.5							30
Bulgaria.....										
Denmark.....										
England.....	10	5	6				20			
Estonia.....	4		3			18				
Finland.....										
Greece.....										25
Holland.....	5				1.5					
Latvia.....	9					20				
Lithuania.....		4		21			20			
Poland.....		5								
Roumania.....								0.30	30	
Sweden.....										
Turkey.....										10
Yugoslavia.....										
Total.....	28	14	10.5	21	1.5	38	40	.30	40	55

Paris office, smokeless powder department, military sales division, chart no. 2,  
forecast no. 1, 1st quarter 1934

## TNT

Country	Du Pont-I.C.I. sales					Forecast				
						1934				1935
	1929	1930	1931	1932	1933	1st Qt.	2nd Qt.	3rd Qt.	4th Qt.	1st Qt.
Belgium.....								100		
Bulgaria.....										
Denmark.....										
Estonia.....		12	10	28	18					
England.....										
Finland.....				50	400		200			
Greece.....										
Holland.....									100	
Latvia.....						45				
Norway.....										
Poland.....										
Roumania.....	40						60			
Sweden.....										
Turkey.....		50								100
Yugoslavia.....	95		120					100		
Total.....	135	62	130	78	418	45	260	200	100	100

Paris office, smokeless powder department, military sales division, chart no. 3,  
forecast no. 1, 1st quarter 1934

## NITROGLYCERINE POWDER

Country	I. C. I. sales					Forecast				
						1934				1935
	1929	1930	1931	1932	1933	1st qt.	2nd qt.	3rd qt.	4th qt.	
Belgium.....										
Bulgaria.....										
Denmark.....										
England.....										
Estonia.....				1.5						
Finland.....										
Greece.....		1				40				
Holland.....										
Latvia.....										
Norway.....										
Poland.....										
Rumania.....										
Sweden.....										
Turkey.....								30	10	20
Yugoslavia.....										
Total.....		1		1.5		40		30	20	20

## Total European sales 1928 to 1933

Name of company taking orders	1928					1929					1930				
	T.N.T.	N.C. P.D.R.	N.C.	N.G. P.D.R.	%	T.N.T.	N.C. P.D.R.	N.C.	N.G. P.D.R.	%	T.N.T.	N.C. P.D.R.	N.C.	N.G. P.D.R.	%
E. I. Du Pont de Nemours & Co.		48			5.3		20.5			3.7		10			2.0
Imperial Chemical Industries, Ltd.		\$1.98	300		33.7	135	\$1.66			47.5	62	\$1.95			13.3
Bofors-Nobelkrut.	\$0.88	150	\$0.876		19.5	200	\$1.60		\$0.953	43.2	\$0.59	\$1.764			19.1
Purdrerie Royale de Wetteren, Caillille, Belgium.	\$0.67	\$1.87			2.8	7	\$1.46				\$0.49	\$1.28			
Czechoslovak Explosives, Ltd., Czechoslovakia.	7				3.3										
Service des Poudres, France.				30	7										
Nederlandsche Springstoffindustrie, Holland.															
Bombini Parodi, Delfino, Italy.	42				47						226				44.45
Dynamite Nobel, Italy.	\$0.56										\$0.426				
S.I.A.T.A.M., Italy.			65		7.3										
Finnish Government Factory, Finland.			\$0.753							9					
Norske Springstoff Industrie, Norway.	10				1.1		\$1.55								
Schweizerische Sprengstoff Fabrik Dötlikon, Switzerland.	\$0.578				18					2.7					
Societe Selve Thoune, Switzerland.						\$0.52									
Other firms.	200				22.3						100				31.01
	\$0.55										\$0.405				
Total.	306	198	365	30		350	64		120		438	59			



Name of company taking order	1931					1932					1933				
	T.N.T. P.D.R.	N.C. P.D.R.	N.C. P.D.R.	N.O. P.D.R.	%	T.N.T. P.D.R.	N.C. P.D.R.	N.C. P.D.R.	N.O. P.D.R.	%	T.N.T. P.D.R.	N.C. P.D.R.	N.C. P.D.R.	N.O. P.D.R.	%
E. I. du Pont de Nemours & Co.....			7.5		1.4										24
Imperial Chemical Industries, Ltd.....	130	\$1.72		1	24.7	78					418	1.5			88.19
	{ \$0.46			\$0.64		\$0.34					{ £0-1-9.3	\$1.55			
Bofors Nobelkrut.....			65		12.2	205		193		10	62				21.78
			\$1			\$0.329					{ £0-2-2	11.5		60	68h.6, d.
Pudrierie Royale de Wetteen, Caullille, Belgium.....	208				39.1						{ \$0.33	\$1.03			8.16
Czechoslovakia Explosives, Ltd., Czechoslo- vakia.....	\$0.44														
Service des Poudres, France.....															
Niederlandsche Springstofindustrie, Hol- land.....															
Bombini Parodi Delfino, Italy.....															
Dynamite Nobel, Italy.....															
S.I.A.T.A.M., Italy.....	100	10													
	(?)	\$1.34		20.7											1.63
Finnish Government Factory, Finland.....															
Norske Springstoff Industrie, Norway.....															
Schweizerische Sprengstoff Fabrik Dotli- kon, Switzerland.....															
Societe Selve Thounne, Switzerland.....															
Other firms.....		10			1.9										
		(?)													
Total.....	438	20	72.5	1		343	193		11.5		490	73		60	

<sup>1</sup> Belcas.

This table shows all sales made by the above factories in competition. It does not include sales by these factories to their own governments under private arrangements, nor deliveries from France to her military allies under treaty. Percentages shown are calculated on the total tonnage of all materials.

EXHIBIT No 485

• MS-144

OCTOBER 18, 1931.

Major K. K. V. CASEY,  
*Director of Sales, Smokeless Powder Department:*

Please advise what steps have been taken to secure military sales business in the unhappy event of hostilities between China and Japan.

F. W. PICKARD,  
*Vice President.*

FWP: JMQ  
 Discussed with  
 F. W. Pickard. 10/19/31.  
 KKVC.

EXHIBIT No. 486

[Copy]

135-Nobel Ind. Ltd. Spec.  
 MS-80-A  
 135-Nobel Ind.  
 34-Chinese Gov's  
 MS-64

LONDON OFFICE, BUSH HOUSE,  
 Aldwych, W.C. 2, August 14, 1933.

E. I. DU PONT DE NEMOURS & Co.,  
*Wilmington, Delaware.*

Major K. K. V. CASEY,  
*Smokeless Powder Department.*

FAR EASTERN TERRITORY—YOUR LETTER D-2897

Dr. Noelting arrived in London on Saturday, and I met him Sunday afternoon. This morning we had a conference at I.C.I.'s office, at which were present: Messrs. Laing, Cox, Hawkins, and Thornhill, of Imperial Chemical Industries, and Dr. Noelting, Mr. Ewing, and myself, of du Ponts.

The memorandum dated July 22, 1933, written by Mr. White on the meeting in Wilmington July 20 was received with considerable surprise, because it appeared to say in effect that I.C.I. has not played the game in accordance with the memorandum of October 10, 1932, when in fact they feel a great deal of care and thought has been given to this situation.

However, we took up this matter in accordance with the memorandum, and with Dr. Noelting's familiarity with the point of view of Wilmington, the whole matter was discussed.

The steps which I.C.I. have taken to develop this territory are as follows:

The first thing I.C.I. did was to take advantage of Mr. P. Fowler's trip to the Far East to have him talk over this matter with Dr. Noelting and I.C.I. staff in China and to organize the position. Mr. Fowler is experienced in China and his duty is organization and not that of a salesman. After consultation with I.C.I. in China and with Dr. Noelting, it was decided that I.C.I. would use as their agents in China the Jardine Engineering Corp. Jardine Engineering Corp. are an established company in China and have been extremely successful in the military business, having been agents for a great number of British houses, including Vickers, and having up until the year 1933 done a very large business in military work with the Chinese Government, and have apparently shown themselves to be competent military agents in the Far East. Through them, I.C.I. has received constant and very large orders for cartridges. Furthermore, Jardine takes the complete credit risk by taking the contracts in their own name and paying I.C.I. for the merchandise. Jardine, therefore, appeared to them the best agents they could find. I.C.I. feel it advisable in view of their non-military business in certain provinces which are not in sympathy with the Nanking Government not to handle the military business directly through I.C.I. Shanghai.

I.C.I., London, write directly to I.C.I., China, whose business is to check on Jardine very much as I check on the European agents and to receive and provide Jardine with technical assistance and everything they wish. Notice has been given to Jardine that if at any moment an expert technician of any type is required, he will be provided. For the moment, Jardine have told them they

\* Pencil markings

felt there was no necessity for this, as they, themselves, have on their staff a number of military people. None the less, during the month of May I.C.I. sent to China Colonel Cresswell, who is still there. Colonel Cresswell is probably the most experienced military man in I.C.I., having been for many years at Woolwich Arsenal and having commanded a battalion of heavy artillery during the war. He is now the managing director of the ammunition section of Kynochs, I.C.I., Shanghai, have for the moment given the handling of military powders to Mr. Montagu Smith and have seriously considered bringing Mr. Montagu Smith back to England for a degree of technical instruction. However, China notifies them that this is not for the moment necessary and they think it would be a waste of time, particularly because of the fact that Colonel Cresswell is on the spot and the fact that Jardine have apparently sufficient military people.

Mr. Killery of I.C.I. is about to leave for China, and has been very carefully posted on all the military business. He is going to remain there permanently as head of the China organization.

The Chinese business is very complicated because work on this business must be carried on, not only in China, but also in England and in Germany. The Chinese have a purchasing commission in Berlin, with whom I.C.I. are in constant touch, to my knowledge, and as you know, Mr. T. V. Soong, who holds the purse strings of China, has been in Europe. Confidentially, Sir Harry McGowan has been in touch very closely with T. V. Soong during his whole visit and is going himself early in September to China to see T. V. Soong on the spot to try to make the most out of the connection started in England.

It may be that the method employed by us in Europe and South America is not exactly that which I.C.I. are pursuing in the Far East. I.C.I. are trying to solve the far eastern question to the best of their ability and are trying to find a method of working, not so much based on the memorandum of October 10 as on the facts of the oriental situation.

In the memorandum, Japan is mentioned. They handle Japan in a different way and believe it should not be handled by the same people as are handling China. Japan offers no possibility of business except for specialties, of which I.C.I. gets their share. All standard military material is manufactured in the country, and there have been no purchases of powder or explosives abroad.

The only purchases made in Siam are guncotton. So far, I.C.I. have got their Siamese business through their Siam agents, and they recently appointed new agents, which they hope will be better.

Regarding the Dutch East Indies, that whole business is handled through Holland and is in my territory. As you know, I am offering cannon powder in the Dutch East Indies, and samples have gone forward. Dutch East Indies also buy T.N.T., which I offer in Holland. So far we have not sold any, as both our prices and I.C.I.'s have been too high.

I.C.I. admit that they have been negligent in reporting all of these movements to you, but it has taken them a good while to get this thing under way, and I have in hand a letter from I.C.I., Shanghai, dated June 19, saying that they are preparing now to send monthly reports to Wilmington.

There has actually been very little business, and they will send you a list of all comparatively recent activities. About the time that this agreement of Oct. 10, 1932, went into effect the urgent military operations ceased, and there has been a let-down in the purchasing. I believe the only purchases made since that time have been 8 tons of cordite, which was sold by I.C.I., and 200 tons of T.N.T., which was sold by Bofors to China through the Chinese-Berlin office. There is also an inquiry for 20 tons of nitrocellulose powder.

I think it is right to say that Dr. Noeltling, Mr. Ewing, and myself feel satisfied that everything has been taken care of in accordance with the intentions of the agreement of October 10 and that I.C.I. have been making a serious effort to organize this territory and promote sales.

The question of price plays an important part in business, and the duPont prices have been so out of line with the world prices for powder and T.N.T. that often it appears inadvisable to quote duPont material for fear of giving a bad impression. Mr. Haley, one of I.C.I., China, staff, home on leave, has as you know, raised the difficulty of offering both companies' products. It seems to me that this difficulty is meantime solved by duPont's prices being out of line, as, in spite of the fall in the dollar, the dollar-paper prices are still higher than the European prices, and either the dollar must fall lower or duPont must come down on the prices before duPont will be again in

the market, and I.C.I.'s problem seems to be what to do about offering duPont goods under these circumstances. I have suggested to them that they do the same thing that I do, i.e., to get prices from both companies and decide before making the offer which company has the chance of getting the business and push that one. As far as my experience has gone, in every case there is a perfectly clear reason for quoting one company's goods instead of the other, either for price, credit, quantities, or special desires of the customer. I therefore suggested to I.C.I. that the way to handle this in China was to have them judge each offer on its merits and do the best that can be done in the circumstances.

W. N. TAYLOR.

EXHIBIT No. 487

Cipher word:

YBIMO	I.C.I. Ltd. London.	
AGIOU	advise	
YAZAL	Hercules Powder Co.	
OIGBW	Rotterdam, Holland	
FAOKY	inquiring (about)	
IPHOX	prices	
DIBJU	delivery (of)	
RUTJA	50 tons	
AYREH	Diphenylamine	
KYLIT	for shipment to	
OHYBD	New York, N.Y.	
MANMU	stop	
YBIMO	I.C.I. London	
HINJE	naturally	
ANCBU	anxious	
CIWIZ	(to) consummate	
AYHZY	business	
MIUTD	suspecting	
FAOZN	inquiry	
IMINR	placed	
AUFWT	because of your	
KYKAS	inability	
MIBIL	(to) supply	
MANMU	stop	
EVSOV	However	
ODGRI	do not wish to	MS—2
DXYAE	disturb	88—Hercules Powder Co.
GUTAD	your market	34—Chinese Gov't.
AMEMB	and before	
IAFTO	offering	
JNIEJ	request you to	
AGJAF	advise if	
IYJBQ	any reason	
OFIMC	you	
IOMXA	prefer	
MUWKE	they do not	
IWQEK	quote	
AMCOG	and	
KEIIC	secondly	
IPOBC	at which price	
NAYUQ	per ton c.i.f.	
OHYVD	New York, N.Y.	
OFIMC	you	
CHOGE	consider	
YBIMO	I.C.I. London	
FUFWO	justified (in)	
IWQEK	quoting	
MANMU	stop	
BACUZ	cable immediately	

Cable from London office, February 19, 1934.

## EXHIBIT No. 488

SHANGHAI, 1st August 1933.

MAY, JUNE, AND JULY

## I. NEGOTIATIONS COMPLETED

Chinese Maritime Customs, Shanghai. 20,000 lbs. R.F.G. 2 powder. Contract dated 20th June 1933. Price sold at £4.17.0 per 100 lbs.

## II. PROSPECTS UNDER NEGOTIATIONS

Ministry of Navy: We have very great hopes of obtaining an order for C.S.P. 2 cordite for 6'', 4'', 4.7'' and 3'' guns, complete with charges. We have quoted on the lines indicated in London's cable of 24th June 1933, i.e. 5/10½ per kilo, packed loose, and for priming powder R.F.G. 2 at £4.12.0. per 100 lbs.

We are assured by Jardines that confirmation or otherwise of this order will be to hand within the week.

Bureau of Military Administration, Nanking: We have quoted through Jardines for nitrocellulose powder for 7.92 mm. rifles 5/10 per kilo, 15 tons, and 6/3½ per kilo for ballistite ordnance, 4 tons. Quotations for this business have been received from Berlin, and in this respect we requested London to quote likewise. This quotation was submitted on 24th June.

In view, however, of London's cable to us of 11th July, indicating that their quotation to the Berlin Embassy of 5/6¾ per kilo f.o.b. for rifle powder was approximately 8% higher than Bofers, and that we could reduce to 5/4 per kilo f.o.b., and in view of a further cable dated 17th July, confirming that London had quoted this, we passed this information on to Jardines, who advised the Bureau of Ordnance accordingly.

As confirmed in our cable of 14th July, should the business be concluded in Berlin, Jardines in Shanghai agree to take del credere providing documents are sent direct to them, and that it is stated on the contract between suppliers and the Embassy in Berlin that Jardines are acting on suppliers' behalf in the event of nonpayment in Berlin, and that they have authority to collect here.

As no further news has been received by you, we have requested Jardines to make further enquiries in Nanking to ascertain whether the business has gone past us, or whether negotiations are merely postponed.

## III. PROSPECTS FOR FUTURE NEGOTIATIONS

Direct contact: As already advised London, the authorities in Nanking have been favouring the system of conducting business direct with the manufacturers through their purchasing commission in Berlin. We are, however, confidentially informed that this system may revert to previous methods in that, though prices might be confirmed through their Berlin purchasing commission, business will in all probability be done locally.

We have been receiving very few inquiries during the last 6 months for TNT, and repeated representation to the Nanking authorities has produced no definite information as to whether the Bureau of Ordnance will be in the market for TNT during the next 6 months. Their normal requirements amount to approximately 300/400 tons per year, and we cannot trace any substantial orders having gone home during the last 2 or 3 months. This also applies to nitrocellulose powder, as, but for the inquiry enumerated above, business appears small. It is more than probable that the authorities are awaiting the return of the Finance Minister, Mr. T. V. Soong, before deciding or committing themselves.

Amatol: Owing to continued competition from Bofors in TNT, we are proposing to offer Amatol 80/20 as an alternative. Details as to this material have not yet reached us from London.

## IV. GENERAL REPORT ON TERRITORY

Very little of interest to report.

Both Canton and Nanking have been for some considerable time past purchasing ammunition from various manufacturers. The Muniton Works in China are doing very little, and, in this respect, for your interest, we attach

hereto copy of a memorandum given to Colonel Creswell of I.C.I. Metals. Ltd., on the various munition works in China.

There would appear to be no doubt that the Chinese have found it better at the present time to import the complete ammunition rather than manufacture the cases and bullets in China and buying the powder to load. There is still a certain amount of loading being done at the Han Yang Arsenal, but generally speaking, arsenals are concentrating on repair work and shell loading. As stated above, very little activity can be expected until the return of the Finance Minister.

Canton: It is expected that the Canton Arsenal will be in the market for powder for shell bombs and hand grenade fillings in the future, as they are studying the matter very carefully. We are definitely handicapped in this business on account of the fact that the British Government require export permits before they allow the export of any munitions into China. This export permit cannot be obtained until after the Chinese Minister in London has seen the Huchao, which has to be approved by the Nanking authorities, and the Cantonese naturally do not favour any arrangement which necessitates their applying to the Central Government for permission to export into their territory.

In the past Jardines have managed to persuade the Cantonese authorities to write to Nanking for a permit, but it must be understood that the only reason why the Cantonese accede to this request is because they have no alternative either because prices submitted were under those of continental firms or they could not obtain the material elsewhere. The above also applies to shipments from America.

It would be a great help to conducting business if these restrictions could be lifted, and we suggest that representations be made to the British Foreign Office and the State Department in Washington in this respect. It could be stated in this representation that on no account would military munitions be supplied to the Cantonese Government if a state of war existed between them and the Central Government.

R. MONTAGUE SMITH.

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EXHIBIT No. 489

MITSUI

CC: Mr. J. K. Jenney.

JULY 2, 1930.

MF #2862—AMMONIA OXIDATION—F.N.

Mr. F. NOBU,

*Mitsui & Co., Ltd., 65 Broadway, New York City, N.Y.*

DEAR MR. NOBU: This will acknowledge receipt of your letter of July 1st, from which we regret to note that the prospective clients in Japan have not as yet made any definite move towards the purchase of our ammonia-oxidation process.

As stated previously we are receiving from time to time inquiries from Japanese concerns, and in view of our happy relations with Mitsui & Co. we think it preferable to refer such matters to your concern because we feel that it would be of mutual benefit for all of these inquiries to pass through one central office. We further feel that from the prospective clients' standpoint you are perhaps in a better position to handle these inquiries because of your general knowledge of chemical industries in Japan, the local conditions, etc., but we quite naturally hesitate to refer these inquiries to you until we have been definitely advised as to your wishes regarding the proposed contract.

It can be readily seen that we are in a somewhat embarrassing situation as the matter now stands, and we would therefore be very much pleased to have your company come to some conclusion in the matter.

The terms of this proposed contract are very similar to those made with other concerns and seem to be very specific and entirely clear.

Yours very truly,

H. G. CHICKERING,  
Development Department.

HGC/vod.

## EXHIBIT No. 490

Nitrogen—Japan '28-'31

N—Japan

Mitsui

Copy to Mr. F. A. Wardenburg, Du Pont Ammonia Corp. Buil'g

APRIL 23, 1931.

To: Messrs. F. W. Pickard, Vice Pres.

J. E. Crane, Vice Pres.

From: Foreign Relations Department.

I attach herewith copy of a report from Mr. F. A. Wardenburg to the board of directors of the du Pont Ammonia Corporation relative to the proposed sale of contact conversion process rights to Mitsui in Japan. Mr. Wardenburg endeavored to discuss this subject with the foreign relations committee before the meeting of his board, but we were unable to arrange a meeting, and it will be necessary to discuss it after the ammonia board has acted.

Presumably, if we are to sell the process in Japan at all, we would prefer to sell it to the Mitsui interests, not only because they are linked up with the Claude interests, but also because it is a matter of general company interest to keep as friendly relations with this company as possible. The point for the foreign relations committee to decide bears on the I.C.L. relationship involved.

The I.C.I.-du Pont agreement provides (par. 5) that neither party will sell a process to a third party in nonexclusive territory without first advising the other party of its intention to do so.

This subject was also discussed at meeting with Lord Melchett and Sir Harry McGowan on August 27th, 1930. "It was agreed to consult in advance of action with respect to the sale of any process covered by the agreement in nonexclusive territory, subject to the right of either party to initiate preliminary discussions under exceptional circumstances."

I believe this obligates us to take the matter up with I.C.I. before making an offer or carrying on any further negotiations with Mitsui. We have no contractual obligations which would prevent us from concluding the deal with Mitsui, even though such a deal might hurt I.C.I.'s interests considerably, Japan being one of their two or three most important export markets.

Mr. Wardenburg, of course, quite justly points out that Mitsui seems resolved to go ahead with their expansion program, and it is hard to see how I.C.I. can be much worse off whether we sell them our process or whether they go ahead on their own, or with some third party.

As this seems to be a matter that the foreign relations committee should discuss, there will be a meeting in Mr. Pickard's office at 9:00 a.m. Saturday morning, April 25th.

J. K. JENNEY, *Asst. Director.*

jkj/ems

## EXHIBIT No. 491

## MITSUI

For rel. com. action N. Japan, I.C.I. P. &amp; P. agree.\*

Copy to Mr. H. H. Ewing, London office.

APRIL 24, 1931.

To: Mr. F. A. Wardenburg, Pres. du Pont Ammonia Corporation.

From: Foreign relations department.

At a meeting of the foreign relations committee held in Mr. Pickard's office April 24, Messrs. Pickard, Crane, and yourself being present, the subject of the sale of contact conversion process rights to Mitsui for Japan was discussed. It was agreed that it would be necessary to advise I.C.I. before making a definite offer, and it was also agreed that you would write a letter to Col. Pollitt in the near future.

J. K. JENNEY, *Asst. Director.*

JKJ/EMS.

P.S.—Mr. Ewing: The Mitsui people, who are Claude licensees in Japan, have heard through [Air Liquide]\* of our part in the development of a contact conversion process and seem to be desirous of purchasing rights for

\* Pencil marking.

use of this process in Japan. No definite offer has been made, but one will be in the near future. In the meantime, Mitsui has asked us to keep this matter strictly confidential, as they have to clear up certain commitments they have made with Air Liquide.

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EXHIBIT No. 492

## MEMORANDUM COVERING RELATIONS BETWEEN MITSUI &amp; DU PONT WITH RESPECT TO HYDROGEN PROCESS

(To Ass't. Sec'y. of State Rodgers, 3/28/32)\*

The original contract arose from the fact that Mitsui and du Pont were both licensees under the Claude ammonia process, Mitsui for Japan and du Pont for America. The exchange of operating experiences between licensees brought Mitsui and du Pont representatives together.

The Claude process covered the production by hydrogen by the liquefaction of coke-oven gas. du Pont found that this method of hydrogen production was not as economical in America as the production of hydrogen from coke, and du Pont proceeded to develop a process for this manufacture of hydrogen. Through the exchange of operating experiences referred to above, Mitsui learned of this development by du Pont and were interested because Mitsui had also found that the manufacture of hydrogen in Japan could be done more economically from coke than from coke-oven gas. Mitsui accordingly expressed a desire to negotiate for the Japanese rights to the du Pont hydrogen process, if and when successfully developed.

In May 1931 a representative of Mitsui called on du Pont and opened negotiations for license and du Pont gave Mitsui an option on the Japanese rights. In January 1932, that option having expired, Mitsui advised du Pont that they would like to reopen the negotiations and that has been done. There have been several conversations, and Mitsui representatives state that they desire to acquire the Japanese rights for the du Pont hydrogen process, although they state they have no intention of immediately proceeding with the construction of a plant to utilize this process.

The amount of money involved in this matter is something of the order of one-half million dollars. It is, therefore, an important piece of business and one which would tend to improve the already friendly relations existing between Mitsui, the leading industrial concern in Japan, and du Pont, one of the leading chemical companies of America.

The existing ammonia-plant capacity in Japan is estimated at 124,000 tons of nitrogen, equivalent to 450 tons of ammonia per day, which is about double the capacity of the du Pont plant in America. In Japan ammonia is quite largely made from electrolytic hydrogen and is practically all absorbed in agriculture. Japan does not make its nitric acid from ammonia but makes it from imported nitrate of soda.

The importance of Mitsui and to Japan of the acquisition of the du Pont hydrogen process does not lie in the resulting ability to manufacture ammonia, because Japan already has that ability, but rather in the economy of the du Pont hydrogen process as compared with the manufacture of hydrogen from coke-oven gas, or by electrolytic process; i.e., the advantage seems to be in the commercial economy, and this economy is great enough to warrant Mitsui in paying the very considerable sum involved.

MARCH 25, 1932.

LduP/WH

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EXHIBIT No. 493

## MITSUI MINING COMPANY

This agreement dated this 26th day of July 1932, by and between Mitsui Mining Company, Ltd., a corporation of Japan, party of the first part, hereinafter called Mitsui, and E. I. du Pont de Nemours & Company, a corporation of Delaware, hereinafter called du Pont, a party of the second part, witnesseth:

\* Inserted by pencil.



Whereas Mitsui has a license for the operation of the Claude process for the manufacture of ammonia for Japan, and is operating a unit or units of that process at its plants in Japan; and

Whereas du Pont has developed a process for the manufacture of a hydrogen-nitrogen mixture from water gas, which process operates to react carbon monoxide with steam under a pressure of approximately 25 atmospheres, giving a mixed gas suitable for synthetic ammonia manufacture, hereinafter referred to as pressure contact conversion process, and has built and is operating a unit or units of that process, each unit having a rated capacity for the production of hydrogen sufficient for the manufacture of 85 tons of 2,000 pounds of synthetic ammonia per day of 24 hours; and

Whereas Mitsui is proposing to install additional ammonia manufacturing capacity and for such installation desires to manufacture the hydrogen in connection therewith by the pressure contact conversion process.

Now, therefore, in consideration of the payments and mutual covenants hereinafter outlined, the parties hereto agree as follows:

1. du Pont agrees to furnish, upon the signing of this agreement, drawings and information sufficient to enable Mitsui to build, or have built, the special equipment, and to enable Mitsui to install all equipment and piping in connection with one 85-ton pressure contact conversion unit, including manufacture of catalyst for same. du Pont agrees also to furnish upon signing of this agreement information which would assist Mitsui in constructing such unit including catalyst manufacture and placing same in operation.

2. Mitsui agrees to pay du Pont at Wilmington, Delaware, in United States gold coin of the present weight and fineness, or its equivalent, the sum of \$300,000 payable \$100,000 upon the signing of the contract, a further \$100,000 one year thereafter, and the remaining sum of \$100,000 two years after date hereof.

3. In the event that Mitsui, its subsidiary or subsidiaries, install additional capacity for the manufacture of hydrogen by the reaction of carbon monoxide with steam at a pressure greater than five atmospheres, such additional capacity shall be considered as using the du Pont pressure contact conversion process and Mitsui shall make additional payment to du Pont of \$100,000 for each additional unit having a capacity of 85 tons per day. Such payments shall be made in the following manner: One-half of \$200,000 upon decision by Mitsui for the construction of each such additional unit; remaining one-half of \$200,000 in one year thereafter. When, however, the total of all payments made under this agreement shall have amounted to \$900,000, exclusive of payments for services as covered by paragraph 10 hereof, no further payments shall be required from Mitsui, regardless of the amount of hydrogen manufacturing capacity installed for ammonia manufacture. If any units after the first unit shall be of any other capacity than for the manufacture of 85 tons of ammonia per day, payments hereunder shall be at the rate of \$2,350 per ton of rated ammonia manufacturing capacity per day, and shall be made in the following manner: One-half upon decision by Mitsui for the construction of such units; remaining one-half in one year thereafter.

4. Subject to a right which Imperial Chemical Industries has already secured from du Pont to obtain a nonexclusive, nontransferable license for pressure contact conversion process, and to receive information relative thereto, Du Pont agrees that it will not, directly or indirectly, for a period of three years from date hereof, give to any others than Mitsui information with reference to the pressure contact conversion process for use in the territory herein covered. After the expiration of such three-year period du Pont shall be free to give to any others in such territory information with reference to such process and license to use same, unless Mitsui shall by that time have paid to Du Pont the amounts herein specified for additional unit or units, each of which units of 85 tons shall extend this period of exclusive information to Mitsui for a period of two years, except that payment by Mitsui of a total of \$900,000 shall make Mitsui's rights hereunder exclusive except as aforesaid for a period of seventeen years from date hereof. du Pont shall not, however, during the period of five years from date hereof offer to anyone other than Imperial Chemical Industries for the territory herein information with reference to such process and license to use same upon terms more favorable than the terms herein granted to Mitsui, nor during the next five years thereafter shall it offer better terms to other than Imperial Chemical Industries without having first offered such better terms to Mitsui.

5. The hydrogen produced by the pressure contact conversion process hereunder shall be used by Mitsui or its subsidiary or subsidiaries for the manu-

facture of ammonia only and for the manufacture of methanol produced as a purification step in the manufacture of ammonia.

The hydrogen thus produced may be used by Mitsui, its subsidiary or subsidiaries for other purposes than the manufacture of ammonia and the manufacture of methanol produced as a purification step in the manufacture of ammonia, subject to such terms and conditions as will be mutually agreed upon.

6. Mitsui agrees that it will not give to anyone else except its subsidiary or subsidiaries, information with reference to the pressure contact conversion process.

7. du Pont agrees that it will, for a period of seven years from date hereof, give to Mitsui all information which it may develop with reference to all improvements of the pressure contact conversion process, which will enable Mitsui or its subsidiary or subsidiaries to improve the operation of the pressure contact conversion process.

8. If, within seven years from date hereof, du Pont applies for any patents on the pressure-contact conversion process, it agrees to notify Mitsui immediately of such patent applications. At the request of and at the expense of Mitsui, similar applications shall be made in Japan. Such patents, if granted in Japan, will be owned by du Pont, but licenses thereunder shall be given to Mitsui or its subsidiary or subsidiaries to the extent of and with the restrictions of this agreement.

9. Mitsui or its subsidiary or subsidiaries may use the information furnished hereunder for the manufacture of hydrogen in the territory including Japan, Sakhalin, Korea, Formosa, and Manchuria, all as geographically constituted as of the date hereof, as per exhibit A, but not otherwise.

10. du Pont agrees to furnish not to exceed three men, for a period of not to exceed two years each, to assist Mitsui or its subsidiary or subsidiaries with the design, construction, and placing in operation of its first unit of pressure-contact conversion. Mitsui shall reimburse du Pont for the salaries, traveling expenses, and living expenses of such men when away from Wilmington, Delaware. It is recognized that there might be a possibility that conditions where these men would be required by Mitsui or its subsidiary or subsidiaries might be of a disturbed nature, and du Pont reserves the right to refuse to send men, or to withdraw men already sent, as long as du Pont considers such conditions unsatisfactory.

11. du Pont agrees that it will, during the period of seven years from date hereof, permit four visits, not exceeding four months each, by not more than three employees of Mitsui during each visit, to du Pont's ammonia plant for the purpose of study and training on those subjects, information relative to which is given hereunder, but on those subjects only, and du Pont further agrees to give every reasonable assistance to such employees of Mitsui.

12. du Pont agrees to furnish to Mitsui, without additional charge, information with reference to the manufacture of methanol in the purification of the hydrogen manufactured hereunder, as a step in ammonia manufacture. du Pont also agrees to give to Mitsui information, as of the date hereof, on the state of the art of manufacture of ammonia by the Claude process as practiced by du Pont, including manufacture of catalyst for ammonia synthesis and for the Claude purification step, preliminary thereto, and also, similarly, such information as du Pont shall have a right to give on the manufacture of water gas, the compression of gas to the pressure required by the pressure-contact conversion process, the further compression of the hydrogen-nitrogen mixture to the pressure required by the Claude process for the manufacture of ammonia and the piping in connection therewith. All of such information shall be given only to the extent that Mitsui shall have a right to receive it under the terms of any other agreements which Mitsui or its subsidiary or subsidiaries may have with others, as for example L'Air Liquide, from whom Mitsui has a license for the Claude process in Japan.

13. Inasmuch as the pressure-contact conversion process is proposed to be operated by Mitsui or its subsidiary or subsidiaries on a water gas higher in sulphur content than any similar gas with which du Pont has had experience, and also inasmuch as it is impossible for du Pont to determine the conditions under which such process would be operated by Mitsui or its subsidiary or subsidiaries, it is expressly agreed that du Pont does not warrant, in any respect, the operation of any units of contact conversion process installed hereunder. du Pont shall use all reasonable endeavors to furnish to Mitsui such information as will enable Mitsui to achieve the results obtained by du Pont in the manufacture of hydrogen-nitrogen mixture by this process.

14. du Pont makes this agreement without knowledge of the patent situation in the territory hereunder, as it would affect the pressure contact conversion process and Mitsui agrees to hold du Pont harmless against any claims made by others with respect to the use by Mitsui or its subsidiary or subsidiaries of information secured from du Pont.

15. This agreement shall be binding upon the successors and assigns of the parties hereto.

In witness whereof the parties hereto have caused this agreement to be executed by their properly authorized officers.

E. I. DU PONT DE NEMOURS & COMPANY,  
By (S.) JASPER E. CRANE, V.P.

Attest:

(S.) M. D. FISHER, *Ass't Sec'y.*

MITSUI MINING COMPANY, LIMITED,  
By (S.) REISUKE ISHIDA,

*Attorney and Manager New York Branch, Mitsui & Co., Ltd.*

SLA  
CRM  
FAWARDENBURG  
Witness:  
(?).

#### EXHIBIT No. 494

Mitsui—Nitrogen—Japan.

APRIL 21, 1931.

To: Board of directors, du Pont Ammonia Corporation.

From: F. A. Wardenburg, president du Pont Ammonia Corporation.

#### PROPOSED SALE OF CONTACT CONVERSION PROCESS RIGHTS TO JAPAN

Several months ago we were approached by the representatives of Mitsui and Company, the Claude licensees in Japan, who had heard, through L'Air Liquide in Paris, of our development of the pressure contact conversion process. They wished to purchase the rights for the use of this process in Japan. The state of our development at that time was such that we did not feel justified in discussing the matter. However, their interest in the acquisition of the Japanese rights for this process has continued, until last week we were visited by Mr. Isobe, the head of the nitrogen interests of Mitsui and Company, who had apparently come to America for the purpose of this discussion. He afterward visited Belle and then came to Wilmington, accompanied by Mr. Ishida, the manager of the Mitsui New York office. In conversation a tentative proposition was outlined, with, however, no commitment on our part.

#### STATUS OF NITROGEN INDUSTRY IN JAPAN

Exact information on the amount of synthetic nitrogen productive capacity in Japan is not available. The following are our most accurate figures:

Mitsui & Company, 2 plants using Claude process (tons per day)-----	50
Mitsubishi, 3 plants operating the Casale process (there is some question about this much Casale capacity being actually available) (tons per day)-----	236
K. K. Sumikomo Hiryo Seizoj, 1 plant using process of the Nitrogen Engineering Corporation (tons per day)-----	22

The production and consumption of nitrogen compounds, expressed as short tons of ammonia, is approximately as follows:

Total yearly consumption-----	Tons 233,000
Deduct cyanamide-----	Tons 25,000
Nitrate of soda imports-----	18,000
Imports—other materials-----	20,000
Production of byproduct sulphate of ammonia-----	20,000
	83,000
Net market available to synthetic production-----	150,000

Of the market available for synthetic production about half has been taken care of by their own production and half by imports.

## RECOMMENDATION

We appreciate that any increasing capacity in nitrogen manufacture in any part of the world has its effect upon our business, but we believe that our interests would not be hurt by the installation of additional capacity in Japan to the extent of the payments that could be secured for the sale of the Japanese rights.

We recommend, therefore, subject to the approval of the executive and finance committees of the du Pont Company, that we offer to Mitsui and Company, under the terms outlined above, the pressure contact conversion process with accompanying technique. This would be subject to their giving proper guarantees for the payments to which they would obligate themselves.

F. A. WARDENBURG, *President.*

[Taken from "Proposed Sale of Contract Conversion Process Rights to Japan"]

Mitsui and Company now has two plants, one a very small plant using coke oven gas and a larger one at Miiki making about 45 tons per day of ammonia using coke-oven gas and utilizing, of course, the Claude process. They propose to increase the Miiki plant, for which increase coke-oven gas is not available and they propose, therefore, to make this increase using coke as a raw material, which leads to their interest in the contact conversion process.

The present large overproduction of nitrogen in the world makes construction of any nitrogen plant a dubious undertaking, but there seems more justification for additional capacity in Japan than in any other country, perhaps, in view of their large imports and their desire to be self-supporting in nitrogen supply for military purposes, as well as for agriculture. However that may be, Mitsui say that they are determined to increase their plant, and the question, then, is, Shall we aid and abet them by offering to them what we consider the most economical hydrogen process known today?

## EXHIBIT No. 495

[Translation]

BUENOS AIRES, *March 28, 1930.*

\*14-Argentine Govt.

32-Crocker & Co.

14-B-Argentine Govt.

MY DEAR FRIEND BATES: I am writing to Mr. Casey hurriedly and to you to advise you that I have obtained confirmation from the present government for the sale I had made of 50 tons of F.N.H. powder.

You are doubtless aware of the telegrams I despatched, asking you to send samples for making tests before the contract is duly signed by the Government.

I have been assured that if the tests to be made prove satisfactory—that is, if the powder is really nonhygroscopic and flashless—the same will be purchased and declared standard powder for use in the Argentine Army.

You can, therefore, realize how important it is that the tests be satisfactory. I have been notified of the decree issued by the Government ordering that tests be made to check the characteristics of the powder to be sold, and I have been instructed to send 20 kgs. of powder to the Purchasing Commission in Europe, presided over by General Manuel Costa, Avenue Midi 62, Brussels, Belgium, and 10 kilos to the Arsenal de Guerra, Buenos Aires. Tests will be made in Brussels with a 75 m/m gun, Argentine model—that is to say, the model being used in the army—to check the flashlessness. Tests will be made in Brussels also for nonhygroscopicity. The same tests will be made in Buenos Aires by the technicians of the Arsenal de Guerra. Will you please explain this clearly so that there will be no misunderstanding?

I am also sending details of what has been decided lately by the Government, with reference to the powder factory. You must regard this as strictly confidential. In view of the very confidential nature of the matter, and that it is urgent, I am sending it by air mail, and promise to send you further details later on regarding explosives. I have been promised further details of a very confidential nature as additions to the proposal.

It has been decided now to install a factory complete with buildings and installations and even a library is included in the project. I am almost certain that we shall obtain the business if we present the proposal in due form.

Study well the data I am sending you, which is the essential thing to do in order to save time, as the presentation of the proposal is very urgent. My friends will give me all the details which may be necessary for said presentation. This, of course, is understood.

Acknowledge receipt of this letter by telegram as soon as it reaches you, advising me of your decisions. The airplane is leaving in 2 hours.

Your faithful friend,  
Pencil markings.

CARAMES.

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EXHIBIT No. 496

14-B.

135-Special file.

135-Nobel general.

IMPERIAL CHEMICAL INDUSTRIES (NEW YORK), LIMITED,  
19 West 44th Street, New York, February 4, 1931.

E. I. DU PONT DE NEMOURS & Co.,

Military Sales Div.,

Wilmington, Del.

DEAR SIR: Mr. Swint mentioned to the writer last week that the position was not clear between us in regard to the Argentine factory project. The object of the present is to state our understanding that, as mentioned in yours of 29th November, the broad du Pont-I.C.I. partnership scheme is still in operation. We are in agreement with you that there should be no ambiguity between us on this matter and as we understand you are not clear as to what the position would be should a loss be incurred on the contract, we will deal with that point specifically.

You will remember the I.C.I. were not desirous of committing themselves to a definite figure unless and until their technicians had had an opportunity of inspecting the site. The offer contemplated by I.C.I., you will recollect, included the construction of the factory and was not merely for factory equipment. It was to be a tentative bid subject to possible revision after the technicians had examined the site. Our object was to avoid making a contract based on insufficient data and incurring the risk of a loss. We should not, I am sure, accept a contract which would cause us a monetary loss, at least not unless it were done as the result of a set policy and after consultation with you. Therefore, we do not think it proper or fitting at this juncture to decide what should be done in the event of a loss.

Our estimates have been carefully prepared and so far as is humanly possible to determine, they will not net us a loss but a profit.

Yours very truly,

G. W. WHITE.

gww:k

VIII H 1 Pencil markings.

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EXHIBIT No 497

IMPERIAL CHEMICAL INDUSTRIES (NEW YORK), LIMITED,  
19 West 44th St., New York, August 5, 1932.

32-Crocker & Co.\*

135-Nobel Ind.

E. I. DU PONT DE NEMOURS & Co.,

Smokeless Powder Dept., Military Sales Div.,

Wilmington, Del.

ANTONIO CARAMES

DEAR SIR: Further to my letter of June 15th, I.C.I., have now had an opportunity of discussing the value of Sr. Carames' services with one of their Buenos Aires representatives. The latter speaks very highly of the work done by Sr. Carames in connection with the Government powder factory and has recom-

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\* Pencil markings.

mended that I.C.I. continue to retain this gentleman. In view of this you might consider it desirable to make a payment to Sr. Carames and I should like to know what you decide in this connection.

Yours very truly,

G. W. WHITE

jws.h  
cc JCP

300£ per year. Advised G. White verbally we would not allow Carames anything other than commissions on actual powder contracts.

NEB.

EXHIBIT No. 498

JUNE 22, 1933.

Cable No. 8

Antonio Carames indignant our offer \$1,500. Claim cancellation he obtained competitors powder plant contract and contact maintained for several years past without any remuneration has been very valuable to E. I. du Pont de Nemours & Co., Imperial Chemical Industries, Ltd., and merits much higher consideration.

Antonio Carames has great influence on present administration. On the \$1,500 offered Antonio Carames absolutely refuses agency and will become very dangerous enemy our business next few years as well as business of E. I. du Pont de Nemours & Co., Argentine, S. A. du Pont Argentina-Buenos Aires, which must be avoided.

Have discussed the matter with E. I. du Pont de Nemours & Co., Argentine, S.A., du Pont Argentina-Buenos Aires who agree with me suggesting that we offer Antonio Carames \$6,000 in cash for services rendered and yearly retainer of \$3,000, payable monthly, to cease at our discretion, thus avoiding any possible damage our interest.

You must consider company's interest as well as military sales division. Prospects are 2,100 charges 35 millimeter, 50 tons du Pont FNH powder 100 tons Pyro cannon powder, 100 tons rifle powder, and possible Argentine powder factory. Cable reply by Saturday. If you wish to telephone, advise by cable. Forward all letters.

(Cable from N. E. Bates, Buenos Aires, June 22.)

(Copy to Foreign Relations Department)

JUNE 22, 1933.

\* 135-Noble Indus. Ltd.

32-Crocker & Co.

Ms.-140

Mr. GEORGE W. WHITE,

Imperial Chemical Industries, Ltd.

285 Madison Avenue, New York.

DEAR MR. WHITE: Confirming our telephone conversation of today, we attach hereto a copy of Mr. N. E. Bates' cable no. 8, dated Buenos Aires, June 22, in reference to Mr. Carames' attitude towards our offer of \$1,500 per annum as a retaining fee for his services.

We understood that it is your desire to postpone a decision on this matter until you have had a chance to visit Wilmington and discuss the situation with us, which will be early in the week commencing June 26. In the meantime you will consult Mr. James Laing in London and get his views of the situation.

It may be well to mention that our offer of \$1,500 to Mr. Carames was that this was to be payable in monthly installments and would represent total payments from both du Pont and I.C.I.

Very truly yours,

K. K. V. CASEY, Director.

By \_\_\_\_\_

AS: AKR

\* Pencil marking.

## EXHIBIT No. 499

JUNE 26, 1933.

CABLE NO. 9

Referring to your cable no. 4, Antonio Carames leaving here for Europe July 6th, returning by way of New York, N.Y., presumably sent by President, secret mission, Imperial Chemical Industries, Ltd., Buenos Aires, Argentine, agrees with me suggesting that we offer Antonio Carames \$250.00 per month to be cancelled at any time by payment \$6,000 in monthly installments.

Remuneration, if any (for) services rendered cancellation of powder plant to be discussed in London and/or Wilmington, Delaware, with Antonio Carames. Have not advised Antonio Carames this plan. Imperial Chemical Industries, Ltd., Buenos Aires, Argentine, cabling Imperial Chemical Industries, London office, similar suggestion.

If you agree to \$250.00 think I.C.I., London, should pay us half. Cable instructions.

(Cable from N. E. Bates, Buenos Aires, June 26.)

## EXHIBIT No. 500

[Copy]

JUNE 30, 1933.

\* 135-Nobel Indus. Ltd.

Orig.—Ms-100

30—Crocker &amp; Co.

(Memo. for file)

## TELEPHONE CONVERSATION WITH N. E. BATES

Had telephone conversation with N. E. Bates and advised him, as a result of a conference with Mr. G. W. White, of I.C.I., we decided it best to have him make a temporary contract with Carames on the basis of \$1,500 a year until such time as Carames has discussed the matter with the principals in London and Wilmington. As Carames leaves for Europe on July 6th this will make the temporary arrangement one of a few months before we come to a final decision. In the meantime N. E. Bates will send us by mail the complete story of Carames' position and any arguments he may have used to justify his demands.

K. K. V. CASEY, *Director.*

KKVC: MH

## EXHIBIT No. 501

[Postal telegraph]

135-Nobel Indus.\*

Ms-176-A.

32-Crocker &amp; Co.

P1 57/56 Cable-N Baires 828P.

JULY 2, 1933.

Nlt CASEY,

*du Pont, Wilmington, Del.:*

Ten Carames accepts temporary arrangement pending interviews London Wilmington hundred twenty-five dollars monthly. Ready sign contract Carames similar Velga duration three years with six months' cancellation clause. Wire immediately if satisfactory. Suggest don't send White or London my letter numbered 13. Writing you fully also London air mail this week.

NICK.

(“Exhibit No. 502” appears in text on p. 1179)

\* Pencil marking.

## EXHIBIT No. 503

32—Crocker & Company  
 IMPERIAL CHEMICAL INDUSTRIES (NEW YORK), LIMITED,  
 19 West 44th Street, New York.

(Confirmation of incoming cable)

LONDON, August 4, 1933.

Received Aug. 5, 1933, 9 a.m.

WHITE, Impkemix, New York:

191. Have interviewed Carames, who will accept whatever arranged with Crocker. He will not visit Wilmington (stop) His claim, and we cannot seriously question it, is that over the years expense has been 2,000 pounds (stop) We are willing to pay half or lesser amounts (stop) Bates, who we suggest should handle matter for his prestige, might satisfy Crocker with 1,500 pounds (stop) Building of factory question reopens December and we are preparing accordingly (stop) For interim period existing contract continues.

LAING.

## EXHIBIT No. 504

[Copy]

LONDON OFFICE, BUSH HOUSE,  
 Aldwych, W.C. 2, August 15, 1933.

Major K. K. V. CASEY,  
 Smokeless Powder Dept.

\* 31

32—Crocker & Co.

## ANTONIO CARAMES—ARGENTINE

I met Mr. Carames on his steamer on his arrival at Boulogne, and motored him to Paris. I did my best to make his stay agreeable, which he seemed to appreciate.

Regarding Carames' business in Europe, he has come here for his health, to attend some private investments, and to make arrangements with the Argentine military missions in Europe, who according to Argentine law sign all contracts made with Europeans, and he wants to come to a proper understanding with them, so that if a suggestion comes from the Argentine that they should sign a contract they will not oppose it. I gathered that is what his secret mission consists of. He also is talking about agencies for naval supplies. He says he is not taking German agents, but would take either Italian or English.

I first tried to arrange with him a visit to London and later to Wilmington, both of which he positively refused to undertake, saying that, knowing no English, it would be of no possible interest and that he was not willing to undertake any further expenses on this matter. So I arranged an interview with Mr. L. B. W. Smith, of I.C.I., to take place in Paris on August 3rd.

Carames told me his story, which you know from Mr. Bates' reports. His principal claim was that, in spite of the fact that it did not seem to him probably that stopping the factory could have meant a very large monetary gain to us, none the less both Wilmington and London urged him to stop it, a matter which cost him considerable money, the outlay of which at the time was known to both companies. That having spent this money at our request and having not been given an opportunity to earn commissions, he was entitled to reimbursement.

Carames explained that having cancelled the contract with the Germans three times he could not continue to do it any longer, and that at the end of December or the first part of January, if we did not put in an offer for the factory, a contract would finally be signed with the Germans, which would be final. In view of this, I.C.I. has agreed to make a serious endeavor to get this contract, and are preparing an offer and prices which they feel will compete favorably with the German proposal.

In our meeting in Paris with Mr. L. Smith, he said that he would be satisfied if the present interim agency contract was continued and if a payment of \$10,000

\* Pencil marking.



was made to Crocker & Co. He said he did not wish to settle this matter, as his partner, Crocker, was the person to be satisfied. Mr. Smith and I discussed with him different phases of his story, but we did not make any promises of any kind. We told him settlement would be made through Bates with Crocker & Co., and to this he agreed.

After this conversation, Mr. Smith talked this over in London and then sent me a copy of their cable to Mr. White, under date of August 4th, in which they will agree to pay half of the \$10,000, and request Wilmington to make the final arrangements on this matter, and suggest that this thing be handled through Bates with Crocker & Co. From our conversation with Carames, it appeared clear to us that it was wise to have this done through Mr. Bates, because Carames appeared to think that Mr. Bates had no authority and could make no decisions, and we felt it was advisable to force Mr. Carames to accept Mr. Bates' authority.

It would be wise to have the settlement made with Crocker & Co. before Carames leaves Europe, which will be early in November, as I.C.I. would like to go into details of the factory proposal with him before he leaves, and they hesitate to discuss this matter in detail until this other matter has been settled.

I tried to keep you informed by cables nos. 1032, 1033, and 1034 as these matters developed, but I did not write before for fear that it would confuse matters.

Carames has now left France to take a cure in Germany and will probably be back in Paris in September.

W. N. TAYLOR.

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("Exhibit No. 505" appears in text on p. 1195)

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("Exhibit No. 506" appears in text on p. 1197)

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("Exhibit No. 507" appears in text on p. 1197)

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("Exhibit No. 508" appears in text on p. 1199)

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("Exhibit No. 509" appears in text on p. 1199)

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#### EXHIBIT No. 510

[Copy]

(I.G. Explosives)

REMINGTON ARMS COMPANY, INC.,  
25 Broadway, New York, N.Y.,  
October 22, 1934.

Mr. C. K. DAVIS,  
President Remington Arms Co., Inc.,  
Bridgeport, Conn.

DEAR MR. DAVIS: We are in receipt of a letter from Mr. von Herze of Koln-Dellbruck, dated October 6th, 1933, a copy of which in German is attached hereto.

My translation of this letter is as follows:

"The du Pont Company has advised me through the Dynamit-Actien-Gesellschaft, Troisdorf, that it is contemplating securing from your company a license for the use of leadtrinitroresorcinate in the manufacture of detonators. In accordance with the provisions of the agreement between your company and me, made in 1927, and the right therein reserved by me for the independent exploitation of leadtrinitroresorcinate for these special purposes, the arrange-

ment of such a license could only be effected with my approval and with due consideration to my rights.

"In order that, for the present, the entire situation may be made clear and the scope of the license desired by the du Pont Company be known, I would request you to kindly give me in some detail the desires expressed by the du Pont Company in this connection, as well as the Remington Company's attitude thereto.

"Your early response will be appreciated."

As you undoubtedly know, Mr. von Herz is the inventor of the material referred to above, which we employ in the priming mixtures, utilized in practically all of our ammunition.

I visited Mr. von Herz in Berlin in the fall of 1927 and negotiated the arrangement pursuant to which the title to the United States patent was transferred to Remington. I have not seen a copy of this agreement lately, therefore I do not know its exact wording. But I do recall that I attempted to purchase the patent outright so that we might be able to sell a license to Du Pont Company for the utilization of this material in detonators. Even at that time it was used very extensively in detonators in Germany, Great Britain, and South Africa, and I think also in France. Subsequently it was adopted in Canada. I was unable to make the desired arrangement because Mr. von Herz wanted to reserve the right to deal with the du Pont Company. Just how this was taken care of in the contract I don't recall. Shortly after the 1927 agreement, Mr. von Herz joined the R.W.S. as consulting chemist, and we had further dealings with him, as a result of which Mr. von Herz induced Mr. Mueller to consent to the licensing of Remington under the Tetrazene patents of R.W.S. As a result of this Mr. von Herz and several other gentlemen of R.W.S. came to this country in 1928, which was followed by my visit to Cologne, Troisdorf, and Nuremberg in the spring of 1929, and Dr. Mueller returned the visit to New York and Bridgeport late in 1929.

As a result of these various visits, a rather friendly relationship was established between the German company and Remington Arms Company, which has resulted in the interchange of considerable technical information and the working out of a rather informal patent interchange agreement. In all of this Mr. von Herz has been very active. The arrangements worked out were effected against the opposition of others in the R.W.S. organization.

On account of my rather intimate acquaintance with Mr. von Herz, Dr. Mueller and many others in the R.W.S. (now the D.A.G.) organization, practically all correspondence between the two companies was handled through me, and I have continued in this relationship even after my resignation as vice president of the Remington Arms Company, Inc. This is the reason why the letter referred to was sent to me.

I will be glad to have your instructions as to the nature of the reply to be made to Mr. von Herz, or better still I think we should get together to discuss this matter at your convenience.

Very truly yours,

A. A. DICKE

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EXHIBIT No. 511

[Translation]

Dynamit-Actien-Gesellschaft, formerly Alfred Nobel & Co., in Troisdorf (Bez. Cologne).

Reports of the management and the board of directors for the financial year 1933.

Ordinary general meeting to be held on Monday, May 28th, 1934, at 11 a.m., in Hamburg, Alterwall 37, in the offices of the Deutsche Bank and Disconto-Gesellschaft, Filiale Hamburg.

ORDER OF THE DAY

1. Presentation of the annual balance and the report for the financial year 1933, and taking of resolution on the annual balance.
2. Distribution of the net profit.
3. Release of the management and the board of directors.
4. Election of directors.
5. Appointment of auditors for the financial year 1934.

*Board of directors*

**D. Max von Schinckel**, Hamburg, chairman.  
**Gehelmer Kommerzienrat Professor Dr. C. Bosch**, Heidelberg.  
**Gehelmer Regierungsrat Professor Dr. C. Duisberg**, Leverkusen.  
**Dr. M. Duttenhofer**, Neunthausen (Wrttbg.).  
**Generaldirektor Dr. W. Fahrenhorst**, Berlin.  
**Generaldirektor Bergassessor A. D. E. Fickler**, Dortmund.  
**Professor Dr. J. Flechtheim**, Berlin.  
**Generaldirektor Dr. F. Flick**, Berlin.  
**Generaldirektor Bergrat Dr. F. Funcke**, Hagen 1./w-Eppenhhausen.  
**Bankier Otto Hauck**, Frankfurt a.M.  
**Gehelmer Kommerzienrat Dr. P. Kloeckner**, Duisburg.  
**Generaldirektor Dr. G. Knepper**, Essen.  
**Rechtsanwalt Dr. A. Lutteroth**, Hamburg.  
**Generaldirektor E. Philipp**, Vienna.  
**Gehelmer Kommerzienrat R. Roechling**, Munich.  
**Gehelmer Kommerzienrat Dr. H. Schmitz**, Heidelberg.  
**Justizrat E. Schnlewind**, Cologne.  
**Gehelmer Kommerzienrat Dr. R. von Schnitzler**, Cologne.  
**J. Rudolph Freiherr von Schroeder**, Hamburg.  
**Generaldirektor Dr. E. Tengemann**, Essen.  
**Bankier Dr. Max M. Warburg**, Hamburg.  
**Gehelmer Regierungsrat M. Wessig**, Berlin.  
**Generaldirektor Bergrat Dr. H. Zirkler**, Kassel.  
**Willy Zweifel**, Berlin-Charlottenburg.

*Management*

**Dr. Paul Mueller**, Cologne, chairman.  
**Dr. jur. Rudolf Schmidt**, Cologne.  
**Dr. Wilhelm Pungs**, Cologne, assistant manager.

The deputy chairman of our board of directors, **Herr Gehelmer Hofrat Dr. phil. Dr.-Ing. e.h. Gustav Aufschläger** passed away on the 9th April 1934 in his 82nd year. He had been in the explosives industry since 1882, and in 1889 he took over the management of our concern, an office which he held uninterruptedly until 1926. From 1926 until his death he was deputy chairman of our board of directors and member of the executive committee. In Geheimrat Aufschläger we have lost a personality of rare charm. He combined great spiritual nobility and human kindness with scientific thoroughness and commercial ability, and it was during his thirty-seven years of systematic and energetic rule that our company developed to the position of importance which it holds today. In spite of all his success, Herr Aufschläger always remained very modest and kindly and was respected and honoured by all who worked with him and under him.

We mourn his passing very deeply and will always hold in grateful memory.

*Report of managers on the 58th financial year (1933)*

Our concern, like so many others, has felt the benefit this year of the confidence inspired by our strong Government and of the measures undertaken by the Government for the creation of fresh employment. Domestic sales have risen in all departments. Export trade has maintained the level of last year, as far as quantities are concerned, but the value has fallen somewhat as a result of the ever-growing difficulties on the world market.

Apart from some little fluctuation at the beginning of 1933, our business in explosives, blasting caps, and primers has increased steadily, owing largely to the greater activity in ore mining and quarrying during 1933. Quantities exported were approximately the same as in the previous year.

Our sales of hunting and sport ammunition within Germany have increased, and sales abroad have been well maintained.

The hopes we placed on the development of business in synthetic materials have been realised, and turn-over has risen very considerably. Our products have met with great success on the market, and we intend shortly to bring out several new materials.

Our business in celluloid has been maintained at last year's level, but the prices, especially for export trade, are still unsatisfactory.

We have community of interests agreements with the following firms: Carbonit Aktiengesellschaft; Gustav Genschow & Co. A.-G.; Köln-Rottwell A.-G.; Rheinische Gummi und Celluloid Fabrik; Sprengstoffwerke Dr. R. Nansen & Co. A.-G.

We belong to the following unions, conventions, and similar syndicates governing price and sales: Deutsche Sprengstoff-Konvention, Sprengstoff-Verkaufs-Gesellschaft m. b. H., Zundschnur-Verkaufs-Gesellschaft m. m. H., Sprengkapsel-Syndikat, Celluloid-Verkaufs-Gesellschaft m. b. H., Munitions-Verband, Vereinigung deutscher Kunstharzfabriken.

*Remarks on the balance sheet.*—The balance sheet and the profit and loss account are based on our community of interests agreement with the I. G. Farbenindustrie A.-G.

## ASSETS

Additions to our fixed assets, after deduction of withdrawals, amounted to.....	RM.....	660, 451. 53
Write-downs amount to.....	" ..	3, 159, 780. 69
so that fixed assets are shown on the books at.....		2, 499, 329. 16
lower than last year.		
The book value of our investments, on the day the balance was taken, was.....	RM.....	12, 573, 588. 75
The increase as compared with last year, i.e. ....	" ..	930, 840. 02
is due both to the increase of our holding of various shares, and to the acquisition of nominal 720,000 marks of shares (of a total capital of nominal RM.1,200,000) in the Patronen-, Zündhütchen-und Metal 1-warenfabrik A.-G., formerly Sellier & Bellot, Schönebeck.		

The most important of our old holdings of shares are the following:

Firm	Nominal stock in RM.	Nominal holding in RM.
Carbonit Aktiengesellschaft.....	1, 500, 000	417, 500
G. C. Dornhelm Aktiengesellschaft.....	500, 000	452, 000
Deutsche Celluloid-Fabrik Ellenburg.....	8, 000, 000	2, 211, 500
Fabrik elektrischer Zünder Gesellschaft m. b. H.....	3, 000, 000	2, 820, 000
Selve-Kronblegel-Dornhelm A.-G.....	900, 000	615, 000
Sprengstoffwerke Dr. R. Nansen & Co. Aktiengesellschaft.....	700, 000	351, 600
Sprengstoffwerke Kieselbach-Kunigunde, G.m.b.H.....	600, 000	300, 000
Rheinische Gummi und Celluloid Fabrik.....	1, 000, 000	600, 000
Aktiengesellschaft Dynamit-Nobel, Bratislava (Pressburg).....	Kc. 13, 200, 000	Kc. 6, 745, 200

Our stocks have once more been prudently estimated; they have fallen further by.....	RM.....	923, 678. 44
Our holding of securities has been shown in accordance with par. 261 no. 2 HGB, at.....	RM.....	1, 008, 203. 00
Our holding of our own ordinary shares has remained the same, i.e., nominally.....	RM.....	1, 838, 700. 00
and is therefore shown on the books at.....	" ..	882, 576. 00
as at the end of 1932.		
Accounts due amounted on 31.12.1933 to.....	" ..	11, 072, 503. 97
This sum does not include accounts of managers of our company or other persons mentioned in par. 261a, section 1, A IV, no. 10HGB.		

Accounts arising from current business with our affiliated companies are once more included under accounts for goods supplied and work done.

On 31.12.1933 our liquid assets included:

Bills and cheques.....	RM.....	1, 104, 103. 03
Cash in hand.....	" ..	28, 246. 11
Reichsbank account and postal cheque account.....	RM.....	150, 114. 88
Banking accounts.....	" ..	19, 705, 560. 57
	RM.....	20, 988, 024. 59

The bank debts shown under obligations amounted on the 31.12.1933 to.....RM... 5, 386, 737. 42

## LIABILITIES

Our common share capital has undergone no change, and stands at nominally RM-- 47,000,000  
 Of this capital we hold nominally RM-- 1,838,700  
 so that dividend is payable on, nominally RM-- 45,161,300.00

Our preference share capital, special reserve fund and reserve fund, and reserves, have undergone no change since last year.

We have not shown a separate item for adjustment of values; this has been taken into consideration for each separate item.  
 On 31.12.1933 the sum of our obligations was RM-- 9,686,034.15  
 Our guarantee obligations were as follows:

From the negotiation of bills and cheques	RM--	552,724.00
From sureties	"	691,301.00
Emoluments paid to the managers amounted to	RM--	269,826.00
and directors' fees amounted to	"	104,285.75

Based on the agreement with the I. G. Farbenindustrie A.-G., our net profit amounts to RM1,679,199.95.

With the approval of the directors we propose that this profit be applied as follows:

6% dividend on nominal RM125,000 Pref. Sh.	RM--	7,500.00
3.5% dividend on nominal RM45,161,300 Com. Sh.	"	1,580,645.50
Carry forward on new account	"	91,054.45

As provided by the statutes of our company, lots have been drawn and the following directors will retire at the end of the forthcoming general meeting:

Gehelmer Kommerzienrat Dr. P. Klöckner.

Gehelmer Kommerzienrat R. Köchling.

Justizrat E. Schniewind.

Willy Zweifel.

They are open for reelection.

The improvement which has made itself felt in domestic trade has been maintained during the first few months of the current year, but there has been a slight falling off in export trade.

Troisdorf, April 1934.

## THE MANAGEMENT.

*Report of directors on the financial year 1933*

Besides the loss which we have suffered in the death of the deputy chairman of our board, Gehelmrat Dr. G. Aufschlager, we have also to deplore the death of another member of our board.

Herr Generaldirektor Dr. Inc. Jakob Kleynmans passed away on 12th November 1933.

He had been a member of our board since 1925, and during this time he had rendered valuable service to our company through the richness of his experience. We shall hold his memory in all honour.

We are entirely in agreement with the report of our managers for the financial year 1933, and with their proposals as to the distribution of the profits.

The annual balance has been audited by the Chemie Revisions- und Treuhand-Gesellschaft m.b.H., elected to this purpose at the last general meeting, who have also examined the books and the annual report.

The written report has been submitted to us. According to the final result the examination gave rise to no objections. We on our part have no remarks to make in connection with the report.

Troisdorf, May 1934.

## THE BOARD OF DIRECTORS.

## Balance sheet as at 31st December 1933

ASSETS				RM.	
I. Arrears of payments on share capital					
II. Fixed assets:					
Ground	Brt. fwd.	4,004,186.97	Withdrl.	10,985.52	4,023,153.21
	Addition	38,901.76	Write-dn.		
Residential bldgs.	Brt. fwd.	1,865,814.80	Withdrl.	36,453.00	1,761,356.40
	Addition	2.00	Write-dn.	77,997.40	
Factory bldgs. railway & other bldgs.	Brt. fwd.	6,136,333.93	Withdrl.	25,061.09	6,249,317.79
	Addition	61,365.71	Write-dn.	923,320.85	
Equipment, machinery & mechanical plant.	Brt. fwd.	5,263,664.55	Withdrl.	40,984.00	5,276,087.49
	Addition	640,438.04	Wr.-dn.	2,087,061.10	
Factory and office fittings	Brt. fwd.	122,554.20	Withdrl.	237.00	84,300.40
	Addition	33,424.54	Wr.-dn.	71,381.34	
Concessions, patents, licenses, trade-mark and other rights.	Brt. fwd.	1.00	Withdrl.	0.00	1.00
	Addition	0.00	Wr.-dn.	0.00	
	Brt. fwd.	17,392,555.45	Withdrl.	113,680.52	14,863,226.29
	Addition	774,132.05	Wr.-dn.	2,150,780.69	
III. Investments					12,575,288.75
IV. Movable assets:					
Stocks:					
Raw, auxiliary and operating materials				2,652,730.92	
Semi-finished products				1,257,344.36	
Finished products and commercial goods				4,498,711.15	8,408,786.43
Securities					1,008,203.00
Own common shares to nominal value of				1,638,700.00	882,578.00
Accounts:					
On account of mortgages				467,921.06	
On account of advance payments made				301,265.82	
On account of goods supplied and work done				9,157,332.80	178,360.99
With dependent and affiliated Cos.				951,647.21	19,705,560.57
Other accounts				194,337.09	609,131.75
Bills					11,072,503.97
Cheques					1,102,736.63
Cash in hand, including accounts with issuing banks and postal cheque accounts					1,396.10
Other bank accounts					178,360.99
V. Items which round off the account.					609,131.75
Counter-claims arising from Guarantee obligns.				691,302.00	
					70,338,040.78
LIABILITIES					
I. Share capital:					
Common shares				47,000,000.00	
Voting right 470,000 votes					
Preference shares				125,000.00	
Voting right 150,000 votes					
					47,125,000.00
II. Reserve fund:					
Legal reserve fund				7,077,708.43	
Special reserve fund				2,220,507.78	
					9,298,216.21
III. Reserves					900,000.00
IV. Items of adjustment of values					0.00
V. Obligations:					
Mortgages on land				0.00	
Customers' payments on a/c.				37,892.96	
Obligations on account of goods supplied and work done				1,129,413.73	
Obligations towards dependent and affiliated Cos.				2,135,981.93	
Obligations towards banks				5,386,737.42	
Other obligations				996,006.11	9,686,034.15
VI. Items which round off the account					1,749,594.47
VII. Profit:					
Brought forward from 1932				91,054.45	
Netprofit in 1933				1,588,145.50	
					1,679,199.95
Guarantee obligations R.M. 691,302.00.					
					70,338,040.78

*Profit and loss account for 1933*

## EXPENDITURES

	RM.
Wages and salaries.....	10, 514, 780. 00
Compulsory social services.....	891, 296. 30
Written down on plant.....	3, 159, 780. 89
Other write-downs.....	508, 706. 49
Property taxes, inclusive of corporation tax and business tax.....	1, 741, 842. 78
All other expenditure, with the exception of expenditure on raw, auxiliary, and operating materials, and commercial materials.....	5, 099, 738. 98
Profit:	
Brought forward from 1932..... RM--	91, 054. 45
Net profit in 1933..... RM--	1, 588, 145. 50
	<u>1, 679, 199. 95</u>
	<u>23, 395, 340. 12</u>

## RECEIPTS

	RM.
Profit brought forward from 1932.....	91, 054. 45
Gross profits, after deduction of expenditure on raw, auxiliary, and operating materials, and commercial materials.....	21, 936, 365. 02
Proceeds from investments.....	388, 806. 89
Interest and other capital proceeds.....	634, 980. 89
Extraordinary profits.....	344, 133. 07
	<u>23, 395, 340. 12</u>

## DYNAMIT-ACTIEN-GESELLSCHAFT

(Formerly Alfred Nobel &amp; Co.)

Dr. P. Mueller

Dr. Schmidt

Dr. W. Pungs

After duly auditing the bookkeeping, the annual balance and the annual report on the basis of the books and writings of the company, and of the statements and proofs furnished by the management, we confirm that they are all in proper legal order.

Trolsdorf, April 1934.

CHEMIE REVISIONS-UND TREUHAND-GESELLSCHAFT m.b.H.  
ppa. HERMANN,  
DR. BEICHERT,  
Public Auditors.

## EXHIBIT No. 512

[IG explosives]

## DU PONT-GERMAN COMPANIES LICENSE AGREEMENT

(\* Unsigned, in effect as gentleman's agreement)

## EXPLOSIVES

**Patented invention:** Patented explosive invention. Patented producing invention.

**Secret invention:** Secret explosive invention. Secret producing invention.

**A countries:** Germany, Holland, Poland, Austria, Denmark, and Bulgaria.

**B countries:** U.S.A. and possessions, Mexico, Guatemala, Honduras, Nicaragua, Costa Rica, and Panama.

**C countries:** Dominion of Canada and Newfoundland.

du Pont to Germans	of pat. explo. inventions	} Exclusive in A countries. Nonexclusive in N.A. and S.A. excepting B and C countries.
	of pat. produc. inventions	
	of secret explo. inventions	
	of secret prod. inventions	
Germans to du Pont	of pat. explo. inventions	} Exclusive in B countries. Nonexclusive in N.A. and S.A. excepting B and C countries.
	of pat. produc. inventions	
	of secret explo. inventions	
	of secret prod. inventions	

\* Pencil markings.

**LICENSE AGREEMENT COVERING PATENTED INVENTIONS AND SECRET INVENTIONS BETWEEN E. I. DU PONT DE NEMOURS AND COMPANY, PARTY OF THE FIRST PART, AND THE VEREINIGTE KOLN-ROTTWEILER PULVERFABRIKEN AND DYNAMIT ACTIEN GESELLSCHAFT, PARTY OF THE SECOND PART. DATED: JANUARY 1, 1928**

This agreement, made in the city of Hamburg, Republic of Germany, as of the 1st day of January, A.D. 1928, between E. I. du Pont de Nemours and Company, a corporation organized and existing under the laws of the State of Delaware, United States of America, hereinafter called "the Du Pont Company", party of the first part, and the Vereinigte Koln-Rottweiler Pulverfabriken, a corporation of Berlin, Republic of Germany, and Dynamit Actien Gesellschaft, a corporation of Hamburg, Republic of Germany, hereinafter referred to collectively as "the German Companies", party of the second part Witnesseth:

Whereas upon the terms and subject to the limitations hereinafter set forth, the party of the first part and the party of the second part desire to obtain, each from the other, licenses, as hereinafter provided, relating to inventions, improvements, and secrets in respect of processes, machinery, formulae, and compounds possessed or acquired by the other party, for the manufacture, production, transportation, handling, selling, or use of one or more of the following products; viz, black powder in all varieties; smokeless propellants for sporting purposes; disruptive explosives of all kinds for industrial purposes; detonators; electric detonators, safety fuses; powder fuses; detonating fuses; electric igniters, and generally all devices for initial detonation or ignition; the components which form the ignition and propellant charges of sporting ammunition; and the ingredients and component parts of the above, insofar as they are applicable to explosives; and

Whereas the products referred to in the foregoing recital are hereinafter called, collectively, "explosives", and an invention or improvement aforesaid, for which letters patent shall be obtained, is hereinafter called "patented invention", and a patented invention contained in an explosive is hereinafter called "patented explosive invention", and a patented invention for the manufacture, production, transport, handling, selling, or use of an explosive is hereinafter called "patented producing invention", and a secret invention in respect of a process, machine, formula, or compound aforesaid is hereinafter called "secret invention", and a secret invention contained in an explosive is hereinafter called "secret explosive invention", and a secret invention for the manufacture, production, transport, handling, selling, or use of an explosive is hereinafter called "secret producing invention"; and

Whereas each of the parties hereto desires an option to acquire licenses in respect of the other party's patented inventions and secret inventions, upon the terms and subject to the conditions hereinafter set forth;

Now, therefore, in consideration of the mutual agreements herein contained, and of the sum of five dollars, lawful money of the United States of America, and other good and valuable consideration, paid by each of the parties hereto to the other, the receipt whereof is hereby acknowledged, the parties hereto have agreed and hereby do agree as follows:

I. Each party agrees to and until the 31st day of December, A.D. 1935, upon making or obtaining any patented invention or discovering or acquiring any secret invention, to disclose in writing to the other party immediately, or in any event within six months thereafter, full particulars in respect thereof, and thereafter to furnish to the other party, whenever and so often as the other party shall request, copies of all claims, specifications, applications, and patents in respect of any such patented invention, and copies of all writings setting forth any such secret invention and such further information as the other party shall request in respect of any such patented invention or secret invention.

II. Each party shall forthwith appoint one or more competent, trustworthy, and experienced persons in its employ for the purpose of receiving such particulars and information from the other party. Whenever and so often as the other party shall request and at the expense of such other party, each party shall supply experienced chemists, engineers, foremen, and other experts to assist such other party in investigating, testing, applying, or using any patented or secret invention disclosed as aforesaid.

III. Whenever the du Pont Company shall have disclosed a patented or secret invention to the German companies, as aforesaid, the du Pont Company thereupon shall serve upon the German companies a notice in writing setting



forth the terms and conditions upon which the German companies may obtain the following licenses, to wit:

(1) The sole and exclusive license, to the end of the term for which letters patent shall be granted or extended, in respect of any such patented explosive invention, to make, use, and employ within the Republic of Germany, Holland, Poland, Austria, Denmark, and Bulgaria, for which such letters patent shall be granted or extended, any such patented explosive invention for explosives, and to sell within said countries any and all explosives containing such invention.

(2) A nonexclusive license, to the end of the term for which letters patent shall be granted or extended, in respect of any such patented explosive invention, to make, use, and employ within the countries of North and South America and the islands thereto pertaining for which such letters patent shall be granted or extended, excepting, however, the United States of America and its present and future territories, possessions, colonies, and dependencies, and the Republics of Mexico, Guatemala, Honduras, Nicaragua, Costa Rica, and Panama, and the Dominion of Canada, and Newfoundland, any such patented explosive invention for explosives, and to sell within said countries of North and South America, and the islands thereto pertaining, excepting as aforesaid, any and all explosives containing such invention.

(3) The sole and exclusive license to make, use, and employ within the Republic of Germany, Holland, Poland, Austria, Denmark, and Bulgaria any such secret explosive invention for explosives, and to sell within said countries any and all explosives containing such invention.

(4) A nonexclusive license to make, use, and employ, within all the countries of North and South America, and the islands thereto pertaining, excepting, however, the United States of America and its present and future territories, possessions, colonies, and dependencies, and the Republics of Mexico, Guatemala, Honduras, Nicaragua, Costa Rica, Panama, and the Dominion of Canada and Newfoundland, any such secret explosive invention for explosives, and to sell within all the countries of North and South America, and the islands thereto pertaining, excepting as aforesaid, any and all explosives containing such invention.

(5) The sole and exclusive license, to the end of the term for which letters patent shall be granted or extended, in respect of any such patented producing invention, to make, use, and employ within the Republic of Germany, Holland, Poland, Austria, Denmark, and Bulgaria, for which letters patent shall be granted or extended, any such patented producing invention, to the extent and amount specified in such notice.

(6) A nonexclusive license, to the end of the term for which letters patent shall be granted or extended, in respect of any such patented producing invention, to make, use, and employ within the countries of North and South America, and the islands thereto pertaining, for which such letters patent shall be granted or extended, excepting, however, the United States of America and its present and future territories, possessions, colonies, and dependencies, and the Republics of Mexico, Guatemala, Honduras, Nicaragua, Costa Rica, Panama, and the Dominion of Canada and Newfoundland, any such patented producing invention for explosives, to the extent and amount specified in such notice.

(7) The sole and exclusive license to make, use, and employ within the Republic of Germany, Holland, Poland, Austria, Denmark, and Bulgaria any such secret producing invention to the extent and amount specified in such notice.

(8) A nonexclusive license to make, use, and employ within all the countries of North and South America, and the islands thereto pertaining, excepting, however, the United States of America and its present and future territories, possessions, colonies, and dependencies, and the Republics of Mexico, Guatemala, Honduras, Nicaragua, Costa Rica, Panama, and the Dominion of Canada and Newfoundland, any such secret producing invention for explosives, to the extent and amount specified in such notice.

IV. Whenever the German companies shall have disclosed a patented or secret invention to the du Pont Company, as aforesaid, the German companies thereupon shall serve upon the du Pont Company a notice in writing setting forth the terms and conditions upon which the du Pont Company may obtain the following licenses, to wit:

(1) The sole and exclusive license, to the end of the term for which letters patent shall be granted or extended, in respect of any such patented explosive invention, to make, use, and employ, within the countries for which such letters

patent shall be granted or extended, by the United States of America, or the Republics of Mexico, Guatemala, Honduras, Nicaragua, Costa Rica, or Panama, any such patented explosive invention for explosives, and to sell within said countries any and all explosives containing such invention.

(2) A nonexclusive license, to the end of the term for which letters patent shall be granted or extended, in respect of any such patented explosive invention, to make, use, and employ within the countries of North and South America, and the islands thereto pertaining, for which such letters patent shall be granted or extended, excepting, however, the Dominion of Canada and Newfoundland and the countries enumerated in the last preceding paragraph numbered (1) herein, any such patented explosive invention for explosives, and to sell within said countries of North and South America, and the islands thereto pertaining, excepting as aforesaid, any and all explosives containing such invention.

(3) The sole and exclusive license to make, use, and employ within the United States of America and its present and future territories, possessions, colonies, and dependencies, and the Republics of Mexico, Guatemala, Honduras, Nicaragua, Costa Rica, and Panama, any such secret explosive invention for explosives, and to sell within said countries any and all explosives containing such invention.

(4) A nonexclusive license to make, use, and employ within all the countries of North and South America, and the islands thereto pertaining, excepting, however, the Dominion of Canada and Newfoundland and the countries enumerated in the last preceding paragraph numbered (3) herein, any such secret explosive invention for explosives, and to sell within all the countries of North and South America, and the islands thereto pertaining, excepting as aforesaid, any and all explosives containing such invention.

(5) The sole and exclusive license, to the end of the term for which letters patent shall be granted or extended, in respect of any such patented producing invention, to make, use, and employ within the countries for which such letters patent shall be granted or extended, by the United States of America, or the Republics of Mexico, Guatemala, Honduras, Nicaragua, Costa Rica, or Panama, any such patented producing invention, to the extent and amount specified in such notice.

(6) A nonexclusive license, to the end of the term for which letters patent shall be granted or extended, in respect of any such patented producing invention, to make, use, and employ within the countries of North and South America, and the islands thereto pertaining, for which such letters patent shall be granted or extended, excepting, however, the Dominion of Canada and Newfoundland and the countries enumerated in the last preceding paragraph numbered (5) herein, any such patented producing invention for explosives, to the extent and amount specified in such notice.

(7) The sole and exclusive license to make, use, and employ within the United States of America and its present and future territories, possessions, colonies, and dependencies and the Republics of Mexico, Guatemala, Honduras, Nicaragua, Costa Rica, and Panama, any such secret producing invention, to the extent and amount specified in such notice.

(8) A nonexclusive license to make, use, and employ within all the countries of North and South America and the islands thereto pertaining, excepting, however, the Dominion of Canada and Newfoundland and the countries enumerated in the last preceding paragraph numbered (7) herein, any such secret producing invention for explosives, to the extent and amount specified in such notice.

V. Each of the parties to whom any license shall have been granted as herein provided may grant, within the limitations of such license, sublicenses in respect thereof to any or all of its respective subsidiary companies; but every such sublicense shall be subject to all the terms and conditions contained in the grants of the license so sublicensed and shall also contain terms, conditions, and obligations requiring such sublicensee to do such acts as may be necessary or proper to enable the party granting such sublicense to observe all the terms and conditions and to perform all the obligations on its part contained in the grant of the license so sublicensed. No such sublicense in respect of any such license shall be granted by any sublicensee nor by any of the parties hereto, except as hereinbefore provided, without the consent in writing first obtained from the party that shall have granted the license so sublicensed.

VI. In said notices served as aforesaid, the party disclosing such patented or secret invention shall request the other party to elect, within a period expiring twelve months after service of such notice, whether such other party accepts such licenses or any of them upon the terms and conditions set forth in said notice, and the other party shall elect within said period whether it accepts such licenses or any of them. The election to take any such license shall consist in serving, upon the party disclosing such patented or secret invention, within the period mentioned in said notice, either (1) an acceptance in writing of any such license upon the terms and conditions set forth in said notice or (2) an acceptance in writing of any such license upon such other terms and conditions as the parties, within three months thereafter may agree upon; but if the parties shall fail so to agree within the said period of three months such license shall be deemed not to have been accepted.

VII. Each of the parties hereto agrees that if, at any time during the continuance of this agreement, it shall obtain or acquire a right in or license under any patented or secret invention, which right or license is so limited that it can make no grant or license to the other party upon the terms and conditions herein set forth, it shall use its best efforts to assist such other party to obtain or acquire a right in or under such invention upon the terms and conditions herein set forth; but neither party shall be under any obligation to purchase or pay for any right or license for the benefit of the other.

VIII. Each of the parties hereto agrees not to make or consent to any disclosure or to do or consent to any other act that shall impair or depreciate the value of any sole and exclusive license granted by it in pursuance of this agreement, or that shall impair or depreciate the value of the right, title, and interest in any patented or secret invention not granted to it by the other party, and to take all reasonable care to prevent any such disclosure or act.

IX. Each of the parties hereto agrees, whenever and so often as requested by the other party, to execute and deliver all such other instruments in writing as may be necessary or proper for the purpose of further assuring and confirming the grant of any license that shall have been granted as herein provided, or for the purpose of enabling such grants to be filed or recorded in any public office.

X. Each of the parties hereto agrees, whenever and so often as requested by the other party, but at the expense of such other party, to assist in defending any letters patent under which any licenses shall have been granted as herein provided, and for that purpose to furnish to such other party such information and evidence as it can.

XI. If any difference or dispute shall arise between the parties hereto in respect of this agreement or any matter or thing relating thereto, excepting any term or condition set forth in any notice served as provided in the preceding paragraphs numbered III and IV herein, the same shall be referred to the chairman of the board, for the time being, of E. I. du Pont de Nemours and Company, or his nominee, and the chairman of the board, for the time being, of Dynamit Actien Gesellschaft, or his nominee, who shall arbitrate the same and whose award shall be final. If, however, the said arbitrators shall fail to agree they shall appoint an umpire whose award shall be final, which umpire, if the question or matter to be decided relates to a patented or secret invention of the German companies shall be an American, and if the question or matter to be decided relates to a patented or secret invention of the du Pont Company, shall be a German. If said chairmen fail to agree as to the appointment of such umpire, then such umpire, if required, as hereinbefore provided to be a German, shall be appointed by the president for the time being, of the Law Association of the city of Hamburg, Republic of Germany, or if required as hereinbefore provided to be an American, shall be appointed by the president, for the time being, of the Law Association of the city of New York. The umpire, if not appointed by the chairman of the respective companies, or their nominees, shall be a person having no direct or indirect financial interest in the explosives industry.

XII. The benefits and obligations of this agreement shall inure to and be binding upon the parties hereto, and their respective legal representatives and successors, but shall not be assignable by either party without the consent in writing first obtained from the other party: *Provided*, That this agreement shall apply equally to similar licenses relating to inventions, improvements, and secrets of which the respective parties have indirect ownership by reason of their direct or indirect control and ownership of other subsidiary companies by majority shareholding or otherwise.

XIII. It is agreed that patented and secret inventions owned or controlled by said parties respectively relating to products, their manufacture and sale, other than explosives, shall become subject to this agreement if and when said parties so elect, and to this end either party may from time to time furnish to the other a schedule of products other than explosives, manufactured by it, with an offer that said products be brought under the scope of this agreement. If the party receiving such offer consents that the products named in said schedule shall be brought under the scope of this agreement, it shall endorse its consent on said schedule, and the offer, schedule, and consent shall be attached to and become a part of this agreement; *Provided, however,* That the territorial limitations provided in this agreement with respect to inventions relating to explosives shall not apply to inventions relating to products other than explosives. Territorial limitations, if any, applying to inventions relating to products other than explosives shall be determined by the parties at the time of the granting of licenses and shall be set forth therein.

It is the intent of this article that in respect to products other than explosives the parties hereto shall be entirely free to weigh all economic or other factors pertaining to the particular consideration, and to reach conclusions solely upon the merits of the particular presentation, without prejudice to this agreement in respect to explosives and without influence thereby.

XIV. Any notice provided by this agreement to be served upon the German companies, party of the second part, shall be served on the Dynamit Actien Gesellschaft, of the city of Hamburg, Republic of Germany.

In witness whereof, E. I. du Pont de Nemours and Company has caused its corporate seal to be hereunto affixed and this agreement to be signed in its corporate name by its president and secretary, and the Vereinigte Koln-Rottweiler Pulverfabriken has caused its common seal to be hereunto affixed in the presence of and this agreement to be signed by one of its directors and its secretary at the city of Berlin, Republic of Germany, and Dynamit Actien Gesellschaft has caused its common seal to be hereunto affixed in the presence of and this agreement to be signed by one of its directors and its secretary at the city of Hamburg, Republic of Germany, all as of the day and year first above written.

E. I. DU PONT DE NEMOURS AND COMPANY,  
By \_\_\_\_\_, *President*.

Attest:

\_\_\_\_\_, *Secretary*.  
THE VEREINIGTE KOLN-ROTTWEILER PULVERFABRIKEN,  
By \_\_\_\_\_, *Director*.

Attest:

\_\_\_\_\_, *Secretary*.  
DYNAMIT ACTIEN GESELLSCHAFT,  
By \_\_\_\_\_, *Director*.

Attest:

\_\_\_\_\_, *Secretary*.

#### EXHIBIT No. 513

MARCH 23, 1927.

To: Executive committee.

From: J. Thompson Brown.

Copy to: H. G. Haskell, V.P.

#### REPORT OF CONFERENCE IN FEBRUARY AND MARCH WITH BRITISH AND GERMAN EXPLOSIVES INTERESTS

On account of difference of opinion as to the extent to which du Pont and Nobel should share with the D.A.G. the compensation which the D.A.G. had agreed to pay other German explosives companies for withdrawing from and limiting their activities in the export markets, and also because of a threatened resignation of the manager of Explosives Industries, Ltd., it was thought well that the writer should visit London, Hamburg, and Cologne for discussion of these, as well as other live subjects, with officials of the British and German explosives companies. Consequently, the writer sailed for England on February 5 and returned to Wilmington on March 15.

There is attached hereto as exhibit A copy of minutes of meeting held at Nobel House, London, on February 16. It will be noted from these minutes

that it was agreed between du Pont and Nobel that du Pont's share of the compensation to the German competitive companies, known as "Coswig, Lignose, and Gnaschwitz", should rightly be placed at £937-10 annually, whereas it had been contended by Nobel that du Pont's share should be £3,000 annually. The D.A.G. group had entered into agreements to pay annually to Coswig for a period of 10 years the sum of £5,000 in consideration of Coswig limiting its shipments of high explosives to the export markets to 250 tons per annum, and had made similar arrangements with Lignose and Gnaschwitz to pay to each of them £2,000 per annum to abstain from shipping explosives to the export markets. The writer agreed with Nobel that it would be proper to allocate to Chile and Bolivia 100 tons of the 250 tons accorded Coswig in the export markets, the balance to be delivered to the Dutch East Indies, and contended that it would be proper that one-half of the cash compensation to be paid Coswig should be considered as payable by the South American market, but that as neither Lignose nor Gnaschwitz had entered the export markets, and therefore had not been competitors of du Pont, du Pont should not share in the compensation to them. These points were conceded by Nobel and were later agreed to by Dr. Muller on behalf of the D.A.G. while the writer was in Cologne.

On account of the British income tax having proved more burdensome than had been expected, Mr. Robert Salmon, du Pont appointee, and manager of Explosives Industries, Ltd., had asked for an increase in compensation of £200 per annum, and as both Nobel and D.A.G. had indicated that his request would not be approved, he had decided to leave the employ of Explosives Industries, Ltd., on May 1st of this year. The writer discussed this matter privately with Mr. H. J. Mitchell, pointing out to him that it would be difficult to replace Mr. Salmon with anyone so familiar with the South American explosives market, and particularly du Pont's relationship to that market, and that as the American mining companies are such an important factor in the South American market, the Nobel and D.A.G. interests in E.I.L. as well as Du Pont's, would suffer through the loss of Mr. Salmon's services. Mr. Mitchell agreed that under the circumstances the increased compensation was in order, and this was later agree to by Mr. Marquardt on behalf of the D.A.G. Formal record of this will be made in the minutes of the next meeting of the board of Explosives Industries, Ltd. It was also agreed by Mr. Mitchell, and later by Mr. Marquardt, that more responsibility should be placed on the manager of E.I.L. than theretofore, and the board of directors (on which Mr. Swint is Du Pont's representative) should be relieved of the many minor questions that it has been the practice to place before it.

There is attached as exhibit B copy of minutes of meeting also held in London on February 16 relative to purchases of glycerin on the Continental market.

While in Hamburg on February 28 it developed that German deliveries of high explosives to Mexico have been made in 25-kilo cases, i.e., 55 lbs. net weight, and that deliveries under the Du Pont-Hercules-D.A.G. agreement to date, including a shipment going forward on March 2, have amounted to 6,600,000 lbs., leaving 4,400,000 lbs. of German high explosives still to be delivered.

Mr. Marquardt agreed that D.A.G. would accept cash compensation for its under-sales of the E.I.L. quota during the fifteen months ending December 31, 1926, on the same basis as arranged with Nobel early in 1923, viz:

- £10 per ton of high explosives,
- 8 s. per thousand detonators,
- 6 s. per hundred electric detonators,
- 6 d. per thousand feet of safety fuse.

In conference with Dr. Paul Muller in Cologne on March 4th he agreed to the distribution of the compensation to the outside German explosives companies, as already stated, and approved the arrangements made in Explosives Industries, Ltd.

In view of the very excellent type of delay action electric blasting cap produced at the Troisdorf factory of the Rheinsch-Westfalische-Sprengstoff A. G., and the desirability of du Pont putting out a similar article, the writer arranged with Dr. Muller to purchase the Eschbach U.S. patent 1,570,733 for \$7,500.00, to be paid in three annual installments. Assignment agreement will be drawn and sent to Cologne at an early date.

It was also arranged with Dr. Muller that Mr. William Eschbach, manager of the detonator factory at Troisdorf, will come to America during this year, and that there will be discussed with him while here the subject of lead-azide-tetryl-aluminum-shell detonators, now manufactured almost exclusively at Trois-

dorf; and that subsequently du Pont would send one or more men to Troisdorf to make an exhaustive study of the manufacture of this product. Dr. Muller made assurances that the processes involved in the manufacture of these detonators would not be offered to other American explosives manufacturers pending a decision by du Pont. He indicated that should we eventually decide to adopt this type of detonator he would expect Du Pont to pay for the process a lump sum of 100,000 marks, and to agree to a royalty payment to be applied from the start of manufacture, the 100,000 marks originally paid to be credited to the royalty payments.

In addition to the foregoing, many minor matters were discussed while in London, Hamburg, and Cologne, memoranda in regard to which are in the writer's files. While in Europe the writer took advantage of the opportunity to call on Mr. Le Play, of the Societe Generale pour la Fabrication de la Dynamite, and Messrs. Hyde and Davey, of the Davey-Bickford, Smith & Cie., with whom he discussed explosives matters of mutual interest.

Respectfully submitted.

J. THOMPSON BROWN.

#### EXHIBIT No. 514

##### EXHIBIT "A" MINUTES OF MEETING HELD AT NOBEL HOUSE ON 16/2/27

Present: Mr. J. Thompson Brown, Mr. Wendell R. Swint, E. I. du Pont de Nemours & Co.; Mr. H. J. Mitchell, Mr. J. Laing, Mr. A. G. Major, Nobel Industries, Ltd.

*Norwegian competition, Chile.*—The effect of Norwegian competition on the Chile Explosives Company was discussed and consideration was given to the best policy to be adopted for the next half year. It was the feeling of those present that the policy of watchful inactivity raised in Mr. Gilliland's letter of 26th August 1926 (C. 6, No. 900) and advocated in the trustees' letter to the Chile company of 5th January 1927, should be adhered to for the present.

*Liquid oxygen, Chuquicamata.*—Mr. Brown stated that he was satisfied that good progress was being made with Lox at Chuquicamata but did not anticipate any considerable extension of its uses in Chile or Bolivia. In this connection Mr. Brown said du Pont had a great deal of information on liquid oxygen which was available to Nobels on application.

*Explosives Industries, Ltd.—Atlas and Hercules activities.*—The activities of these two companies, particularly in Colombia, were discussed, and Mr. Brown stated that in conversations he had had with their representatives he had been informed that neither company intended to institute more aggressive measures, and that he felt they would be content with a share of the market not in excess of their present proportions. Mr. Brown during his forthcoming visit will explain the situation to the Germans.

*Liaison between E. I. L. London and the American companies.*—Mr. Brown was emphatic that Mr. White of New York should continue to act in the capacity of Liaison and agreed that to enable him properly to carry out his duties it was essential that he be fully posted on all matters connected with Explosives Industries' operations. It was agreed to instruct E. I. L. accordingly.

*Coswig, Gnashwitz, Lignose.*—After discussion it was agreed that du Ponts could not be expected to participate in the financial obligations entered into by the Germans with Gnashwitz and Lignose. As regards Coswig, it was decided that du Pont's share should be confined to a participation in that sum properly applicable to the South American markets, the balance to fall to the British and German companies in such shares as may be agreed. Mr. Brown agreed to an equal sharing of the sum between South America (excluding Chile and Bolivia) and the rest of the world. Accordingly it was agreed that the £2,500 applicable to South America should be paid through the intermediary of Explosives Industries Limited, which will result in the following apportionment of that sum:

	<i>£</i>	<i>s.</i>	<i>d.</i>
Du Pont share, 37½ percent.....	937	10	0
Nobel share, 37½ percent.....	937	10	0
D. A. G. share, 25 percent.....	625	0	0
Total.....	2,500	0	0

In the event of Coswig not shipping the whole or any part of the 100 tons allocated to Chile and Bolivia, and that market having to compensate them on the shortage, the payment to be borne as follows: 75% by Chile Explosives Co., 25% by D. A. G.

*Military factory, Chile.*—The recent proposal put forward by the Chile Co. was discussed and, whilst it was recognized that the scheme presented many difficulties, it was considered politic on the part of the Chile Co. to keep these negotiations open as long as possible. \*A cable was agreed, copy of which is attached, and as a reply would probably be received before Mr. Brown returned on the U.S., the matter to be discussed further on the 7th or 8th of March.

\*(Copies of the cables referred to are in the writer's files—J.T.B.)

18th February 1927.

#### EXHIBIT No. 515

EXHIBIT "B", MINUTES OF A MEETING HELD AT NOBEL HOUSE, LONDON, S.W. 1, ON 16TH FEBRUARY 1927 AT 10:45 A.M.

Present: Mr. J. Thompson Brown, Mr. Wendell R. Swint, Mr. P. H. Chase, representing du Ponts; Mr. H. J. Mitchell, Mr. E. D. Metcalf, representing Nobels

Mr. Metcalf said that from reports so far received from Mr. Clark a total of 705 tons crude glycerine has been acquired as a result of his visit to Paris and Marseilles; although no knowledge was to hand of the exact prices paid, stated that the figure would probably work out at about £69 per ton for crude.

Mr. Chase referred to conversations with Mr. Metcalf and Mr. Clark in regard to the right of the du Pont Co. to call for participation in these purchases, and, as it appeared to be clear that some misapprehension existed as to what course the parties were expected to follow as the result of the previous meetings, it was decided to lay down definite guiding principles to be followed in all future operations on the continental glycerine market, as follows:

(1) The parties shall keep each other informed as to whether and to what extent they are interested in continental purchases, and a mutual understanding shall be arrived at from time to time to leave the market free to each other for such time as may be arranged.

(2) In no circumstances shall it be permissible for both parties to operate on the market simultaneously, and, in the event of both desiring to purchase, an understanding must be arrived at as to which party shall carry out the business and in what proportions any quantities purchased shall be allocated.

(3) Whenever either party desires to operate on the continental market, due notice of their intention to institute operations shall be given to the other party before any action is taken. Such other party shall have the right to declare the extent of its interest in any new purchases made at the time of such approach, which declaration shall entitle it to take over such proportion of the purchases as is represented by its declared interest, but not more than 50% at the price of purchase.

(4) Should either party declare that it is not interested, then such party shall have no title to call for any participation in purchases made as a result of operations by the other party.

The du Pont representatives indicated that they had no interest in the purchase which Mr. Clark was now effecting on the continental market.

("Exhibit No. 516" appears in text on p. 1243)

#### EXHIBIT No. 517

Legal Department.

SEPTEMBER 7th, 1934.

T. R. HANLEY,  
Bldg.

I enclose herewith copy of my letter of January 23rd to Major Casey, together with copies of three drafts of agency agreements with D. F. Glera.

The draft marked "A" was the one enclosed with my letter of January 23rd. I believe this draft was revised before execution.

To the best of my recollection the draft marked "B" was the agreement executed under date of February 1, 1933.

I believe the draft marked "C" was drawn at the time of Captain Giera's return on February 2nd but was never executed.

The above explanation represents my best recollection of the status of these three drafts but it is possible that any one of them was the one executed on February 1st.

S. L. ABRAMS.

EXHIBIT No. 518

This agreement, made this — day of January 1933, by and between E. I. du Pont de Nemours & Company, a corporation organized and existing under the laws of the State of Delaware, United States of America (hereinafter referred to as the "Company"), and D. F. Giera, of Pelham, State of New York, United States of America (hereinafter referred to as the "Agent").

Witnesseth, that for and in consideration of the premises and of the covenants contained herein, the parties hereto have agreed as follows:

1. The company hereby appoints and constitutes the agent to act as its special agent for the Kingdom of Holland and as its exclusive agent for the Republic of Germany, to negotiate the sale of military propellants and military explosives to purchasers (other than the Government of Holland and its colonies) located in said territories.

2. The agent accepts such appointment and agrees that at all times during the continuance of this agreement he will use his best endeavors to promote the sale by the company of military propellants and explosives within the aforesaid territories.

3. The agent shall bear all expenses and assume sole responsibility in connection with such negotiations, and shall not make any representation, submit or accept any tender, enter into any contract, or execute any document on behalf of the company, except with the approval of the proper officers or other authorized representatives of the company; it being further understood that no obligation on the part of the company, either to the agent or to third parties, shall arise in connection with orders not so accepted.

4. The company shall furnish, without charge to the agent, its duly accredited representative or representatives to assist and advise the agent on technical, financial, and legal matters incident to the completion of any negotiations undertaken by the agent hereunder.

5. The agent shall receive as full compensation for his services hereunder a commission equal to 10 percent (10%) of the gross selling price of the military propellants and explosives sold to customers within said territories under orders negotiated by the agent during the life of this agreement. Any commission due hereunder shall be payable to the agent promptly upon receipt by the company of the selling price upon which such commission is based. Such commissions shall be paid in United States currency at such place as shall be designated in each instance by the agent, unless prevented by war, act of governmental authority, or other circumstance beyond the control of the company.

6. The company shall have the right to terminate this agreement upon written notice to the agent; provided, however, that the company shall remain liable for all commissions payable hereunder on orders obtained as a direct result of negotiations commenced prior to such termination.

7. The agent shall have the right to terminate this agreement upon six (6) months previous notice in writing to the company. Upon termination by the agent, no commissions shall be payable hereunder on orders thereafter accepted.

8. Unless otherwise terminated in accordance with paragraph 6 or paragraph 7 hereof, this agreement shall continue in full force and effect for the period of three (3) years from the date hereof.

In witness whereof the company has caused this agreement to be executed by its officers duly authorized and its corporate seal to be hereunto affixed, and the agent has hereunto set his hand and seal the day and year first hereinabove written.

E. I. DU PONT DE NEMOURS & COMPANY.  
By \_\_\_\_\_, Vice president.

Attest:  
[SEAL]

\_\_\_\_\_, Secretary



STATE OF DELAWARE,  
County of New Castle, ss.

On this \_\_\_\_\_ day of January 1933, before me personally came \_\_\_\_\_, to me known, who being by me duly sworn did depose and say that he resides in \_\_\_\_\_ that he is vice president of E. I. du Pont de Nemours & Company, the corporation described in and which executed the above instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of directors of said corporation, and that he signed his name thereto by like order; and he acknowledged the said instrument to be the free act and deed of the said corporation.

\_\_\_\_\_, Notary Public.

EXHIBIT No. 519

This agreement, made this day of February, 1933, by and between E. I. du Pont de Nemours & Company, a corporation organized and existing under the laws of the State of Delaware, United States of America (hereinafter referred to as the "Company"), and D. F. Giera, of Pelham, State of New York, United States of America (hereinafter referred to as the "Agent"), witnesseth:

That for and in consideration of the premises and of the covenants contained herein, the parties hereto have agreed as follows:

1. The company hereby appoints and constitutes the Agent to act as its special agent for the Kingdom of Holland and as its exclusive agent for the Republic of Germany, to negotiate the sale of military propellants and military explosives to purchasers (other than the Government of Holland and its colonies) located in said territories. The agent accepts such appointment and agrees that at all times during the continuance of this agreement he will use his best endeavors to promote the sale by the company of military propellants and explosives within the aforesaid territories.

2. The agent shall not, during the continuance of this agreement without the written consent of the company, act as agent for any other company, corporation, individual or collection of individuals engaged in the manufacture and/or sale of goods of a nature similar to or competing with the said products covered by this agreement, nor shall he be concerned, engaged, or interested, either directly or indirectly, in the business of any company, corporation, individual, or collection of individuals engaged in the manufacture and/or sale of goods of a nature similar to or competing with the products covered by this said agreement.

3. The agent shall bear all expenses and assume sole responsibility in connection with such negotiations, and shall not make any representation, submit or accept any tender, enter into any contract, or execute any document on behalf of the company, except with the approval of the proper officers or other authorized representative or representatives of the company; it being further understood that no obligation on the part of the company, either to the agent or to third parties, shall arise in connection with orders not so accepted.

4. The company shall furnish, without charge to the agent, its duly accredited representative or representatives to assist and advise the agent on technical, financial, and legal matters incident to the completion of any negotiations undertaken by the agent hereunder.

5. The agent shall receive as full compensation for his services hereunder a commission as shown on schedule "A" attached hereto and made a part hereof. Any commission due hereunder shall be payable to the Agent promptly upon receipt by the company of the selling price upon which such commission is based. Such commissions shall be paid in United States currency at such place as shall be designated in each instance by the agent, unless prevented by war, act of governmental authority, or other circumstance beyond the control of the company.

6. If, in the reasonable opinion of the company after consultation with the agent, it appears at any time to the company that the agent is not in a position to negotiate successfully with any prospective customer or customers within said territories, the company, after notice to the agent in writing, may appoint a special representative to obtain orders from such customer or customers; and no commission shall be payable to the agent hereunder with respect to orders negotiated by such special representative.

7. The company shall have the right to terminate this agreement upon written notice to the agent, should the agent breach any of the provisions of

this agreement or become incapacitated, by illness or otherwise, from performing his obligations hereunder for a period of six consecutive months. No commission shall be payable hereunder on orders accepted after such termination.

8. The agent shall have the right to terminate this agreement upon six (6) months previous notice in writing to the company. No commission shall be payable hereunder on orders accepted after such termination.

9. Unless otherwise terminated in accordance with paragraph 7 or 8 hereof, this agreement shall continue in full force and effect for the period of three (3) years from the date hereof.

In witness whereof the company has caused this agreement to be executed in duplicate by its officers duly authorized and its corporate seal to be hereunto affixed, and the agent has hereunto set his hand and seal the day and year first hereinabove written.

E. I. DU PONT DE NEMOURS & COMPANY,  
By \_\_\_\_\_, Vice President.

Attest:  
[SEAL]

\_\_\_\_\_, Secretary.

STATE OF DELAWARE,  
County of New Castle, ss:

On this \_\_\_\_\_ day of February 1933 before me personally came \_\_\_\_\_, to me known, who, being by me duly sworn, did depose and say that he resides in \_\_\_\_\_; that he is vice president of E. I. du Pont de Nemours & Company, the corporation described in and which executed the above instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of directors of said corporation; and that he signed his name thereto by like order; and he acknowledged the said instrument to be the free act and deed of the said corporation.

\_\_\_\_\_, Notary Public.

STATE OF DELAWARE,  
County of New Castle, ss:

On this \_\_\_\_\_ day of February 1933 before me personally came D. F. Glera, to me known, who, being by me duly sworn, did depose and say that he resides in Pelham, county of Westchester, State of New York, and that he is the D. F. Glera described in and who executed the above instrument.

\_\_\_\_\_, Notary Public.

#### SCHEDULE A

This schedule is a part of and subject to all the conditions of the agreement made this \_\_\_\_\_ day of February 1933 between E. I. du Pont de Nemours & Company, a corporation organized and existing under the laws of the State of Delaware, United States of America (referred to in the above-mentioned agreement as the "Company"), and D. F. Glera, of Pelham, State of New York, United States of America (referred to in the above-mentioned agreement as the "Agent").

Supplementing paragraph 5 of said agreement, the Agent shall receive as full compensation for his services a commission equal to ten per cent (10%) of the c.i.f. price of all military propellants and military explosives sold to customers (other than the Government of Holland and its colonies) located within the Kingdom of Holland and the Republic of Germany, under orders negotiated by the agent and accepted by the company during the life of said agreement. Such commissions shall be payable in accordance with the provisions of said agreement.

In witness whereof the company has caused this schedule to be executed in duplicate by its officers duly authorized and its corporate seal to be hereunto affixed, and the agent has hereunto set his hand and seal the day and year first hereinabove written.

E. I. DU PONT DE NEMOURS & COMPANY,  
By \_\_\_\_\_, Vice President.

Attest:  
[SEAL]  
Witness:

\_\_\_\_\_, Secretary.

## EXHIBIT No. 520

This agreement, made this 2nd day of February, 1933, by and between E. I. du Pont de Nemours & Company, a corporation organized and existing under the laws of the State of Delaware, United States of America (hereinafter referred to as the "Company", and D. F. Glen, of Pelham, State of New York, United States of America (hereinafter referred to as the "Agent"), witnesseth:

That for and in consideration of the premises and of the covenants contained herein, the parties hereto have agreed as follows:

1. The company hereby appoints and constitutes the agent to act as its special agent for the Kingdom of Holland and as its exclusive agent for the Republic of Germany, to negotiate the sale of military propellants and military explosives to purchasers (other than the Government of Holland and its colonies) located in said territories. The agent accepts such appointment and agrees that at all times during the continuance of this agreement he will use his best endeavors to promote the sale by the company of military propellants and explosives within the aforesaid territories.

2. The agent shall not, during the continuance of this agreement without the written consent of the company, act as agent for any other company, corporation, individual or collection of individuals engaged in the manufacture and/or sale of goods of a nature similar to or competing with the said products covered by this agreement, nor shall he be concerned, engaged or interested either directly or indirectly in the business of any company, corporation, individual or collection of individuals engaged in the manufacture and/or sale of goods of a nature similar to or competing with the products covered by this said agreement.

3. The agent shall bear all expenses and assume sole responsibility in connection with such negotiations, and shall not make any representation, submit or accept any tender, enter into any contract, or execute any document on behalf of the company, except with the approval of the proper officers or other authorized representative or representatives of the company; it being further understood that no obligation on the part of the company, either to the agent or to third parties, shall arise in connection with orders not so accepted.

4. The company shall furnish, without charge to the agent, its duly accredited representative or representatives to assist and advise the agent on technical, financial, and legal matters incident to the completion of any negotiations undertaken by the agent hereunder.

5. The agent shall receive as full compensation for his services hereunder a commission as shown on schedule "A" attached hereto and made a part hereof. Any commission due hereunder shall be payable to the agent promptly upon receipt by the company of the selling price upon which such commission is based. Such commissions shall be paid in United States currency at such place as shall be designated in each instance by the agent, unless prevented by war, act of governmental authority, or other circumstance beyond the control of the company.

6. The company shall have the right to terminate this agreement upon written notice to the agent, should the agent breach any of the provisions of this agreement, or become incapacitated, by illness or otherwise, or be prevented by any cause from performing his obligations hereunder for a period of six consecutive months. No commission shall be payable hereunder on orders accepted after such termination.

7. The agent shall have the right to terminate this agreement upon six (6) months previous notice in writing to the company. No commission shall be payable hereunder on orders accepted after such termination.

8. Unless otherwise terminated in accordance with paragraph 6 or paragraph 7 hereof, this agreement shall continue in full force and effect for the period of three (3) years from the date hereof.

In witness whereof the company has caused this agreement to be executed in duplicate by its officers duly authorized and its corporate seal to be hereunto affixed, and the agent has hereunto set his hand and seal the day and year first hereinabove written.

E. I. DU PONT DE NEMOURS & COMPANY,  
By \_\_\_\_\_, Vice President.

Attest:  
[SEAL]

\_\_\_\_\_, Secretary.

STATE OF DELAWARE,  
County of New Castle, ss:

On this 2nd day of February 1933 before me personally came to me known, who being by me duly sworn did depose and say that he resides in \_\_\_\_\_; that he is vice president of E. I. du Pont de Nemours & Company, the corporation described in and which executed the above instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of directors of said corporation, and that he signed his name thereto by like order; and he acknowledged the said instrument to be the free act and deed of the said corporation.

\_\_\_\_\_, Notary Public.

STATE OF DELAWARE,  
County of New Castle, ss:

On this 2nd day of February 1933 before me personally came D. F. Giera, to me known, who being by me duly sworn did depose and say that he resides in Pelham, County of Westchester, State of New York, and that he is the D. F. Giera described in and who executed the above instrument.

\_\_\_\_\_, Notary Public.

#### SCHEDULE A

This schedule is a part of and subject to all the conditions of the agreement made this 2nd day of February 1933 between E. I. du Pont de Nemours & Company, a corporation organized and existing under the laws of the State of Delaware, United States of America (referred to in the above-mentioned agreement as the "company"), and D. F. Giera, of Pelham, State of New York, United States of America (referred to in the above-mentioned agreement as the "agent").

Supplementing paragraph 5 of said agreement, the agent shall receive as full compensation for his services a commission equal to ten percent (10%) of the c.i.f. price of all military propellants and military explosives sold to customers (other than the Government of Holland and its colonies) located within the Kingdom of Holland and the Republic of Germany, under orders negotiated by the agent and accepted by the company, during the life of said agreement. Such commissions shall be payable in accordance with the provisions of said agreement.

In witness whereof the company has caused this schedule to be executed in duplicate by its officers duly authorized and its corporate seal to be hereunto affixed, and the agent has hereunto set his hand and seal the day and year first hereinabove written.

[SEAL]

E. I. DU PONT DE NEMOURS & COMPANY,  
By \_\_\_\_\_, Vice President.

Attest:

\_\_\_\_\_, Secretary.

Witness:

#### EXHIBIT No. 521

This agreement made this 15th day of February 1933 by and between E. I. du Pont de Nemours & Company, a corporation organized and existing under the laws of the State of Delaware, United States of America (hereinafter referred to as the "company"), and D. F. Giera, of Pelham, State of New York, United States of America (hereinafter referred to as the "agent"), witnesseth:

Whereas it is understood to be the desire and expectation of Germany to be relieved in the near future of the prohibitions and limitations upon the importation of arms and ammunition to which it is subjected under the terms of the Treaty of Versailles; and

Whereas it is the desire of the company to be in a position to furnish such requirements of military powders as Germany may be in the market for as the result of such relief;

Now, therefore, in consideration of the premises and of the covenants contained herein, the parties hereto have agreed as follows:

1. The company hereby appoints and constitutes the agent to act as its exclusive agent to negotiate the sale of military propellants and military explosives to the Government of Germany. The agent accepts such appointment and agrees that at all times during the continuance of this agreement he will use his best endeavors to promote the sale of military propellants and explosives by the company.

2. The agent shall not, during the continuance of this agreement without the written consent of the company, act as agent for any other company, corporation, individual, or collection of individuals engaged in the manufacture and/or sale of goods of a nature similar to or competing with the said products covered by this agreement, nor shall he be concerned, engaged, or interested either directly or indirectly in the business of any company, corporation, individual, or collection of individuals engaged in the manufacture and/or sale of goods of a nature similar to or competing with the products covered by this said agreement.

3. The agent shall bear all expenses and assume sole responsibility in connection with such negotiations, and shall not make any representation, submit or accept any tender, enter into any contract, or execute any document on behalf of the company, except with the approval of the proper officers or other authorized representative or representatives of the company; it being further understood that no obligation on the part of the company, either to the agent or to third parties, shall arise in connection with orders not so accepted.

4. It is expressly understood that the company will not enter into any contract for the sale of military propellants or explosives to the German Government without first obtaining the approval or consent of the United States Government.

5. The company shall furnish, without charge to the agent, its duly accredited representative or representatives to assist and advise the agent on technical, financial, and legal matters incident to the completion of any negotiations undertaken by the agent hereunder.

6. The agent shall receive as full compensation for his services hereunder a commission as shown on schedule A attached hereto and made a part hereof. Any commission due hereunder shall be payable to the agent promptly upon receipt by the company of the selling price upon which such commission is based. Such commissions shall be paid in United States currency at such place as shall be designated in each instance by the agent, unless prevented by war, act of governmental authority, or other circumstance beyond the control of the company.

7. Either party shall have the right to terminate this agreement upon six (6) months' previous notice in writing to the other. No commission shall be payable hereunder on orders accepted after such termination.

8. Unless otherwise terminated in accordance with paragraph 7 hereof, this agreement shall continue in full force and effect for the period of three (3) years from the date hereof.

In witness whereof the company has caused this agreement to be executed in duplicate by its officers duly authorized and its corporate seal to be hereunto affixed, and the agent has hereunto set his hand and seal the day and year first hereinabove written.

[SEAL]

E. I. DU PONT DE NEMOURS & COMPANY,  
By A. FELIX DU PONT, *Vice President*.

Attest:

C. COPELAND, *Secretary*.  
D. F. GIERA. [SEAL]

Witness:

K. K. V. CASEY.

STATE OF DELAWARE,  
*County of New Castle, ss:*

On this 15th day of February 1933 before me personally came A. Felix du Pont, to me known, who being by me duly sworn did depose and say that he resides in Wilmington, Delaware; that he is vice president of E. I. du Pont de Nemours & Company, the corporation described in and which executed the above instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of directors of said corporation, and that he signed his name thereto by like order; and he acknowledged the said instrument to be the free act and deed of the said corporation.

[SEAL]

J. H. CASSIDY, *Notary Public*.

## STATE OF DELAWARE.

*County of New Castle, ss:*

On this 15th day of February 1933 before me personally came D. F. Glera, to me known, who being by me duly sworn did depose and say that he resides in Pelham, county of Westchester, State of New York, and that he is the D. F. Glera described in and who executed the above instrument.

[SEAL]

J. H. CASSIDY, *Notary Public.*

## SCHEDULE A

This schedule is a part of and subject to all the conditions of the agreement made this 15th day of February 1933 between E. I. du Pont de Nemours & Company, a corporation organized and existing under the laws of the State of Delaware, United States of America (referred to in the above-mentioned agreement as the "company"), and D. F. Glera, of Pelham, State of New York, United States of America (referred to in the above-mentioned agreement as the "agent").

Supplementing paragraph 6 of said agreement, the agent shall receive as full compensation for his services a commission equal to ten percent (10%) of the selling price, f.o.b. plant, of all military propellants and military explosives sold to the German Government under orders accepted by the company during the life of said agreement. Such commissions shall be payable in accordance with the provisions of said agreement.

In witness whereof the company has caused this schedule to be executed in duplicate by its officers duly authorized and its corporate seal to be hereunto affixed, and the agent has hereunto set his hand and seal the day and year first hereinabove written.

[SEAL]

E. I. DU PONT DE NEMOURS & COMPANY.  
By A. FELIX DU PONT, *Vice President.*

Attest:

C. COPELAND, *Secretary.*  
D. F. GLERA, [SEAL]

Witness:

K. K. V. CASEY.

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("Exhibit No. 522" appears in text on page 1237)

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("Exhibit No. 523" appears in text on page 1244)

## EXHIBIT No. 524

JUNE 30, 1933.

Confidential.

\*Ms-80-A  
78-P. D. F. Glera  
Ms-140

COLONEL W. N. TAYLOR,  
16 Place Vendome, Paris, France.

DEAR TAYLOR: Because of uncertainties regarding possible flare-back, it is decided best to cancel our agency arrangement with Glera and the same has now been arranged, this cancellation taking effect immediately.

With kindest regards to the family and yourself, I am

Sincerely yours,

K. K. V. CASEY, *Director.*

KKVC: MH

## EXHIBIT No. 525

(T-2629)

APRIL 10TH, 1933.

\*Ms-80-A  
Ms-8

Major K. K. V. CASEY,  
E. I. du Pont de Nemours & Co.,  
Wilmington, Delaware.

DEAR SIR: Status of negotiations March 1933:

\* Pencil markings.

## I. NEGOTIATIONS COMPLETED

Poland: 20 tons graphite. As negotiations on this material remain in abeyance, the subject will be dropped from future reports.

Belgium: 60 tons powder for 7.92 Mauser cartridges not subject to inspection. Offer for newly made powder from I.C.I. expired. Offer for du Pont IMR 17 subject to prior sale canceled. The Fabrique Nationale have requested an option on 15 tons old IMR 17, which has also been refused, there being no stock on hand.

Latvia: 10 tons NC powder for .303 cartridges. The Latvian War Department sent out their annual inquiry as to price of 10 tons NC rifle powder for .303 cartridges, as the price of powder governs the price the Government pays to Sellier & Bellot for finished ammunition. We quoted \$1.60 per kilo, as we know no real order will be placed.

Yugoslavia: 15 tons TNT for boosters. Order received by Bofors during February, price believed to be around 2 s. 2d. per kilo delivered.

## II. PROSPECTS UNDER NEGOTIATION

Austria: 15-30 tons NC powder for 7.92 cartridges. To be ordered by Hirtenberg for delivery to Dordrecht.

Bulgaria: 5 tons TNT.

Finland: 400-1,000 tons TNT 80.5°C. Negotiations for an order for TNT started the latter part of March, while Col. Taylor was in Helsingfors. Prices were obtained by telephone from London and by cable from Wilmington.

Greece: 40 tons low NG content powder for 75 mm Krupp F. G. Official report of tests made in March expected shortly. Bids were put in on March 20, but are to be opened at a later date which is not yet known.

## III. PROSPECTS FOR FUTURE NEGOTIATIONS

Belgium: Cannon powder.

England: Powder for 7.62 mm Estonian cartridges.

Estonia: 18 tons NC powder for 12"/50 cal. C. D. gun; 28 tons TNT 80° C.; 4 tons powder for 18 pdr. gun.

France: Powder for 25 mm Hotchkiss machine gun; powder for 37 mm. Hotchkiss machine gun.

Greece: Powder for 75 mm Schneider mountain gun Mod. 1919; powder for 120 mm 50 cal. navy gun; powder for 6.5 mm rifle S.P. & C.H.

Holland: 100 tons TNT for Army and Navy; NC Powder for 75 mm gun Colonial Army.

Lithuania: Powder for 7.92 mm rifle cartridges.

Poland: 1,000 tons rifle and cannon powder.

Roumania (Resita): 60 tons TNT.

Yugoslavia: TNT.

## IV. REPORT FOR MARCH 1933

Austria: There continues to be much political unrest in Austria, where it is feared that there will be a Hitlerite invasion in the form of a local internal upheaval in favor of Hitlerism, immediately followed by a voluntary joining up with Germany, thereby forming the Anschluss and eliminating Austria as an independent nation.

Belgium: Our agent reports the possibility of negotiating with the Belgian Government during April for the supply of cannon powder.

Bulgaria: Mr. Douque, I.C.I.'s agent for Bulgaria, having been in London and Paris most of last month, we have no further details on what was reported last month, except that the order for the erection of a powder plant is understood to involve 37 million levas, and that payment will be made in the form of tobacco of the 1928-1929 and 1930 crops.

Denmark: There will be an adjudication in June for 10-20 tons TNT and 10-20 tons cannon powder. We have received an enquiry on the subject and will quote through our agent.

Estonia: Col. Taylor started for Estonia this month but was unable to get there due to having to reach Finland rapidly. Our agent does not foresee an immediate order for powder, as the expenditures for this year are expected to be entirely on cartridges. Mr. Lutyens, of I.C.I., has been to Estonia and is returning the first week of April. Apparently, the problem is first to sell cartridges, and then take up the powder question.

**Finland:** Col. Taylor visited Finland this month and arranged with Messrs. de Jersey & Co. (Finland), Ltd., Mikaelsgaten 9, Helsingfors, for them to act as agents for Du Pont and I.C.I. in Finland. He also negotiated an order for 400 tons of TNT, which order was signed on April 1st. He also visited the Government powder factory at Vihtavuori and sent a report on it. There appears to be a possibility of selling cannon powder later on. The Finns have a large stock of Russian and American powders obtained from Russia at the end of the war, and they are now engaged in going over their entire powder question and reorganizing the old materials they have on hand. Their guns are Russian guns, on which they have very little data, and it is presumed that the Du Pont Co. has considerable information about these guns as the powder used in them is Du Pont powder furnished to Russia during the war. We would like you to look into this question of Russian guns with American powder. Col. Taylor is expecting further information from Finland. The Finns are anxious to buy from England on account of the fact that they have a favorable pound balance. The general economic situation in Finland does not appear to be too bad, and the Finns appear to be adjusting themselves to the economic level. Col. Taylor saw a number of Government officials and got the impression that the financial situation of the country was in fairly good condition.

**France:** There is no particular military news to report on France.

**Germany:** Col. Taylor visited Germany twice this month and got the impression that there is so much internal strain caused by the political changes that, even with the belligerent and threatening attitude of the present government, there is no probability of Germany starting a war for the time being. However, the whole population is extremely nervous and jumpy. It is not possible to tell what is going to happen.

**Greece:** The chemical tests on the samples of NG powder submitted for the Krupp 75 mm field gun have been proceeding during the month with slight retard, due to the political events which occurred this month after the elections, which were held on March 4th. Unofficially, we hear that the Hungarian and Polish samples have not given very satisfactory stability results. We understand that the final reports of the Greek Artillery Technical Section ought to be completed sometime during April, after which the question of placing an order will no doubt be considered. The tests of samples for the 75 mm Schneider mountain gun and the 120 mm Italian Navy gun are still expected to begin at the beginning of May. The two 6.5 Mannlicher rifles, which we have ordered for the Du Pont Co. for experimental purposes, have not yet been actually delivered to our agent in Athens on account of complicated red-tape required by the Government before these rifles are released. As soon as received, they will be shipped with the bullets and primed cartridge cases, which have already been received by our agent from the S. P. & C. H.

**Holland:** The Dutch have refused our .50 cal. powder in favor of Bofors. This is not really because our powder is not satisfactory, but it comes from a bad feeling they got over the delivery of our lot N. 19, on which they were counting on loading a certain number of cartridges. That particular lot not only arrived too late but did not give satisfaction, and it gave Bofors an opportunity to come in. This dissatisfaction affects our relations for small-arms powder, but does not affect our relations for cannon powder, and high explosives, but will be difficult to overcome.

**Hungary:** Hungary continues to draw the attention of the European powers on account of its political restlessness and reported arming due to the situations developing among its neighbors. This country considered that it had a good chance of counter-acting the potential force of the "Petite Entente" federation, (Yugo-Slavia, Roumania, and Czecho-Slovakia) by tying up once more with Austria under the rule of a Hapsburg. The chances of this seem to be disappearing due to the Hitlerite movement in Austria, tending towards a tie up with Germany. Hungary is, therefore, feeling terribly isolated and would seem somewhat ready to do anything desperate to break up these movements before they are too well organized.

The continued movement of armament from Italy to Hungary has again been brought in the limelight by statements made on March 10th in the French Chamber of Deputies regarding the delivery of 60 airplanes as follows: 12 single-seated Fiat fighting planes of 450 H.P. model CC. 20, 30 two-seated Fiat observation and bombing planes of 650 H.P. model CC. 22, 12 large Caproni bombing planes flown to destination in eight squadrons as follows: May 29, 1932, 1 squadron from Tolmezzo, Italy, to Szombatheli, Hungary; Dec. 19, 1932, 1 squadron from Udine, Italy, to Varpalota, Hungary; Jan. 4,



1933, 2 squadrons from Tolmezzo, Italy, to Szebeg, Hungary; Jan. 19, 1933, 2 squadrons from Tolmezzo, to Szebeg; Jan. 20, 1933, 2 squadrons of Capronia from Tolmezzo to Szombathell. All bombing planes equipped with full load of bombs and complete gas equipment.

In over ten months, Italy is reported to have recently delivered 195,000 kgs. of gas by rail through Austria without anyone noticing the shipments.

We have endeavored to obtain information on the Hungarian powder plant: Nitrochemie Industrieanlagen A.G.—whose competition has been met in the present negotiations in Greece. We learn from reliable sources that this company is a fusion of the Ungarische Pulverfabriks Betriebs A.G. and the Peter Nitrogen Artificial Menure Factory Ltd. The company has been taken over by the government and the directors consist solely of State functionaries. The powder plant is not far from Veszprem; employs 100-150 workmen. It manufactures both nitrocellulose and nitroglycerin powders and its capacity is estimated at 10,000 kgs. per day. At present, the production is very low, being estimated at 35,000 kgs. per annum. The technical manager, Helwig, is very highly spoken of and he was one of the staff of the old Austrian Imperial Propellant Factory at Blumau.

Latvia: Col. Taylor expected to visit Latvia, but was unable to arrive there. Mr. Lutjens, of I.C.I., is visiting Latvia the first week of April and will look into the possibility of powder business.

Lithuania: The Lithuanians behaved so badly on the cartridge order delivered by I.C.I. and the question of payment and acceptance of the material was so badly conducted, that we have decided that there is not much profit to be made out of this territory and that they are rather bad people to deal with. We have a little doubt yet whether or not we should appoint Capt. Martinkus or General Velykis as agent, but we are waiting to see the result of the trials of the sample of rifle powder we have sent to Martinkus, to see whether or not he handles this in a better way than Velykis handled the cartridge order. We have decided not to bother him and see what he can do, and later, go into the matter.

Poland: Our agent reports that the Poles are maintaining their attitude that they will not buy outside of Poland and that Zagodzson is sufficient to take care of their needs. They do not seem to be alarmed by Hitler's threats on the Corridor for the immediate future. However, they expect that there will be unavoidably a war with Germany on this matter. Col. Taylor will visit this territory early next month to see what can be done.

Roumania: We have arranged with Mr. E. G. Boxshall, 107, Calea Victoriei, Bucharest, to act for our agent in Roumania. It looks as if we may be able to do some business direct with Resita factory, which is expecting some orders for shells and ammunition. It is not advisable to attempt to deal direct with the Government as the financial situation is extremely bad and the Government defaulted on a payment of a cartridge order in 1932, but finally came to a new arrangement agreeing to pay over 8 years.

Recently, there has been a scandal concerning a contract placed with Skoda for shells amounting to 31 million leis and cannons for 6 billion leis. On March 10th, 1933, two tax inspectors examined the books of Mr. Seletzki, agent of Skoda, on the basis that he had made a false tax declaration, and they found among his papers a great number of documents and letters between Skoda and various Roumanian officials, showing that the Skoda agent had distributed a large sum of money among them in order to obtain the contract. This caused considerable comment in the Chamber of Deputies and suddenly General Popescu committed suicide. General Popescu was a retired officer and had signed the contract with Skoda. Immediately afterwards, some reports say that Mr. Seletzki was arrested, others not, and at this moment everything is in a great state of agitation.

Turkey: We have taken no steps to do anything in Turkey as the financial conditions appear very bad.

Yugoslavia: We are now debating the question of an agency for Yugoslavia. Mr. L. W. B. Smith and Mr. Major of I.C.I. visited Belgrade and are studying the matter of reorganizing the I.C.I. work there, and we are waiting to find out what they have decided to do before taking any further steps about an agency, for powder and explosives, as there is no immediate possibility of selling powder there, and we wish to harmonize with the general plans of I.C.I.

General: There is a certain activity beginning to show in the military world and tentative enquiries are coming out. No important orders have been placed anywhere yet, but it looks as if before long there might be something coming.

The question of price for the moment is determining all purchases. The governments are extremely poor and every cent counts.

The prices are very low. Cannon and rifle powders are selling at \$1.10 to \$1.25 a kilo C.I.F. and TNT is selling between 30 and 34 cents a kilo C.I.F.

At these prices it is possible to sell I.C.I.'s products, but it is not possible for the moment to sell Du Pont products, as Du Pont prices are too high. The only opportunity of selling Du Pont materials will be after the European competitors have reached their capacity, and the question of quick deliveries of a large volume might arise. So far, this is not the case.

Very truly yours,

WILLIAM N. TAYLOR.

AK/MS

EXHIBIT No. 526

(T-2581)

FEBRUARY 6TH, 1933.

\*Ms-80-A

Orig-Ms-8

Ms-64

Ms-140

Ms-199

Major K. K. V. CASEY,

*E. I. du Pont de Nemours & Co., Wilmington, Delaware.*

DEAR SIR: Status of negotiations January 1933.

I. NEGOTIATIONS COMPLETED

Poland: 2,000 kilos centrallite. I.C.I. received an order from Zagodzson at 5s.4d. per kilo c.i.f. Gdynia.

Roumania: 5 tons TNT (pyrotechnie). I.C.I. report as follows: "As a result of the adjudication held on December 10th, Bofors got the order at Lei 100 per kg. cif. Pyrotechnie, Bucarest, duty excluded; inspection and acceptance to take place at Bucarest. Terms: 30% with order, 70% after successful termination of all acceptance tests. Although the price is comparatively high, Bofors are no doubt running a risk which is rather out of proportion with the value of the order."

II. PROSPECTS UNDER NEGOTIATIONS

*I.C.I. territory*

Austria: 15-30 tons NC powder for 7.92-mm. cartridges. Ordered by Hirtenberg for delivery to their factory at Dordrecht. See last report. No further developments.

Bulgaria: 5 tons TNT. I.C.I. report no further news received.

Greece: 40 tons low NG content powder for 75-mm. Krupp F.G. Mr. Cowie of I.C.I. and Mr. Singer left for Greece on Jan. 21st to take part in the firings which are expected to take place on Feb. 6th, and to prepare and submit an offer on behalf of I.C.I. It is presumed that the Dutch, the Swedes, the Poles, the Italians, and the Nitrokemle of Hungary will also compete.

PROSPECTS UNDER NEGOTIATIONS

*du Pont territory*

Belgium (F.N.): 60 tons powder for 7.92 Mauser cartridges. Powder not subject to inspection, and to be delivered in 5-ton lots. Have quoted on old du Pont IMR 17 and I.C.I. newly made powder. Sample of I.M.R. 17 has been sent to the F.N.

Poland: 1,000 tons rifle & cannon powder. The opportunity for this order seems to have passed, so we are dropping this to future prospects. See letter no. T-2541.

Poland: 20 tons graphite. No decision yet reached, pending trials of samples.

\* Pencil markings.

## III. PROSPECTS FOR FUTURE NEGOTIATIONS

*I.C.I. territory*

Greece: Powder for 75-mm. Schneider Mountain Gun mod. 1919 and for 120-mm. 50-cal. navy gun.

Roumania (Resita): 60 tons TNT.

## PROSPECTS FOR FUTURE NEGOTIATIONS

*du Pont territory*

England: Powder for 7.62-mm. Estonian cartridges.

Estonia: 18 tons NC powder for 12"/50 cal. C.D. gun; 28 tons TNT 80° C.; 4 tons powder for 18 pdr. gun.

France: Powder for 25-mm. Hotchkiss machine gun; powder for 37-mm. Hotchkiss machine gun.

Holland: 100 tons TNT for army and navy.

Lithuania: Powder for 7.92-mm rifle cartridges.

## IV. REPORT FOR JANUARY 1933

*I.C.I. territory*

Austria: A most interesting case of contraband of arms has developed in connection with the Hirtenberg factory in Austria. As you know, the Hirtenberg factory is owned by Fritz Mandl, who is also the owner of the Dordrecht factory.

Hirtenberg is not allowed to manufacture cartridges in Austria other than a certain limited production for the Austrian Army. But they manufacture the metal parts in Austria and deliver them to Dordrecht, where they are assembled and loaded.

On the morning of Jan. 8th, the "Wiener Arbeiterzeitung" published the news that 40 carloads of rifles and machine guns had been smuggled from Austria into Hungary during the month of December. This news caused considerable excitement and the French Ambassador at Vienna immediately took the matter up with the Austrian Government.

It appears that an Italian at Verona, I believe his name is Cesare, obtained 30,000 rifles and 200 machine guns, which are part of the Austrian material seized by Italy during the War, and shipped this material to Hirtenberg in Austria, obtaining a permit through the frontier on the basis of sending these arms to be repaired by the original manufacturer in Austria who was Steyer. This material arrived at the Hirtenberg factory, was sorted, and the material in good order was immediately shipped in automobile trucks to Hungary; the rest was repaired at Steyer's and shipped to Hungary during the night of the 30th and 31st of December last.

This has caused considerable agitation in the Austrian Parliament between the Socialists and Nationalists. The Austrian Government defended themselves on the question of import permit into Austria on the basis that it was legitimate business to allow material to come into Austria to be repaired and to give work to Austrian labor and return the material to Italy. The matter was quieted down, and somehow or other it was arranged that the French should not make any official trouble about it.

However, the "Petite Entente", who are the natural enemies of Hungary, was not satisfied and brought this matter before the League of Nations, demanding that the material be delivered up and destroyed, and that sanctions should be taken against the people involved. There seems to be an attitude on the part of certain English, French, and Italian delegates at Geneva to hush the matter up, and the "Petite Entente" are having a hard time to get action.

This is the first contraband case which has happened in recent years. It is understood that Hirtenberg undertook this matter in return for a large cartridge order from Hungary.

Bulgaria (proposed powder plant): I.C.I. did not quote. It has not yet been ascertained whether the adjudication really took place in December or not.

Greece: Messrs. Cowle, of I.C.I., and Singer, of this office, left for Greece on Jan. 21st. On his return Mr. Singer will report on the entire situation in Greece.

Hungary: Hungary is apparently trying seriously to obtain more arms, etc., than the treaties allow. They are hoping to profit by trouble in Yugoslavia between the Croats and the Slavs. They believe that there will be a rebellion in Yugoslavia in the summer and hope to profit by it.

Jugoslavia: Mr. Singer will visit this territory on his way back from Greece. He will visit Mr. May, of I.C.I., there and ascertain conditions in this territory.

Roumania: I.C.I. report as follows: "Colonel Petrescu and Mr. Popp, of the Resita Company, visited our works at Witton and Ardeer. We understand from them that, apart from these 60 tons TNT, Resita will probably require the necessary tetryl for the manufacture of primer pellets, and also the appropriate submarine-mine detonators, payment to be spread over three to four years; we had to increase prices."

Turkey: We know of no sales to Turkey for powder or ammunition for a long time.

#### REPORT FOR JANUARY 1933

##### *du Pont territory*

Belgium: The 3-kilo sample of IMR 17 for the Fabrique Nationale is being shipped on Feb. 1st from America. The F. N. has been advised of the name of steamer and date of sailing, and requested to make the necessary arrangements for reception on arrival of steamer.

Denmark: No activity during the month.

Finland: On January 11th the press reported that an explosion took place at the naval port of Mac Elliott, situated on an island about 22 miles from Helsingfors. A fire propagated to an ammunition depot caused the explosion, which destroyed seven barracks and a portion of the \* defence fortifications. No lives were reported lost, but it is believed that a large supply of ammunition was lost.

We have sent an offer to the Finnish War Ministry to supply powder and TNT produced by I.C.I. We quoted in English currency. The prices were equivalent to approximately the following in dollars:

Rifle powder, \$1.10; cannon powder, \$0.987; TNT, 80.5° C., \$0.308.

We doubt that business will result, but thought it politic to offer.

Agency.—It may be necessary to consider appointing an agent in Finland in the near future, as the arrangement between Col. Huuri, of the War Dept., and Mr. Singer, whereby all business was to be handled by this office through the Finnish military attaché here does not appear to be adhered to by Col. Huuri, as an enquiry from Finland for a quotation on 1,000 kilos tetryl was received by I.C.I. through their agent in Finland for Metals, Ltd. We would prefer to have an active agent in Finland and unless Col. Huuri's promise that he will work through the military attaché's office here is kept by him, we shall insist that an agent be appointed.

Holland: Col. Taylor visited Holland and arranged for a counter test of the 500 kilos of .50 cal. powder to be made during February. He will return to Holland to witness the counter test, presumably during February.

Mr. Van Veen visited Paris on Jan. 27th, and the new agency contract is being discussed with him.

At the request of the Dutch authorities, on Jan. 13th, 1933, we authorized the destruction of the sample of cannon powder du Pont Ex-1502 for the Dutch field gun 75 mm/L. 30.

Latvia: Latvia is at the moment not buying powder or ammunition from abroad, but have placed orders with Sellier & Bellot for cartridges.

Lithuania: It will shortly be decided whether we shall definitely appoint Capt. Martinkus as agent in Lithuania, or whether we shall revert back to Col. Velykis who is now agent for I.C.I. Metals. Our decision will be based on recommendations from the Lithuanian Minister of War.

Norway: No activity.

Poland: I.C.I. got a small order for centrallite. The opportunity to force a sale of powder which came up some 8 months ago, seems to have gone by and we are preparing new proposals to take advantage of any new opportunity which may come up.

Sweden: Our only enquiries for Sweden are supplies of some chemical ingredients from Bofors.

\* Pencil markings.

## GENERAL REMARKS

Italy: Production of explosives, according to "Die Chemische Industrien" of Jan. 14, 1933, page 34, for the fiscal year 1931/32, amounted to 8,079 metric tons compared with 8,980 tons the previous year. Details of the production are as follows:

	1930-31	1931-32
	<i>Metric tons</i>	<i>Metric tons</i>
Mining powder.....	2,039	1,707
Other explosives.....	4,777	3,291
Propellant powder.....	221	173
Other propellant materials.....	1,943	2,838

The consumption of explosives amounted to 7,962 metric tons as compared with 7,519 tons in the previous year.

Prices: The prices on powder have gone down to such an extent that it is not possible to hope that we will succeed in selling du Pont products at the prices now required. The European manufacturers appear willing to sell powder at any price they can get for it, and in order to compete our prices for nitro cellulose powder, rifle powder, and cannon powder should lay between \$1 and \$1.20 c.i.f.

We beg to call your attention to the following quotations:

Bofors rifle powder, 83 cents per kilo c.i.f.

I.C.I. NC rifle powder, \$1.10 per kilo c.i.f.

I.C.I. NC cannon powder, 0.987 per kilo c.i.f.

I.C.I. TNT 80.5° C., 0.307 per kilo c.i.f.

On account of our high prices, it now occurs that we are not invited to take part in adjudications on the basis that we always bid so high; that it is a waste of time to ask us. This morning the head of the Argentine Mission told us that he had not invited us to bid on orders because our prices had been so high that it was of no use.

Very truly yours,

WILLIAM N. TAYLOR.

## EXHIBIT No. 527

Approved Code No. 275. Registry No. 699—1—11

NATIONAL RECOVERY ADMINISTRATION CODE OF FAIR COMPETITION FOR THE CHEMICAL MANUFACTURING INDUSTRY AS APPROVED ON FEBRUARY 10, 1934, BY PRESIDENT ROOSEVELT

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APPROVED CODE No. 275. CODE OF FAIR COMPETITION FOR THE CHEMICAL MANUFACTURING INDUSTRY AS APPROVED ON FEBRUARY 10, 1934, BY PRESIDENT ROOSEVELT

### EXECUTIVE ORDER

#### CODE OF FAIR COMPETITION FOR THE CHEMICAL MANUFACTURING INDUSTRY

An application having been duly made, pursuant to and in full compliance with the provisions of Title I of the National Industrial Recovery Act, approved June 16, 1933, for my approval of a Code of Fair Competition for the Chemical Manufacturing Industry, and hearing having been held thereon and the Administrator having rendered his report containing an analysis of the said Code of Fair Competition together with his recommendations and findings with respect thereto, and the Administrator having found that the said Code of Fair Competition complies in all respects with the pertinent provisions of Title I of said Act, and that the requirements of clauses (1) and (2) of subsection (a) of Section 3 of the said Act have been met:

NOW, THEREFORE, I, Franklin D. Roosevelt, President of the United States, pursuant to the authority vested in me by Title I of the National Industrial Recovery Act, approved June 16, 1933, and otherwise, do adopt and approve the report, recommendations, and findings of the Administrator, and do order that the said Code of Fair Competition be, and it is hereby, approved.

FRANKLIN D. ROOSEVELT.

Approval recommended:

HUGH S. JOHNSON,  
*Administrator.*

THE WHITE HOUSE,  
*February 10, 1934.*

### LETTER OF TRANSMITTAL

The PRESIDENT,

*The White House.*

SIR: This is a report of the hearing on the Code of Fair Competition for the Chemical Manufacturing Industry conducted in Washington on the 14th of September, 1933, in accordance with the provisions of the National Industrial Recovery Act.

The Chemical Manufacturing Industry in its various branches and subdivisions is one whose welfare is very closely interlocked with that of our country. We rely upon it to keep abreast of the world in development of new agents of National Defense and we look to it to produce them in quantity in time of need. Its laboratories and factories supply us with the chemical and bacteriological aids for increasing the standards of our public health. In the past the chemical industry has accepted this burden and, I believe, performed its duties in an honest fashion.

No organization including all of the industry existed in June of 1933. The Chemical Alliance, Incorporated, an outgrowth of the war organization of the industry, was formed for the purpose of carrying out the purposes of the National Industrial Recovery Act. This new organization which represents a substantial majority of the industry has presented and fostered their code.

The products of the industry cover a very broad field ranging from serums for use on humans and animals through fine chemicals and explosives to heavy industrial chemicals such as sulphuric acid. In nearly the whole range purity is a matter of the greatest importance not only to the quality of the final product but also to the safety of the makers and consumers. Carefully trained employees with a well-developed sense of responsibility are essential in many phases and the rule in most phases of the industry. As a consequence it is an industry which, as a whole, has been fair to its employers and practically free from the accusations and troubles of others.

The scale of wages paid in the industry has been relatively high as is evidenced by the fact that the average hourly rates fell from 57.2¢ per hour in 1929 only to 50.3¢ per hour in June of 1933, a decline much less than the increase in purchasing power, and less than that of most other industries. It is believed that the increase in wages brought about by the code will restore them to the 1929 level or better.

The maximum hours of labor provided in the code probably will result in an average of between 40 and 42 hours per week. This results even at the existing rate of operation in an increase of from 7 to 10 percent in the number of employees. With increasing activity of industry the need for new employees will be even greater.

Even the voluntary adoptions of the provisions of this code by many units in the industry resulted in pay-roll increases of over 14%. The application of the code to all units in the industry will increase pay rolls still further.

#### FINDINGS

The Division Administrator in his final report to me on said Code having found as herein set forth and on the basis of all the proceedings in this matter; I find that:

(a) Said Code is well designed to promote the policies and purposes of Title I of the National Industrial Recovery Act, including removal of obstructions to the free flow of interstate and foreign commerce which tend to diminish the amount thereof and will provide for the general welfare by promoting the organization of industry for the purpose of cooperative action among the trade groups, by inducing and maintaining united action of labor and management under adequate governmental sanctions and supervision, by eliminating unfair competitive practices, by promoting the fullest possible utilization of the present productive capacity of industries, by avoiding undue restriction of production (except as may be temporarily required), by increasing the consumption of industrial and agricultural products through increasing purchasing power, by reducing and relieving unemployment, by improving standards of labor, and by otherwise rehabilitating industry.

(b) The Code as approved complies in all respects with the pertinent provisions of said Title of said Act, including without limitation Subsection (a) of Section 3, Subsection (a) of Section 7, and Subsection (b) of Section 10 thereof; and that the applicant association is an industrial association truly representative of the aforesaid industry; and that said association imposes no inequitable restrictions on admission to membership therein.

(c) The Code is not designed to and will not permit monopolies or monopolistic practices.

(d) The Code is not designed to and will not eliminate or oppress small enterprises and will not operate to discriminate against them.

(e) Those engaged in other steps of the economic process have not been deprived of the right to be heard prior to approval of said Code.

It is recommended, therefore, that this Code be immediately adopted.

Respectfully,

HUGH S. JOHNSON,  
*Administrator.*

FEBRUARY 10, 1934.

#### CODE OF FAIR COMPETITION FOR THE CHEMICAL MANUFACTURING INDUSTRY

To effectuate the policy of Title I of the National Industrial Recovery Act, the following provisions are established as a Code of Fair Competition for the Chemical Manufacturing Industry.

## ARTICLE I—DEFINITIONS

(a) The term "President" as used herein means the President of the United States.

(b) The term "Administrator" as used herein means the duly appointed representative of the President to administer the National Industrial Recovery Act.

(c) The term "Chemical Industry" as used herein and covered by this Code, shall be defined to mean the production and sale by the producer of heavy, industrial, and fine chemicals, and their byproducts, unless separate codes not supplementary to this Code are submitted by any division or subdivision of this Industry and approved by the President.

(d) The term "Alliance" as used herein means The Chemical Alliance, Inc., a nonprofit sharing corporation organized and existing under the laws of the State of Connecticut.

(e) The term "employees" as used herein means all persons employed in any phase of the Chemical Industry covered by this Code.

(f) The term "effective date", as used herein means the tenth day after this Code has been approved by the President of the United States.

## ARTICLE II—HOURS OF LABOR

On and after the effective date, no person, including accounting, clerical, office and sales employees, employed within the Chemical Industry shall be permitted to work more than an average of forty hours per week during any period of four months nor more than forty-eight hours during any week, but such limitations shall not apply to:

(a) Any person employed in an executive, administrative, supervisory and/or technical (not to include skilled operating labor nor nonprofessionally trained laboratory workers) capacity, or as an outside salesman.

(b) Any person employed as repairman, engineer, electrician, loader, truck driver, cleaner or watchman; provided that, no person specified in this subparagraph (b) shall be permitted to work during any three months' period more than an average of forty-four hours per week nor more than forty-eight hours in any one week.

(c) Those departments or divisions of the Chemical Industry in which season or peak demand places an unusual and temporary requirement for production upon such departments or divisions, except that in such cases no employee shall be permitted to work during any three months' period more than an average of forty-four hours per week nor more than forty-eight hours in any one week.

(d) Employees engaged on continuous operation at places where adequate supply of qualified labor is not available and cannot reasonably be made available and where restriction of hours of such employees would unavoidably reduce production. In such cases the average weekly hours may not be in excess of forty-eight hours per week and at the end of each calendar month any such employer in the Chemical Industry shall report to the Alliance, in such detail as may be required by the Executive Committee or the Administrator, the number of man-hours so worked, giving the reasons therefor, and the ratio which such man-hours bear to the total number of man-hours during said month.

(e) Cases of emergency, provided that at the end of each calendar month any such employer in the Chemical Industry shall report to the Alliance, in such detail as may be required by the Executive Committee or the Administrator, the number of man-hours so worked, giving the emergency reasons therefor, and the ratio which such emergency man-hours bear to the total number of man-hours during said month.

## ARTICLE III—MINIMUM WAGES

On and after the effective date the minimum wages paid by any employer in the Chemical Industry to any employee, including accounting, clerical, office and sales employees, shall be not less than thirty-five cents per hour when employed in the Southern District as defined below, nor less than forty cents per hour when employed elsewhere in the United States; provided, however, that if the hourly rate for the same class of work on July 15, 1929, was less than thirty-five cents per hour in the Southern District or less than forty



cents per hour elsewhere in the United States, then in that case the minimum wages paid hereunder shall be not less than the hourly rate paid on July 15, 1929, and in no event less than twenty-five cents per hour in the Southern District and thirty cents per hour elsewhere in the United States; provided, however, that where a State law provides a higher minimum wage, no person employed within that State shall be paid a wage below that required by such State law. The above provisions shall apply in all cases except that—

(a) Apprentices and learners for not more than the first six months of employment shall be paid not less than eighty percent of the minimum wages above provided and the total number of apprentices and learners shall not exceed five percent of the total number of employees employed by any employer subject to this Code.

(b) Employees who because of age or infirmities are employed in such positions as watchmen, gatemen, caretakers, etc., shall be paid not less than eighty percent of the minimum wages hereinabove provided and the total number of such employees shall not exceed five percent of the total number of employees employed by any employer subject to the Code.

In the case of any employee whose compensation is paid on other than an hourly basis or is based upon a measure other than time, the total compensation paid shall be no less than such employee would be entitled to receive if his compensation were determined on an hourly basis.

For the purposes of this Article "Southern District" shall be defined as that territory south of the States of Maryland, West Virginia, Kentucky, and Missouri, and including the States of Oklahoma and Texas.

#### ARTICLE IV—CHILD LABOR

On and after the effective date, no employer in the Chemical Industry shall employ any person under the age of sixteen years; provided, however, that where a State law provides a higher minimum age, no person below the age specified by such State law shall be employed within that State.

#### ARTICLE V—ADMINISTRATION

The Alliance is hereby appointed an agency for the following purposes:

(a) To collect from the members of the Industry all data and statistics in relation to number of employees, hours of labor, and rates of pay necessary for the administration of the provisions of this Code which may be called for by the Administrator. Any data and/or statistics of a confidential nature shall be collected and compiled by a firm of Certified Accountants or other suitable agents selected by the Alliance and not a member or connected with a member of the Chemical Alliance. The data and/or statistics so collected by such agents shall be furnished to the Alliance only in combination with other information of the same type and in such form as will not disclose the individual data or statistics furnished by any single employer. No officer or director of the Alliance or any other person or agency shall at any time have access to or be furnished in any manner with any information by said agents which would disclose the individual data or statistics furnished by any single employer.

(b) To represent the Chemical Industry in conferring with the Administrator with respect to the application of this Code and of said Act, and any regulations issued thereunder, and receive complaints, and if possible adjust the same, and to coordinate the administration of this Code with such codes, if any, as may affect any subdivision of the Chemical Industry, with a view to providing joint and harmonious action upon all matters of common interest, and to receive any proposals for supplementary provisions or amendments of this Code and transmit the same to the Administrator; provided, however, that as regards all matters mentioned in this paragraph (b) said Alliance shall not have the power in any way to bind the Chemical Industry or any subdivision thereof.

(c) The duties of the Alliance above enumerated shall be performed by its Executive Committee. The Administrator may name three representatives who, without expense to the Alliance or the Industry, shall have the right to attend all meetings of said Executive Committee dealing with questions concerning the administration of this Code but such representatives shall have no vote.

(d) Nothing contained in this Code shall constitute the members of the Alliance partners for any purpose. Nor shall any member of the Alliance be liable

in any manner to anyone for any act of any other member officer, agent, or employee of the Alliance. Nor shall any member of the Alliance exercising reasonable diligence in the conduct of his duties hereunder be liable to anyone for any actions or omissions to act under this Code except for his own willful misfeasance or nonfeasance.

(e) The Chemical Alliance shall: (1) Impose no inequitable restrictions on membership and (2) Submit to the Administrator true copies of its Articles of Association, By-Laws, regulations, and any amendment when made thereto.

#### ARTICLE VI

All members of the Chemical Industry shall be entitled to participate in and share the benefits of the activities of the Chemical Alliance by becoming a member of the Alliance, or by complying with the requirements of this Code and sustaining their reasonable share of the expenses of its administration. The reasonable share of the expenses of administration of each member of the Industry shall be determined by the Alliance on the basis of the total number of employees covered by this Code, as provided in the Constitution and By-Laws of the Alliance or, subject to the approval of the Administrator, on such other equitable basis as the Alliance from time to time may determine.

#### ARTICLE VII

If any employer in the Chemical Industry is also an employer in any other industry, the provisions of this Code shall apply to and affect only that part of the business of such employer which is a part of the Chemical Industry.

#### ARTICLE VIII—EMPLOYEE ORGANIZATION AND BARGAINING

(a) Employees shall have the right to organize and bargain collectively through representatives of their own choosing, and shall be free from the interference, restraint, or coercion of employers of labor, or their agents, in the designation of such representatives or in self-organization or in other concerted activities for the purpose of collective bargaining or other mutual aid or protection.

(b) No employee and no one seeking employment shall be required as a condition of employment to join any company union or to refrain from joining, organizing, or assisting a labor organization of his own choosing.

(c) Employers shall comply with the maximum hours of labor, minimum rates of pay, and other conditions of employment, approved or prescribed by the President.

#### ARTICLE IX

In all activities under this Code, the peculiar relation of the Chemical Industry to national defense, national health, national industry, and national agriculture must be constantly borne in mind by its employers, stockholders, directors, executives, and employees. The present products of this industry should be regarded as only byproducts; its main product and purpose the extension of chemical knowledge in the public interest. It is recognized that the Chemical Industry, if it is to keep abreast of chemical progress in the world, requires employees capable of constant advancement in their technical skill and of high and loyal character. Therefore, conscious of the great purpose of the industry, by presenting this Code the employers in this industry shall not be deemed to have waived any of their constitutional and legal rights to engage, promote, or release employees, and the members of the industry shall not be deemed to have waived any other constitutional rights.

#### ARTICLE X

The President may from time to time, cancel or modify any order, approval, license, rule, or regulation issued under Title I of the National Industrial Recovery Act.

#### ARTICLE XI

Supplementary provisions covering fair trade practice rules, applicable to subdivisions of the Chemical Industry, may from time to time be submitted by the agency designated herein, or by an agency named by any subdivision, for the approval of the President. Notwithstanding any provisions of Article

V, or any authority conferred thereby, any subdivision shall have the right to and shall be entitled to submit in its own behalf, direct to the National Recovery Administration, and to administer, such supplementary provisions concerning fair trade practice rules, providing that no such supplementary provisions shall be inconsistent with the purposes and provisions of this Code.

#### ARTICLE XII

Subject to the approval of the President any subdivision of the Chemical Industry operating under the provisions of this Code may elect to sell any of its products only upon open prices and/or terms and conditions publicly announced by each member of such subdivision. Any changes in prices and/or terms and conditions by any member of such subdivision shall be announced by such member immediately to all other members of the subdivision through such Agency as the subdivision may determine. Variations from such open and publicly announced prices and/or terms and conditions shall not be allowed.

#### ARTICLE XIII

By presenting this Code, and the specific provisions of Articles II and III hereof, those who have assented hereto do not thereby consent to any modification thereof, except as each shall thereto subsequently agree.

#### ARTICLE XIV

Except as to temporary exemptions or stays arising by reason of the operation of the Executive Order of July 15, 1933, any exemption or stay of application from the provisions of this Code shall be granted by the Administration only after submission of the application to the Alliance and the expiration of a reasonable time within which to permit the Alliance to submit recommendations thereon. It shall be the policy of the Administration in granting any exemption or stay of application that no distinction shall be made between the person or persons requesting such exemption or stay of application and other persons similarly situated in the Chemical Industry.

#### ARTICLE XV

The Code shall continue in effect for a period of ninety days after the effective date thereof, subject, however, to amendment at any time as hereinbefore provided, and also subject to the reserved power of the President to cancel or modify his approval thereof. The Code shall continue in effect after the expiration of said period of ninety days in the absence of such reserved power on the part of the President, or in the absence of the exercise by members of the Alliance of the power which they hereby reserve, to terminate the Code at any time after the expiration of the said period of ninety days. Such cancellation shall be proposed by the Executive Committee of the Alliance by vote of the majority of members thereof at the time in office. The proposal to cancel shall then be submitted to all members of the Chemical Alliance who shall be given a right to vote thereon. If at least two thirds of the votes entitled to be cast by the members of the Chemical Alliance, in accordance with the provision of Article VIII, Section 5, of the Constitution and By-Laws of the Chemical Alliance, shall be in favor of cancellation, the Chemical Alliance shall have the power, after service of a thirty-day notice on the Administration, to terminate said Code. When so terminated, all subsequent liabilities and obligations hereunder shall cease. Notwithstanding such action by the Alliance, any subdivision of the industry may elect to continue the Code in effect as to itself.

Approved Code No. 275.  
Registry No. 699-1-11.

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The following correction by Dr. Sparre was entered during the proceedings of September 18, 1934, immediately preceding the noon recess. (See pt. VII.)

## EXHIBIT No. 598

E. I. DU PONT DE NEMOURS & COMPANY, INCORPORATED.  
 Wilmington, Delaware, September 17, 1934.

Mr. STEPHEN RAUSHENBUSH,  
*Secretary Special Senate Committee Investigating  
 the Munitions Industry,  
 408 Senate Office Building, Washington, D.C.*

## GLYCERIN

DEAR MR. RAUSHENBUSH: You will remember that before the committee in connection with the munitions investigation in Washington on Friday, the 14th, certain inquiries were made with respect to glycerin. I gave at that time some figures on glycerin based on my recollection, but stated afterwards to you that it would be necessary for me to check the figures because I couldn't safely trust my memory. I have looked into this situation and find it to be as follows, the figures in all cases applying to the full calendar year of 1933:

	Tons
U.S. production of glycerin-----	59,000
Foreign production of glycerin-----	62,000
Total glycerin production-----	121,000
du Pont consumption of glycerin-----	7,750

Accordingly, the du Pont consumption of glycerin in 1933 is indicated to have been about 6.4% of the world production. Du Pont purchases of glycerin from Europe were 475 tons and therefore a negligible percentage. The bulk of our purchases are in the United States.

At the Washington hearing I underestimated our consumption because I was thinking in terms of explosives and overlooked that we use glycerin also in the manufacture of lacquers and cellophane, the consumption for these other purposes being almost as large as for explosives.

During the first six months of 1934 we purchased 1,575 tons of glycerin from Europe, which is an unusually large percentage from abroad, but nevertheless very much smaller than purchases in this country and, of course, a very small percentage of the European production. However, the figures vary considerably from year to year.

With respect to the I.C.I. consumption and purchase of glycerin, we have no accurate figures. In discussing the situation in Washington I had in mind only the English consumption of glycerin, but on further reflection I suppose that you would want to ascertain I.C.I.'s world consumption, which would include consumption, for instance, in South Africa and Australia.

It has been suggested by our foreign relations department that the total I.C.I. consumption of glycerin in 1933 might have been as high as 10,000 tons. This estimate, I understand, is on the basis of crude glycerin.

Adding together the du Pont and I.C.I. consumption for the year 1933, we arrive at approximately 17,750 tons, which includes for our company not only explosives but glycerin for all purposes, and includes for I.C.I. not only Great Britain but total consumption of their affiliated companies.

Against this we have an estimated world production of 121,000 tons, so that du Pont and I.C.I. consumed last year probably less than 15% of the world's production. Furthermore, as shown above, our company's purchases in Europe were negligible.

Statistical data for the year 1934 are, of course, not available as yet. The figures given above are based on accurate figures, as far as our own consumption and purchases are concerned, but, of course, are the best estimates which we can make with respect to the other figures.

Hoping that this gives you a sufficiently clear explanation of this situation, I am

Very truly yours,

F. SPARRE, *Director.*

The following information showing holdings of certain members of the du Pont Co., in Atlas and Hercules stock, was requested by the committee during the proceedings (see text, p. 1019.)

WILMINGTON, DEL., September 28, 1934.

HON. STEPHEN RAUSHENBUSH,  
*Secretary Special Committee Investigating the Munitions Industry,  
United States Senate, Washington, D. C.*

DEAR MR. RAUSHENBUSH: During the munitions hearings the chairman asked me to give a statement of my holdings of Hercules Powder Co. and Atlas Powder Co. stock at the present time, and also as of 1913, the time these companies were formed.

The information as to my holdings is as follows:

February 28, 1913 (first acquisition): 606 shares Atlas common stock; 1,313 shares Hercules common stock.

In each case this represents about 2 percent of the outstanding stock at that time. My stock in both companies was voting stock.

I now hold, and have held since January 1, 1934: 3,828 shares Atlas common stock; 7,650 shares Hercules common stock.

These holdings represent about 1.6 percent and 1.3 percent respectively, of the stock outstanding.

Yours very truly,

LAMMOT DU PONT.

WILMINGTON, DEL., October 9, 1934.

HON. STEPHEN RAUSHENBUSH,  
*Secretary Special Committee  
Investigating the Munitions Industry,  
Washington, D.C.*

DEAR MR. RAUSHENBUSH: It was requested during the examination of the du Pont people that certain ones of us make a statement of our holding of Hercules and Atlas stock. In compliance with this request I herewith send you attached, a statement which I think gives you the information you desire.

Very truly yours,

A. FELIX DU PONT.

#### HERCULES POWDER CO. COMMON

Received from the dissolution January 15, 1913, on account of owning 1,737 shares of E. I. du Pont de Nemours Powder Co. stock, 383 shares of Hercules Powder Co. common stock and \$19,100 in 10-year 6-percent registered income bonds.

May 21, 1919, received from estate of Francis G. du Pont, 297 shares of Hercules Powder Co. common.

November 25, 1922, received 100 percent stock dividend.

1928, exchanged Hercules Powder Co., 4 for 1.

1914, sold all bonds.

1920, sold 100 shares Hercules Powder Co. common.

1933, sold 200 shares Hercules Powder Co. common.

From year 1914 to 1934 made donations amounting to 330 shares, leaving a balance of 2,000 shares.

#### ATLAS POWDER CO. COMMON

Received from the dissolution January 15, 1913, 176 shares of Atlas Powder Co. common stock and \$8,800 6-percent registered income 10-year bonds.

July 26, 1919, received 79 shares from estate of Francis G. du Pont.

July 26, 1919, received 100 shares from estate of Elise W. du Pont.

From year 1914 to 1934 made donations of all common stock.

1914, sold all bonds.

#### ATLAS POWDER CO. PREFERRED

May 26, 1915, purchased 51 shares.

June 15, 1915, purchased 100 shares.

July 26, 1919, received 20 shares, estate of Elise W. du Pont.

July 26, 1919, received 77 shares, estate of Francis G. du Pont.

From year 1915 to 1934 made donations of all preferred stock.

WILMINGTON, DEL., October 2, 1934.

[Received October 3, 1934.]

Hon. STEPHEN RAUSHENBUSH,

*Secretary Special Senate Committee Investigating Munitions Industry,  
Washington, D. C.*

DEAR SIR: I have just received word that it is you to whom I should send the attached letter under date of September 28 to the Hon. Gerald P. Nye, stating my holdings of stock in the Atlas Powder Co. and Hercules Powder Co.

Yours very truly,

IRÉNÉE DU PONT.

WILMINGTON, DEL., September 28, 1934.

Hon. GERALD P. NYE,

*United States Senate, Washington, D. C.*

DEAR SENATOR: I can give you the following information concerning my stock holdings in the Atlas Powder Co. and the Hercules Powder Co.

I received on February 28, 1913, 613 shares of Atlas Powder Co. common stock. This has all been sold and I now have none.

I received on February 28, 1913, 1,329 shares of Hercules Powder Co. common stock. This was increased to 1,533 shares by purchases up to September 1921, when it was doubled by the 100 percent stock dividend in November 1922, to 3,066 shares. These in turn were exchanged in the 4 to 1 split-up in January 1929, so that it now represents 12,264 shares, all of which I have.

Yours very truly,

IRÉNÉE DU PONT.

WILMINGTON, DEL., September 17, 1934.

Hon. GERALD P. NYE,

*United States Senate, Washington, D. C.*

DEAR SIR: I find that I have not fulfilled my promise to enter into the record of your hearing my holdings in stock of the Hercules and Atlas Powder Cos., which are as follows:

Hercules Powder Co., 2,000 shares common stock.

Atlas Powder Co., 1,500 shares common stock.

I also hold pledged under a certain trust: Hercules Powder Co., 1,625 shares preferred stock, 16 shares common stock; Atlas Powder Co., 100 shares preferred stock, 6 shares common stock.

I believe that the preferred stock of Hercules Powder Co. is nonvoting unless dividends have been in default for 1 year, which contingency has not occurred. I believe the preferred stock of Atlas Powder Co. is similar to that of Hercules Powder Co., but I have not verified this statement.

Sincerely yours,

PIERRE S. DU PONT.

The following statements, showing a record of acquisitions made during and after the war out of profits, and out of new stock and bond issues, were requested by the committee during the proceedings. (See text, p. 1077.)

E. I. DU PONT DE NEMOURS &amp; Co., Inc.,

*Wilmington, Del., November 6, 1934.*

Hon. GERALD P. NYE,

*Chairman Special Committee Investigating Munitions Industry,  
Washington, D. C.*

DEAR SENATOR NYE: At the time of the appearance of the du Pont Co.'s representatives before your committee you requested that we prepare a statement showing the company's expansion in new industries during and since the war, and also the source of funds which went into these new industries.

I am attaching hereto three tabulations containing the information which you have requested. Owing to the complexity and magnitude of the problem involved maybe a word of explanation could be of some value.

The full period has been divided into two parts, one corresponding to what might be called the war period, and dating from the organization of the present company on October 1, 1915, to December 31, 1918; and the other period carrying on from December 31, 1918, to December 31, 1933.

The first sheet shows the balance sheet of the company for the three dates mentioned, and the accompanying sheet shows a break-down of the investment in new industries into two different categories; one showing our investments in those companies in which we have invested over \$200,000 and companies in which we own less than 100 percent, and the other, our fixed investment in other industries.

Your second request, namely, that we endeavor to show the source of funds which went into these new developments, is rather more difficult.

You will appreciate that a company's assets are increased from time to time, as the result of increase in its liabilities, its undistributed earnings, its new capital, its reserves and a great many other sources. There is, of course, also the constant shifting of these funds among different assets, and different liabilities, so that it is quite impossible to identify the funds which went into any particular investment with any particular source of funds. This statement does, however, show on the first page the total increase of resources which flowed into the company, and a break-down of the sources of such increases. Maybe a word of explanation of these items would be helpful.

Earnings made by the company and not distributed to its stockholders furnish one source of new funds available to the company for investment in the expansion of its various enterprises. These undistributed earnings for the full period of some 18 years amounted to \$111,501,216.19. A subdivision of this figure is shown on the attached schedule which shows that the undistributed earnings corresponding to the so-called "war period" amounted to \$66,411,043.15; the balance corresponding to the period subsequent to the war.

During the course of the period from October 1, 1915, to December 31, 1933, the company received from the sale of its own securities a total of \$160,937,824.57. Of this total it received \$63,134,598.91 in cash and the balance in the form of other assets such as plant, working capital, etc.

From the above it is seen that the company over the full period has been the recipient of new funds from outside of the company amounting to \$272,439,040.76, about \$111,000,000 of which resulted from earnings and about \$161,000,000 of which was put in in the form of new capital, substantially all since the war.

There is a further item which appears in the attached statement and which is reflected in an increase of the company's surplus, namely, \$108,819,686.14. It has been the company's practice to adjust the value at which it carried its permanent investment in the General Motors Corporation on its books to correspond to the net asset value of those holdings on the books of the General Motors Corporation. The above figure corresponds to the cumulative adjustment of this investment over the period indicated, together with a slight adjustment in our investment in Canadian Industries, Ltd.

Trusting that the information conveyed herein is that desired by you, I remain

Yours sincerely,

L. DU PONT, *President.*

## SCHEDULE A

*Increase of investment in securities of E. I. du Pont de Nemours & Co., other than permanent investment in General Motors Corporation*

	Percent of voting stock owned	Increase Dec. 31, 1918 over Oct. 1, 1915	Increase Dec. 31, 1933 over Dec. 31, 1918	Increase Dec. 31, 1933 over Oct. 1, 1915
Miscellaneous readily marketable securities		\$3, 770, 799. 31	\$(8, 221, 343. 77)	\$(4, 450, 544. 46)
Acetol Products, Inc.	62.9		375, 001. 00	375, 001. 00
Compania Sud-Americana de Explosivos, S. A.	42.4		789, 914. 86	789, 914. 86
Duco, A. G.	40.0		393, 297. 75	393, 297. 75
Du Pont Film Manufacturing Corporation	51.0		344, 603. 19	344, 603. 19
E. I. du Pont de Nemours & Cia Argentina, S. A. (Now known as Industrias Quimicas Argentinas du Perial S. A. Industrial y Commercial)	50.0		788, 150. 03	788, 150. 03
Leathercloth Proprietary, Ltd.	49.0		819, 345. 50	819, 345. 50
Nobel Chemical Finishes, Ltd.	49.0		846, 342. 55	846, 342. 55
Remington Arms Co., Inc.	56.0		5, 722, 741. 14	5, 722, 741. 14
Compania Mexicana de Explosivos, S. A.	50.0		312, 500. 00	312, 500. 00
Societe Francaise Duco, S. A.	35.0		313, 261. 20	313, 261. 20
Canadian Industries, Ltd.	46.8		10, 180, 762. 46	10, 180, 762. 46
Old Hickory Chemical Co.	50.0		250, 000. 00	250, 000. 00
Societa Amonima Mazzucchelli	90.0		776, 134. 26	776, 134. 26
Societa Italiana della Celluloide	70.0		468, 889. 95	468, 889. 95
Niacet Chemicals Corporation	33.3		2, 000, 000. 00	2, 000, 000. 00
Krebs Pigment & Color Corporation	70.0		5, 832, 470. 00	5, 832, 470. 00
Bakelite Corporation	4.0		834, 138. 00	834, 138. 00
Deutsche Gold und Silber Scheideanstalt	3.5		439, 066. 18	439, 066. 18
General Motors Corporation	.5		4, 800, 000. 00	4, 800, 000. 00
I. G. Farbenindustrie, A. G.	.4		1, 159, 904. 93	1, 159, 904. 93
Dynamit Actien-Gesellschaft	7.9		892, 671. 16	892, 671. 16
Net increase		3, 770, 799. 31	30, 117, 850. 39	33, 888, 649. 70

## SCHEDULE B

*Increase of investment of E. I. du Pont de Nemours & Co. in commercial properties and equipment*

	Dec. 31, 1918, over Oct. 1, 1915	Dec. 31, 1933, over Dec. 31, 1918	Dec. 31, 1933, over Oct. 1, 1915
Commercial explosives and blasting accessories	\$5, 558, 864. 54	\$7, 904, 107. 52	\$13, 462, 972. 06
Pyroxylin and acetate plastics and articles fabricated therefrom	5, 391, 884. 47	4, 478, 777. 37	9, 870, 661. 84
Paints, varnishes, lacquers, and other finishes	7, 991, 106. 09	4, 946, 590. 41	12, 937, 696. 50
Dyestuffs, tetra-ethyl lead, ethyl alcohol, duprene, and other organic chemicals	2, 893, 927. 36	36, 786, 961. 60	39, 680, 888. 96
Fabrikoid and rubber-coated fabrics	1, 080, 553. 79	1, 098, 094. 76	2, 178, 648. 55
Nitrate property and production of nitrate therefrom	2, 460, 343. 08	(4, 205, 768. 66)	(1, 745, 425. 58)
Machine shops, experimental and research laboratory, etc.	2, 759, 587. 15	(1, 525, 875. 45)	1, 233, 711. 70
Office building, etc.	1, 144, 383. 42	7, 406, 630. 43	8, 551, 013. 85
Miscellaneous, patents, etc.	430, 799. 91	4, 573, 318. 62	5, 004, 118. 53
Synthetic ammonia, ammonia products, methanol and higher alcohols, etc.		21, 478, 100. 35	21, 478, 100. 35
Electro-chemicals and chemical specialties		8, 342, 108. 87	8, 342, 108. 87
Inorganic heavy chemicals, acids, zinc, etc.		35, 672, 872. 00	35, 672, 872. 00
Viscose and acetate rayon, cellulose acetate, cellophane, etc.		62, 230, 961. 22	62, 230, 961. 22
Total	29, 711, 449. 81	189, 186, 879. 04	218, 898, 328. 85



*Comparative consolidated statement of assets and liabilities of E. I. du Pont de Nemours & Co., for period October 1, 1915 to Dec. 31, 1933, and supplementary tabulation entitled "Statement of assets increased during the periods and sources of funds for such increases"*

SECTION 1. COMPARATIVE STATEMENT OF ASSETS AND LIABILITIES

	Oct. 1, 1915	Dec. 31, 1918	Increase Oct. 1, 1915 to Dec. 31, 1918	Dec. 31, 1933	Increase Dec. 31, 1918 to Dec. 31, 1933	Increase Oct. 1, 1915 to Dec. 31, 1933
<b>ASSETS</b>						
Current assets (cash, accounts receivable, inventories, etc.)	\$104,227,805.98	\$163,561,330.04	\$59,333,524.06	\$120,771,060.81	\$63,790,290.23	\$25,843,254.83
Investment securities	7,442,375.91	11,213,175.22	3,770,799.31	41,331,025.61	30,117,850.39	33,888,449.70
General Motors Corporation (permanent investment)		46,865,014.82	46,865,014.82	154,500,000.00	107,634,985.18	154,500,000.00
Commercial properties and equipment (except commercial smokeless powder)	49,454,142.21	79,165,592.02	29,711,449.81	268,332,471.06	189,180,879.04	218,808,328.85
Smokeless power properties and equipment (including commercial and military)	64,625,090.49	7,178,743.67	(57,446,346.82)	3,563,465.34	(3,615,288.33)	(61,901,835.16)
Notes receivable for common stock sold to employees under executives' stock purchase and merit bonus plan				7,145,576.60	7,145,576.60	7,154,576.60
Miscellaneous (prepaid items, etc.)	611,979.40	862,441.30	250,461.90	966,474.56	104,033.26	354,495.16
<b>Total assets</b>	<b>226,361,393.99</b>	<b>308,846,297.07</b>	<b>82,484,903.08</b>	<b>605,631,063.98</b>	<b>296,784,766.91</b>	<b>379,269,669.99</b>
<b>LIABILITIES</b>						
Current liabilities (including, in 1915 and 1918, advances on contracts)	97,025,258.30	89,484,600.67	(8,140,748.63)	15,601,262.99	(72,883,246.68)	(81,023,995.31)
Reserves (for depreciation, doubtful accounts, accidents, pensions, etc.)	8,718,438.17	31,392,746.73	22,674,308.56	87,733,376.57	56,360,629.84	79,034,938.40
Capital stock and bonds	118,127,850.00	119,668,150.00	1,540,300.00	330,931,190.12	211,263,040.12	212,803,340.12
Surplus	1,889,847.52	68,300,890.67	66,411,043.15	170,845,234.30	102,044,343.63	168,465,386.78
<b>Total liabilities</b>	<b>225,361,393.99</b>	<b>308,846,297.07</b>	<b>82,484,903.08</b>	<b>605,631,063.98</b>	<b>296,784,766.91</b>	<b>379,269,669.99</b>

## SEC. 2 STATEMENT SHOWING INCREASE IN ASSETS DURING THE PERIODS AND THE SOURCES OF FUNDS FOR SUCH INCREASES

	Increase, Oct. 1, 1915, to Dec. 31, 1918	Increase, Dec. 31, 1918, to Dec. 31, 1933	Increase, Oct. 1, 1915, to Dec. 31, 1933
During the period, the du Pont Co. increased its investment in certain assets, as follows:			
In net working capital.....	\$67,474,272.60	\$39,002,977.45	\$106,567,250.14
In investment securities (except permanent investment in General Motors Corporation) schedule A.....	3,770,799.31	30,117,850.39	33,888,649.70
In General Motors Corporation stock (permanent investment).....	46,805,014.82	107,634,985.18	154,500,000.00
In commercial properties and equipment (except commercial smokeless powder) schedule B.....	29,711,449.81	189,186,879.04	218,898,328.85
In miscellaneous assets (including \$7,146,576.60. In 1933, notes receivable for common stock sold to employees under executives' stock purchase and merit bonus plan).....	250,461.90	7,250,609.86	7,501,071.76
A total of.....	148,071,998.53	373,283,301.92	521,355,300.45
Funds for these increases were obtained from the following sources:			
Reduction of investment in smokeless powder and miscellaneous military properties and equipment during the period, amounting to.....	57,446,346.82	3,615,288.33	61,061,635.15
Increase in reserves for depreciation of commercial plants and peace time military smokeless powder plants, doubtful accounts, inventory losses, accidents, pensions, etc.....	22,674,308.56	56,360,622.84	79,034,938.45
Total.....	80,120,655.38	59,975,918.17	140,096,573.55
Leaving a balance representing increase in net worth (capital stock and surplus), obtained from sources detailed below:	67,951,343.15	313,307,383.75	381,258,726.90
Cash received from sale of capital stock.....	1,540,300.00	61,594,298.91	63,134,598.91
Property and other assets acquired through the issue of additional capital stock.....		97,803,225.66	97,803,225.66
Undistributed earnings retained in the business.....	66,411,043.15	45,090,173.04	111,501,216.19
Write-up of General Motors Corporation and Canadian Industries, Ltd. stocks.....		108,819,686.14	108,819,686.14
Total.....	67,951,343.15	313,307,383.75	381,258,726.90

NOTE.—In order that the accounts appearing in the balance sheets for the three periods, as set forth in this statement, shall be on a comparable basis, certain individual items will not agree with the figures as shown in the balance sheet as of Dec. 31, 1918, appearing in the published report to stockholders, although the totals for all of the items will reconcile, the explanation being, (a) changes in the company's accounting allocations and (b) the 1933 published balance sheet included in consolidation all wholly owned companies while the 1918 published balance sheet included a number of wholly owned companies as investment securities. For the purpose of this statement the 1916 and 1918 balance sheets have, as nearly as practicable, been placed on a comparable basis with year 1933.

The following information regarding campaign contributions to political parties from 1919 to the present of all directors and officers of the du Pont Co., was requested by the committee during the proceedings. (See text, p. 1265.)<sup>1</sup>

WILMINGTON, DEL.,  
September 17, 1934.

HON. GERALD P. NYE,  
*United States Senate, Washington, D.C.*

DEAR SIR: I enclose herewith statement of national political contributions made by me since 1919.

Very truly yours,

PIERRE S. DU PONT.

NATIONAL POLITICAL CONTRIBUTIONS

1933, nothing; 1932, Democratic National Committee, \$15,000; 1931, Democratic National Committee, \$12,500; 1930, Democratic congressional campaign committee, \$5,000; 1929, Democratic National Committee, \$25,100; 1928, Democratic national campaign, \$50,000; 1927, nothing; 1926, nothing; 1925, nothing; 1924, nothing; 1923, nothing; 1922, nothing; 1921, nothing; 1920, Republican campaign, \$12,378; 1919, nothing.

PIERRE S. DU PONT.

WILMINGTON, DEL., September 26, 1934.

MR. STEPHEN RAUSHENBUSH,  
*Secretary Special Senate Committee  
Investigating the Munitions Industry,  
Washington, D. C.*

DEAR SIR: Referring to your request for donations to political parties for years 1919 to date, I beg to state that I made no donations prior to 1928. I give below the amounts since that time.

To Republican Party: 1928, \$15,000; 1929, \$6,750; 1930, \$8,500; 1932, \$19,600; 1933, \$286; 1934, \$4,600.

Respectfully submitted.

R. R. M. CARPENTER.

WILMINGTON, DEL., September 28, 1934.

[Received. Sept. 29, 1934.]

HON. STEPHEN RAUSHENBUSH,  
*Secretary Special Committee Investigating the Munitions Industry,  
United States Senate, Washington, D.C.*

DEAR MR. RAUSHENBUSH: During the hearings, the chairman requested a statement from each of the members of the board of directors of the du Pont Co. listing their personal contributions to political parties from the period 1919 to date. I give you below a list of my contributions, which were all to the Republican Party:

1919, nothing; 1920, nothing; 1921, nothing; 1922, \$4,200; 1923, \$1,000; 1924, \$15,500; 1925, \$3,250; 1926, nothing; 1927, \$1,600; 1928, \$42,300; 1929, \$3,000; 1930, \$25,000; 1931, \$6,000; 1932, \$30,050; 1933, \$1,500; 1934, \$15,250.

I have requested each member of the board to send you a similar statement.

Yours very truly,

LAMMOT DU PONT.

E. I. DU PONT DE NEMOURS & CO., INC.,  
*Wilmington, Del., October 1, 1934.*  
[Received October 4, 1934.]

HON. STEPHEN RAUSHENBUSH,  
*Secretary Special Committee Investigating the Munitions Industry,  
Washington, D. C.*

DEAR MR. RAUSHENBUSH: The Special Committee Investigating the Munitions Industry has requested that the directors of E. I. du Pont de Nemours & Co. give a list of their personal campaign contributions to political parties for the period from 1919 to date, inclusive.

<sup>1</sup> At the date of publication of this volume the committee was not in receipt of the entire list.

In accordance with this request, I can advise you that I have never been a regular contributor but have only infrequently donated comparatively minor amounts for political purposes. I have not kept a record of these small contributions but recollect that the largest contribution I have ever made in any 1 year was \$50 to the Association Against the Eighteenth Amendment and this year a contribution of \$25 to the Republican campaign fund. I do not recall my other contributions, but in any event they are few and smaller than those mentioned above.

Very truly yours,

F. SPARRE, *Director.*

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E. I. DU PONT DE NEMOURS & Co., INC.,  
*Wilmington, Del., October 1, 1934.*  
 [Received October 3, 1934.]

HON. STEPHEN RAUSHENBUSH,  
*Secretary Special Senate Committee Investigating the Munitions Industry,*  
*Washington, D. C.*

DEAR SIR: In reply to the request of the Senate munitions committee for information as to campaign contributions to political parties for the period 1919, to date, made by directors of E. I. du Pont de Nemours & Co.:

My contributions for the period in question were made to the Republican Party, amounting to the sum of \$540.

Respectfully submitted.

C. R. MUDGE.

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E. I. DU PONT DE NEMOURS & Co., INC.,  
*Wilmington, Del., October 2, 1934.*  
 [Received October 3, 1934.]

HON. STEPHEN RAUSHENBUSH,  
*Secretary Special Committee Investigating the Munitions Industry,*  
*Washington, D. C.*

DEAR SIR: In answer to your committee's request for a statement of donations to political parties for the period from 1919 to date, inclusive, I quote below list of my personal contributions to the Republican National Committee: December 17, 1920, \$20; September 29, 1932, \$50; August 22, 1934, \$50.

Very truly yours,

F. W. PICKARD,  
*Vice President and Director.*

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WILMINGTON, DEL., *October 2, 1934.*  
 [Received October 3, 1934.]

HON. STEPHEN RAUSHENBUSH,  
*Secretary Special Committee Investigating the Munitions Industry,*  
*Washington, D. C.*

DEAR MR. RAUSHENBUSH: In accordance with the request of your committee, I attach hereto a list of my contributions to the Republican National and State campaigns since the year 1919 to date.

Very truly yours,

A. FELIX DU PONT.

OCTOBER 2, 1934.

*List of contributions to the Republican National and State campaigns since the year 1919 to date, by A. Felix du Pont*

1919: Nov. 11, Republican campaign.....	\$309. 84
1920:	
Sept. 8, Republican finance committee.....	250. 00
Dec. 23, Republican National Committee.....	100. 00
1921: Feb. 10, Republican finance committee.....	100. 00
1922:	
Oct. 19, Republican Party, T. C. du Pont Club.....	349. 25
Oct. 23, Delaware Republican finance committee.....	1, 000. 00

1924:

Apr. 1, Republican State committee..... \$25. 00  
 Oct. 13, Republican State committee..... 25. 00  
 Oct. 14, Republican National Committee..... 10. 00

Oct. 31, Republican campaign committee, 22 shares Du Pont  
 debentures..... 1, 036. 64

1926: Oct. 22, Republican committee headquarters..... 25. 00

1928: Oct. 18, Republican campaign..... 1, 000. 00

1932:

Sept. 20, Republican National Committee..... 200. 00

Sept. 20, Republican Radio League..... 10. 00

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4, 440. 73

PHILADELPHIA, PA., October 2, 1934.

[October 4, 1934.]

HON. STEPHEN RAUSHENBUSH,

*Secretary Special Committee Investigating the Munitions Industry,*  
*Washington, D. C.*

(Re E. S. du Pont de Nemours & Co., Wilmington, Del.)

MY DEAR SIR: As a director of the above company, I advise that I have not made any personal campaign contributions to political parties from the period 1919 to date, inclusive.

Very truly yours,

WM. RICHTER

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E. I. DU PONT DE NEMOURS & CO., INC.,

*Wilmington, Del., October 2, 1934.*

HON. STEPHEN RAUSHENBUSH,

*Secretary Special Committee Investigating Munitions Industry,*  
*Washington, D. C.*

SIR: In February 1927 I was elected a director of this company; and I give you below data with respect to campaign contributions to political parties since that time, viz:

Year 1928, Republican National Committee, \$300; Republican State (Del.) Committee, \$500—\$800.

Year 1930, Republican National Committee, \$200; Republican State (Del.) Committee, \$200—\$400.

Year 1932, Republican National Committee, \$1,000; Republican State (Del.) Committee, \$90; Better Government League, Delaware, \$200—\$1,290.

Year 1934, Republican National Committee, \$700; Delaware State and County Republican Committee, \$300; American Liberty League of Delaware, \$25—\$1,025.

My records fail to disclose any contributions made for this purpose during the years 1927, 1929, 1931, or 1933.

Yours very truly,

W. F. HARRINGTON,  
*Vice President.*

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J. B. D. EDGE,

*Kennett Square, Pa., October 2, 1934.*

[Received October 4, 1934.]

HON. STEPHEN RAUSHENBUSH,

*Secretary, Special Committee Investigating the Munitions Industry,*  
*Washington, D. C.*

DEAR SIR: We understand that you have requested the directors of the E. I. du Pont de Nemours and Co., Wilmington, Del., to list their personal campaign contributions to political parties for the period from 1919 to date.

We, therefore, respectfully submit the following:

July 2, 1920, Delaware Republican finance committee, \$100; November 26, 1920, Delaware Republican finance committee, \$50; November 2, 1922, Delaware Republican finance committee, \$50; August 20, 1934, Republican campaign fund, \$25; October 24, 1924, Republican campaign fund, \$50; November 2, 1934, Repub-

lican campaign fund, \$50; September 7, 1928, Delaware Republican campaign, \$500; October 3, 1928, Republican National campaign, \$500; November 7, 1928, Delaware State Republican campaign, \$250; August 15, 1934, Republican National campaign, \$100; September 4, 1934, Delaware Republican campaign, \$50.

Trusting this is the information you desire,

Yours very truly,

E. E. GRIFFITH,  
Secretary to J. B. D. Edge  
(Director of E. I. du Pont de Nemours & Co.).

WILMINGTON, DEL., October 2, 1934.

[Received October 3, 1934.]

Hon. STEPHEN RAUSHENBUSH,

Secretary Special Committee Investigation the Munitions Industry,  
Washington, D. C.

DEAR SIR: In reply to your request that the directors of E. I. du Pont de Nemours & Co. file with you a statement of their personal contributions to political parties, I beg to advise that I know of but one such contribution made by me. That was \$500 to the Republican Party on October 15, 1928.

Yours very truly,

CHARLES COPELAND.

WILMINGTON, DEL., October 2, 1934.

[Received October 3, 1934.]

Hon. STEPHEN RAUSHENBUSH,

Secretary Special Senate Committee Investigating Munitions Industry,  
Washington, D. C.

DEAR SIR: Attached you will find statement of campaign contributions to political parties during the period 1919 to date, inclusive, made by me; this in accordance with the request of the committee.

Yours very truly,

IRÉNÉE DU PONT.

*Campaign contributions to political parties during the period 1919 to date, inclusive, made by Irénée du Pont*

Party benefiting by contribution	Year	Amount
Republican.....	1919	\$8, 110. 00
Do.....	1920	14, 722. 00
Do.....	1921	150. 00
Do.....	1922	2, 300. 00
None.....	1923	
Republican.....	1924	17, 000. 00
None.....	1925	
Republican.....	1926	37, 500. 00
Do.....	1927	25. 00
Do.....	1928	22, 000. 00
None.....	1929	
Democratic.....	1930	8, 000. 00
Liberal Republican, supporting Democratic candidate to the Senate—local officials, Republican.....		13, 200. 00
Liberal Republican, supporting Democratic candidate to the Senate—other State officials, Republican.....	1931	645. 21
Republican.....	1932	10, 200. 00
Democratic National Committee.....	1933	5, 000. 00
Republican—local State.....		4, 500. 00
Republican.....	1934	35, 249. 00

WILMINGTON, DEL., October 3, 1934.

[Received October 4, 1934.]

HON. STEPHEN RAUSHENBUSH,

*Secretary Special Committee Investigating the Munitions Industry,*  
Washington, D. C.

DEAR SIR: Following is a list of personal campaign contributions to political parties from 1919 to 1934, inclusive:

1919 none (Republican), 1920 none, 1921 none, 1922 none, 1923 none, 1924 none, 1925 none, 1926 none, 1927 none, 1928 \$25, 1929 none, 1930 none, 1931 none, 1932 \$25, 1933 none, 1934 \$150.

Very truly yours,

CHARLES L. REESE,  
*Director E. I. du Pont de Nemours & Co.*

WINTERTHUR, DEL., October 3, 1934.

[Received October 5, 1934.]

HON. STEPHEN RAUSHENBUSH,

*Secretary Special Committee Investigating the Munitions Industry,*  
Washington, D. C.

DEAR SIR: In accordance with the request of your committee for a list of personal campaign contributions to political parties for the period from 1919 to date, inclusive, made by the directors of E. I. du Pont de Nemours &amp; Co., I give you below, as one of said directors, a list of my own personal contributions:

September 5, 1928, Delaware Republican State Committee, \$1,000; October 30, 1928, Delaware Republican State Committee, \$4,000; July 5, 1932, Better Government League of Delaware, \$100; September 22, 1932, Republican National Committee, \$100; September 28, 1932, Delaware Republican State Committee \$25; May 26, 1933, Better Government League of Delaware, \$100.

Yours very truly,

H. F. DU PONT.

E. I. DU PONT DE NEMOURS & CO., INC.,  
Wilmington, Del., October 5, 1934.

HON. STEPHEN RAUSHENBUSH,

*Secretary Special Committee Investigating the Munitions Industry,*  
Washington, D. C.

DEAR SIR: You will find attached a statement of my contributions to political parties and organizations from January 1, 1927, during which year I was elected to the board of directors of E. I. du Pont de Nemours &amp; Co., down to the present time.

Yours sincerely,

A. B. ECHOLS, *Vice President.**Political contributions since Jan. 1, 1927 by A. B. Echols, director of E. I. du Pont de Nemours & Co. (elected to board of directors Feb. 14, 1927)*

	State	National	Other
1927: None.			
1928: Republican State committee, Oct. 31, 1928.	\$50		
1929: None.			
1930: Republican State committee, Oct. 27, 1930.	200		
1931: None.			
1932:			
Republican State committee, Apr. 15, 1932.	25		
Republican National Committee, Sept. 27, 1932.		\$50	
Better Government League (between July 11 and Dec. 27)			\$200
Total for the year, \$275.			
1933: Better Government League, May 9, 1933.			25
1934:			
Republican State committee, Aug. 24, 1934.	100		
Republican National Committee, July 9, 1934.		100	
Republican National Committee, Aug. 24, 1934.		100	
The Crusaders, Inc., July 9, 1934.			50
National Republican Club, July 10, 1934.			100
American Liberty League, Sept. 12, 1934.			250
Total for the year, \$700.			
Total contributions to Republican State committee.	375		
Total contributions to Republican National Committee.		250	
Total other political contributions.			625
Total all political contributions.			1,250

WILMINGTON, DEL., October 8, 1934.

HON. STEPHEN RAUSHENBUSH,

*Secretary, Special Committee Investigating the Munitions Industry,**Washington, D. C.*

DEAR SIR: In accordance with the form letter from Mr. Lamot du Pont, president of E. I. du Pont de Nemours & Co., to the directors of said company dated September 27, 1934, there is listed below my personal campaign contributions to political parties for the period from 1919 to date.

Political party	Year	Amount
Republican.....	1928	\$2.500
Do.....	1930	1.000
Do.....	1932	5.700
Do.....	1934	600

Very truly yours,

WM. DU PONT, JR.

NEW YORK, October 9, 1934.

[Received October 10, 1934.]

HON. STEPHEN RAUSHENBUSH,

*Secretary Special Committee Investigating the Munitions Industry,**Washington, D. C.*

DEAR SIR: As a director of E. I. du Pont de Nemours & Co. I am advised that the Special Committee Investigating the Munitions Industry has requested from me a list of my personal campaign contributions to political parties for the period from 1919 to date inclusive, and I beg to advise that the only contributions I have made during this period is \$200 in October 1932 to the campaign fund of the Republican National Committee and the New York Republican State committee.

Yours very truly,

F. B. DAVIS, JR.

E. I. DU PONT DE NEMOURS &amp; CO., INC.,

*Wilmington, Del., October 13, 1934.*

HON. STEPHEN RAUSHENBUSH,

*Secretary Special Committee Investigating the Munitions Industry,**Washington, D. C.*

DEAR SIR: I am advised by Mr. Lamot du Pont that you desire me, as a director of the du Pont Co., to send you a list of my personal campaign contributions to political parties for the period from 1919 to date, inclusive. To the best of my knowledge, and so far as I have been able to determine from my records, such contributions by me have been only as follows:

August 30, 1932, to Better Government League, \$250 (this league was organized to further the reelection of C. D. Buck as Governor of Delaware and may be construed as a contribution to the State Republican Party).

October 10, 1932, to Republican radio program, \$10.

July 12, 1934, account of Republican National Committee deficit, \$50.

August 13, 1934, Republican National Committee, \$250.

Very truly yours,

J. THOMPSON BROWN.

E. I. DU PONT DE NEMOURS &amp; CO., INC.,

*Wilmington, Del., October 15, 1934.*

HON. STEPHEN RAUSHENBUSH,

*Secretary Special Committee Investigating the Munitions Industry,**Washington, D. C.*

DEAR SIR: I give below a list of my personal campaign contributions to political parties for the period from 1919 to date, inclusive, as requested by your committee. This list includes both local and National contributions and was all made to the Republican Party.



1919, none; 1920, \$1,000; 1921, \$1,000; 1922, \$510; 1923, \$700; 1924, \$250; 1925, \$25; 1926, \$25; 1927, none; 1928, \$2,000; 1929, none; 1930, \$1,500; 1931, \$100; 1932, \$750; 1933, none; 1934, \$250.

Respectfully,

H. G. TALLMAN, *Vice President.*

WILMINGTON, DEL., October 16, 1934.

HON. STEPHEN RAUSHENBUSH,

*Secretary Special Committee Investigating the Munitions Industry,  
Washington, D. C.*

DEAR SIR: I am attaching a statement herewith showing such of those contributions to political organizations as I am able to locate in my records. While the record of the contributions on this statement only goes back to 1928, the records which I have available covering periods prior to that date do not show these contributions specifically. I am quite sure, however, that the amounts for the years prior to 1928 were quite inconsequential.

Yours sincerely,

W. S. CARPENTER, Jr.

Republican State Committee:

Sept. 7, 1928	500
Nov. 2, 1928	1,500
Oct. 22, 1930	500
Nov. 4, 1932	1,000

Republican National Committee:

Oct. 3, 1928	1,000
Oct. 8, 1930	500
Sept. 26, 1932	1,000
July 10, 1934	250
Aug. 8, 1934	1,500

Better Government League of Delaware:

July 1, 1932	900
Aug. 1, 1932	800
Sept. 7, 1932	800
Dec. 5, 1932	100
May 5, 1933	200

WILMINGTON, DEL., October 17, 1934.

HON. STEPHEN RAUSHENBUSH,

*Secretary Special Committee Investigating the Munitions Industry,  
Washington, D. C.*

DEAR SIR: Referring to your recent request for a memorandum of the personal campaign contributions of the directors of E. I. du Pont de Nemours & Co., please be advised that I was elected a member of the board of directors of the du Pont Co. the latter part of 1928, since which time I have made the following contributions to the Republican National Committee: 1923, \$2,000; 1930, \$2,500; 1932, \$1,250; 1934, \$500.

Yours very truly,

T. S. GRASELLI.

E. I. DU PONT DE NEMOURS & Co., INC.,  
Wilmington, Del., October 19, 1934.

MR. STEPHEN RAUSHENBUSH,

*Secretary Special Committee Investigating the Munitions Industry,  
Washington, D. C.*

DEAR MR. RAUSHENBUSH: In response to the request of the special committee, I advise you herewith of all the subscriptions that I have made to political parties from 1919 to date: October 17, 1932, Republican senatorial committee, \$1,000; October 21, 1932, Republican National Committee, \$100; October 24, 1932, Republican Radio League, \$10; June 21, 1934, National Republican Club, \$50; July 10, 1934, Republican National Committee for 1932 campaign deficit, \$50; August 6, 1934, Republican National Committee, \$200; October 10, 1934, Delaware Republican State committee, \$100; October 10, 1934, New Jersey Republican State committee, \$100.

Yours very truly,

JASPER E. CRANE.

E. I. DU PONT DE NEMOURS & Co., INC.,  
*Wilmington, Del., October 22, 1934.*

Hon. STEPHEN RAUSHENBUSH,  
*Secretary Special Committee Investigating the Munitions Industry,*  
*Washington, D. C.*

DEAR SIR: Under date of September 27, Mr. Lamot du Pont requested me to furnish you with a list of my personal campaign contributions to political parties for the period from 1919 to date inclusive. Accordingly I advise you of the following amounts: 1920, \$100; 1922, \$200; 1924, \$200; 1928, \$200; 1930, \$100; 1932, \$1,000; 1934, \$500.

These contributions were all made to the Republican Party either through the National Committee or the Delaware State committee. I have since contributed \$500 to the Delaware State committee.

Yours very truly,

H. G. HASKELL,  
*Member of the Board of Directors.*

E. I. DU PONT DE NEMOURS & Co., INC.,  
*Wilmington, Del., October 25, 1934.*

Hon. STEPHEN RAUSHENBUSH,  
*Secretary Special Committee Investigating the Munitions Industry,*  
*Washington, D. C.*

DEAR SIR: In compliance with your request to the president of the du Pont Co. that each director report to the committee their personal campaign contributions to political parties for the period from 1919 to date, inclusive, I advise you I have made no contributions to any political party during this period.

Very truly yours,

W. P. ALLEN,  
*Director, E. I. du Pont de Nemours & Co.*

E. I. DU PONT DE NEMOURS & Co., INC.,  
*Wilmington, Del., October 25, 1934.*

Hon. STEPHEN RAUSHENBUSH,  
*Secretary Special Committee Investigating the Munitions Industry,*  
*Washington, D. C.*

DEAR SIR: I wish to report the following contribution made to a political party by me since May 1930, at which time I was elected a director of the du Pont Co.: August 7, 1934, contribution to Republican National Committee, \$100.

According to my records this is the only contribution which I have made to any political party.

Yours very truly,

C. M. A. STINE, *Vice President.*

GREENVILLE, DEL., *October 26, 1934.*

Hon. STEPHEN RAUSHENBUSH,  
*Secretary Special Committee Investigating the Munitions Industry,*  
*Washington, D. C.*

DEAR SIR: This is to advise that I have made no subscription to national campaign funds since 1919.

Yours very truly,

E. E. DU PONT.

E. I. DU PONT DE NEMOURS & Co., INC.,  
*Wilmington, Del., October 29, 1934.*

Hon. STEPHEN RAUSHENBUSH,  
*Secretary Special Committee Investigating the Munitions Industry,*  
*Washington, D. C.*

DEAR SIR: Referring to your request that the directors of this company submit a list of their personal campaign contributions to political parties for the period from 1919 to date, inclusive, search of my records reveals the following:

Nov. 29, 1920, Republican finance committee campaign.....	\$100
October 1932, Republican Radio League.....	25
October 1932, Republican National Committee.....	100
November 1932, Organization expenses, Republican State committee....	50
Do.....	50
July 1932, Better Government League of Delaware.....	250
December 1932, Better Government League of Delaware.....	50
	<hr/> 625

Trusting this is the information you desire, I am,  
Very truly yours,

W. C. SPRUANCE,  
*Vice President and Director.*

DU PONT RAYON CO., INC.,  
New York, N.Y., October 29, 1934.

HON. STEPHEN RAUSHENBUSH,  
*Secretary Special Committee Investigating the Munitions Industry,*  
Washington, D.C.

DEAR SIR: Shortly before sailing for Europe a few weeks ago, Mr. Yerkes was advised by Mr. Lamnot du Pont, president of E. I. du Pont de Nemours & Co., that the Special Committee Investigating the Munitions Industry had requested from the directors of the du Pont Co. a list of their personal campaign contributions to political parties for the period from 1919 to date, inclusive. Mr. Yerkes asked me to ascertain and forward to you a list of such contributions made by him.

I have gone over Mr. Yerkes' records for the years mentioned and find that his contributions to political parties were as follows:

1928, \$100 to the Republican National Committee; 1930, \$50 to the Republican State Committee.

Yours very truly,

MARIAN C. LEPPER, *Secretary.*

GREENVILLE, DEL., October 30, 1934.

HON. STEPHEN RAUSHENBUSH,  
*Secretary Special Committee Investigating the Munitions Industry,*  
Washington, D.C.

DEAR SIR: As requested by your committee I list herewith the personal campaign contributions to political parties from 1919 to 1934 inclusive, all of which were made for the Republican State campaigns, viz:

October 28, 1920, \$200; January 20, 1928, \$100; October 19, 1928, \$200; November 1, 1928, \$100; July 11, 1932, \$250; May 12, 1933, \$50.

Yours very truly,

EUGENE DU PONT.

The following memorandum was requested by the committee and submitted by Lamnot du Pont on November 14, 1934. (See text, p. 1260.)

NOVEMBER 14, 1934.

The Hon. GERALD P. NYE,  
*Chairman Special Committee Investigating the Munitions Industry,*  
United States Senate, Washington, D. C.

MY DEAR SENATOR NYE: You have invited us to submit a memorandum for the consideration of your committee as it undertakes the formulation of a sound national policy with respect to munitions for presentation to the Congress. We welcome this opportunity to be of service. The subject is a very difficult one, having occupied the thoughtful attention of many minds over a long period of time, and we do not profess to be able to offer a complete solution for every question involved. We shall endeavor, however, to deal specifically and practically with some of the major questions as they are set forth in Senate Resolution #206.

We believe that two considerations must be paramount in any satisfactory national policy on munitions.

1. Adequate national defense must be assured.

2. The maintenance of peace must be encouraged and fostered.

Our thinking on each of the questions under discussion takes these two aims into account; answer to every question must be in harmony with both considerations: On the one hand the defense of the nation if it is attacked; on the other, the protection of the American people from the danger of war, with all its horrors and its malign consequences. There is no conflict here; a strong but forbearing America is the greatest guarantor of peace.

#### NECESSITY OF PROVISION FOR THE NATIONAL DEFENSE

No prudent nation can afford to be unarmed in the world today. Moreover, as modern wars are increasingly liable to be won or lost before the actual outbreak of hostilities, this country's preparation for defense needs to be wise and thorough. Its execution should be efficient, it must be effective.

The vital importance of your committee's investigations and recommendations must appeal to all thoughtful Americans, who are familiar with their country's history. In every one of its major conflicts the United States has sent its young men into battle without proper equipment, supplies, or support. Each war has been prolonged unnecessarily; each has cost thousands of lives that ought never to have been lost. The bravest, who volunteered first, have been sacrificed in the struggle to hold the line while the nation went through the slow, laborious, and terribly costly process of marshalling its resources.

#### INADEQUACY OF GOVERNMENT MONOPOLY

The attempt to limit this preparation to government monopoly in peace time and to confine the manufacture of munitions or ordnance to government plants and facilities in war time would, in our opinion, weaken and if carried far enough cripple our national defense. We are convinced that the problem requires maximum effort both by the Government and American industry. Neither one by itself can be relied upon to meet all requirements.

Munitions include all articles of every kind required for the supply of the Army and Navy; not only ordnance but uniforms, shoes, shelter, mess equipment, tools, fuel, automobiles, shipping, food, medicines, miscellaneous supplies. It is inconceivable that the government should undertake so vast a field of production either in peace or in war. All the resources of the country both public and private must be available for the productions essential to national defense.

Ordnance itself is also a field of tremendous scope. A partial list of implements of war as set forth by the Geneva Convention includes rifles, machine guns, ammunition, gun-sighting apparatus, cannon, projectiles, bombs, torpedoes, depth charges, grenades, mines, bayonets, tanks, armored cars, pistols, swords, warships and arms and ammunition therefor, aircraft, aircraft engines, gun powder, and explosives. The Ordnance Department of the United States Army had to deal in the World War with the production of over 200,000 separate components, among these some individual articles of ordnance comprising as high as 6,000 separate pieces. Nearly 8,000 industrial plants, including manufacturers of sewing machines, typewriters, boilers, radiators, electrical equipment, airbrakes, hardware, safes, etc., were engaged in the manufacture of ordnance in 1918; over 25,000 in all munitions. A modern nation fighting for its life requires practically all of its manufacturers to become munition makers.

It is estimated that private plants produced 95% and government arsenals 5% of this country's ordnance in the Great War. For example, the total output of the two long-established and well-equipped government smokeless powder plants during our participation in the World War, April 6th, 1917, to November 11th, 1918, was less than 2% of the powder made in the United States during that period; it would have sustained the fire of the American troops during the fall of 1918 for only nine days. Government cannot undertake the tasks enumerated above in time of war. It has then too much else to do. All the productive capacity of the nation must be called upon.

Since the War, government arsenals, although operating at only one-tenth of their capacities, have been supplying about 95% of Army ordnance, private manufacturers only 5%. But in the event of a major emergency experts

estimate that government facilities would again only be able to furnish about 5% of the ordnance required. For adequate preparation for the defense of our country a policy of nationalization would thus call for the expansion of government arsenals forthwith to twenty times their present capacities. That would be a monstrous undertaking, advocated by no one. The cost would be colossal, ordnance appropriations would have to be increased over a hundred fold, operation would be extremely difficult if not impractical, the effect might be provocative.

If, lacking such facilities, we attempt to supply them after we are attacked we but court disaster. We were almost defenseless in some of these respects when we entered the World War in 1917. Every one who knows the facts will recall that over a year after our entrance into the War our troops had to be supplied throughout with British and French machine guns, cannons, and airplanes. Not until the autumn of 1918, just before the Armistice, was our production of ordnance becoming adequate. That experience which might have cost us so dear must not be disregarded and forgotten. The actual and potential facilities then revealed must not now be abandoned.

#### THE SOUND PLAN FOR NATIONAL DEFENSE

We consider, therefore, that the only wise solution of the problem is just what has already been undertaken; the preparation of plans of defense, the survey and charting of industrial resources, the provisional enlistment of industry, so as to be ready to marshal the entire plant and personnel of the country immediately when the hour of danger arrives. This cooperation between government and industry for the defense of our country must be continued. And the maintenance in the fabric of American industry of effective nuclei for the rapid expansion of munitions production in an emergency is of vital importance.

#### OBJECTIONS TO PRIVATE MANUFACTURE OF MUNITIONS

Two objections to private manufacture of munitions in general and ordnance in particular are raised; excess war profits, and abuses attending the traffic in arms. These we shall try to deal with in turn.

#### WAR PROFITS

We subscribe to the view that excess war profits should be eliminated. There is a popular demand, which is sound and just, that in the event of any such future national crisis as a major war the entire capital and productive resources of our country should be subjected to the national need without the prospect of extraordinary compensation. The national policy should be based on the principle that in a time of national emergency, when the country's man power is being mobilized, its material resources should be mobilized also.

A plan for carrying out this policy must consist of practical measures. It must be sure to succeed. It must harness every effort, employ every motive to insure speed, efficient operation, low costs, elimination of waste, conservation of materials, saving of labor. Further, it must be all inclusive in scope, extended throughout the whole fabric of our economic structure. Elimination of excessive earnings must apply to every business and every individual.

The formulation of a comprehensive and practical plan is a problem of tremendous difficulty. The Committee will appreciate that the elimination or recapture of profits in excess of peace-time earnings contemplates a new and drastic measure. The dangers of such a radical departure from normal economic habits may not be appreciated. We should be negligent if we failed to emphasize the national perils which would lurk in a superficial or unsound attempt at its solution. It can only be solved by able and exhaustive study. There is still available for this study the experienced judgment of the men who successfully conducted America's effort in the World War. To it should be applied the wisest minds of financiers, business executives, military experts, statesmen.

The time to make this study and elaborate a plan is now, when no immediate danger threatens our country. It would be too late when hostilities are imminent, for impromptu measures would surely be ineffective.

We recommend, therefore, that a thorough and detailed study of the problem be made by such agency as the Congress may determine with the view of developing a practical and effective plan of industrial mobilization for the national defense without excess profits to corporation or individual.

#### INTERNATIONAL TRADE IN MUNITIONS

We believe that international trade in arms can be done away with, if that is a desirable aim, only by international agreement between all the producing nations, about twelve in number, to prohibit exports. Whether the cessation of this trade, which would tend towards the fixation of the status quo of oppressed and unarmed peoples, is desirable, is a question upon which we do not venture an opinion. It would seem likely that one prompt result would be the erection for their own defense of ordnance plants throughout the other countries of the world, imposing through excessive costs additional burdens upon them, and that a new competition in armament would thus spring up. If the United States alone were to forbid the export of munitions, our national defense would be impaired because such a policy of isolation might prompt reprisals and make it difficult or impossible in an emergency for this country to obtain essential materials from abroad.

In any case the question would arise, what constitutes munitions of war? Numerous harmless articles of peace-time commerce, the trade in which should not be inhibited, assume in war time greater military significance and strategic importance than many articles of ordnance. Prohibition of the traffic in arms might not be effective, and it would encourage illicit dealings.

Rather we feel that the international trade in arms should be subjected to strict governmental control, preferably by international agreement. At any rate the United States can immediately initiate its own policies in this respect. We suggest legislation permitting the export of arms from this country only after the visé of orders by a Federal Government bureau or commission as the Congress may determine. If this Commission made objection, shipment would not be permitted. Moreover, such legislation should require that upon consummation of an order full information must be reported to the Commission, including the amount and description of goods, their destination, and the complete financial settlement of the transaction.

Such a system of control, while permitting legitimate sales of arms for indispensable demands, would eliminate any abuses that may exist in the business, and would prevent improper sales where arms are desired for unlawful purposes.

We think it fundamental to distinguish between the causes and effects of war. Armament does not originate war; warfare brings forth arms. War is caused by economic and political rivalries. It is fomented by fanaticism, bad temper, suspicion of other people, criticism of their actions, sensational press dispatches, fraudulent or covetous practices. It is minimized by good-will, forbearance, self-control, honest statement, fair dealing. Fire-fighting apparatus is necessary, but it does not cause the fire; care and vigilance are required to prevent an outbreak of fire. International trade in any kind of material or product, if unwisely directed and improperly prosecuted, creates friction, animosity, hostility. On the other hand, international trade wisely and fairly conducted promotes closer association with other people, understanding and friendliness, a spirit of co-operation, good-will, peace.

Respectfully yours,

E. I. DU PONT DE NEMOURS & COMPANY.  
LAMMOT DUPONT, *President*.













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