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# 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





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U. S. Congress. Senate

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# INVESTIGATION OF MUNITIONS INDUSTRY

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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-42 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 S-17 to S-41, 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 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 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 Germany 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 Liepzig, 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 Construccion 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 3½ percent and Vickers 3½ 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 1919 and 1930, inclusive, if I understand correctly, represents 5 percent 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 Construccion 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 Construccion 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 Construccion 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 Construccion 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, Monté 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,

[S.] BASIL ZAHAROFF.

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—Fcs. 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. Lewis, 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. 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.

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. Wiggin as he had heard that Mr. Wiggin 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. Wiggin.

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 misstatement 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 Lima 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 R. CARSE, LAWRENCE Y. SPEAR, AND HENRY R. 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 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.

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 Chili.

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 refers 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 you 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 vulgarism, 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 "Keckus" 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 £g.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 post-script.

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 some 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 POPE. 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 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.

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-per-cent 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—I

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 Obregez?

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: "Indispensible 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 sol (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:

ESTEEMED 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 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."

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—and 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:

1 \* \* \* 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 says in the second paragraph:

Last Thursday I had a long interview with the Minister of Marine, Almirante Alejandrino. 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 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 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 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.

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—

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-Fiume, 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 euphonius 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, 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,  
*Barrow-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, Jugoslavia, 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

ELECBOATCO, *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 us 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 Mouhter 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 \$160,000 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 different 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 Zarahoff 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. chrman.

Adm. A. T. Long, Navy Dept.

Allen W. Dulles, Chief of the Div. of Near Eastern Af., 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, Nurenburg.

The CHAIRMAN. What did you call that M.A.N.?

Mr. SUTPHEN. The Maschinenfabrik Augsburg, Nurenburg.

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 skirmish 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 hurdles 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.

M. 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 Coggsell 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 Coggsell 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. Jahneke.

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. Jahneke."

Mr. CARSE. Yes. Mr. Jahneke showed it to him.

The CHAIRMAN. Who was Mr. Jahneke?

Mr. CARSE. Assistant Secretary of the Navy at that time.

Mr. RAUSHENBUSH. Mr. Chairman, the first letter that you read was signed by Mr. Jahneke.

The CHAIRMAN. The exhibit 187 has a note on it "Signed by Ernest Lee Jahneke, the Assistant Secretary of the Navy."

Mr. CARSE. This copy Mr. Jahneke allowed Mr. Joyner to take.

The CHAIRMAN. What understanding existed that would enable Mr. Jahneke 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 Jahncke and Miss Adele Townsend Jahncke 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 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 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 Jahncke."

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 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.

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 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.

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 Electric 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 compensation	Commission	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 compensation	Commission	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			1,132.31		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			48.28		20,048.28
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			76.00		20,076.00
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	-----	-----	-----	8,331.23
1926.....	5,833.33	-----	1,560.00	1,092.00	660.76	-----	-----	-----	9,146.09
1927.....	6,000.00	\$750.00	1,660.00	1,092.00	491.50	-----	-----	-----	9,993.50
1928.....	-----	18,000.00	1,660.00	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	17,519.34
	45,746.65	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

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 \$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  
 2 3" 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

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 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:

1 submarine boat, *Cuttlefish*----- 3,297,000.00

August 3, 1933:

2 submarine boats, *Shark* and *Tarpon* @ \$2,770,000--- 5,540,000.00

## Government of Peru:

October 9, 1933:

2 river boats with extras----- 462,840.00  
 1,200 rounds, 3", 50 cal. ammunition----- 50,000.00

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 512,840.00

## Government of Peru:

January 10, 1934:

1,300,000-gallon fuel tank with fittings----- 8,275.84

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 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	(1920-1-2-3)	
Vickers, Mitsubishi.....			None	None	£31,350 0 0	142,053.50
Vickers, Dutch.....			None	None		
Vickers, Australian.....			None	None		
Vickers, DeSchelde.....			None	None	£235 18 0	940.33
S.E.C. Naval.....			None	None		
DeSchelde.....	Fl.91,433 77 0 (1917)	37,281.86				
	Fl.12,256 48 0 (1920)	4,085.49				
	Fl.2,108 57 0 (1921)	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, DeSchelde.....						
S.E.C. Naval.....					Pts. 6,257,936	951,206.27
DeSchelde.....	Fl. 472,871.57	184,504.28			Fl. 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.....	£6,475 19 8	31,408.51
S. E. C. Naval.....	Pts. 421,967.25	69,624.60
<b>Total, 1916 thru 1927 \$3,869,637.38</b> .....		<b>\$3,869,637.38</b>

## 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		12,295.80
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			4,334.94		14,334.94
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 *S-18* to *S-41*, inclusive, and contract entered into on the 1st of July 1919 for the construction of submarine boats *S-42* to *S-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:

(i) 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 ISAAC L. RICE, *President*.

We agree to the above,

VICKERS, LIMITED,  
(Sgd) A. T. DAWSON, *Director*.

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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.

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EXHIBIT No. 11-C

[Copy]

VICKERS HOUSE,  
*Broadway, Westminster, London, S.W. No. 14, 1913.*

ISAAC L. RICE, Esq.,  
*President, The Elce. 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*.

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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 design, 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 "c."

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 on

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 excerpt 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 \_\_\_\_\_.

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 SIR: 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 Triest, 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 LaBourdonnais, 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.

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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.

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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.

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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.

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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 Construccion 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.

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(Exhibit No. 30 is a list of stockholders in the Electric Boat Co. and is on file with the committee.)

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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.

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("Exhibit No. 32" appears in text on p. 61.)

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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.

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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.

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("Exhibit No. 35" appears in text on p. 67.)

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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.) J. 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.....	6,000		19,111.16	1,385.00		26,496.16
1930.....	6,000		18,731.86	1,009.02		25,740.88
1931.....	6,000		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.

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("Exhibit No. 45" appears in text on p. 78.)

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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-enls.

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,  
*723 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 guaranties 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.

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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.

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EXHIBIT No. 63

[Copy]

ESCUELA 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 bit 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, it 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 canceling 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 contined 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 8¾ 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 send 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 Fliess, 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, Fliess 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 matter 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 AUBRY.

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EXHIBIT No. 70

ELECTRIC BOAT COMPANY,  
Groton, Conn., July 29th, 1924.

H. 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.

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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. *Argentine*.—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 Argentine 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 Argentine, 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 Argentine, 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.

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 verbiage 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 UVYATKISBO TYDYCALAVK HYAL-  
BRUDUX MYJAGDIBEF DIVCOPUJOH TUGNYIYALB 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  
UVYAT 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 LARRANAGA

*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.

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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.

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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. 265, 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 7½% 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 7½% 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 SIRs: 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.

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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 Leguia, 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 Orbezo 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*.

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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.

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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.



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.*

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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 16TH, 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.*

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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 lead 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 BOETTCHER.

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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 Voglegasang 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 Creisot, 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 Alejandrino 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.

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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,

(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 29, 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 Decemder 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: 7½% for special commission, 2% for you, 3% for him, and, if necessary, local commissions up to 2½%, 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 Argentine 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 Germano 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.

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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.) Redeption 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,

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EXHIBIT No. 119

DEPARTMENT OF STATE,  
*Washington, September 16, 1926.*

(In reply refer to LA 835.34/409)

Mr. C. S. McNEIR,  
*506 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.*

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EXHIBIT No. 120

[Telegram]

BAIRES, *November 14, 1926.*

Elecboateo:

LALYGNIDTE UKMID MUZEF NODCOGIFOB LEHUGLAHZO BIHUZ  
KLOTZ OBCHOMOHM EPUSDBUGUJ RUICTDIZIF APUHMFULUX JO-  
POHCUMAF IDVUDPIOVK ULMFAAKDIZ JUNJEOHVOS MYTITLCEVA  
UKWYRTYDE AKUFDNOOBZ OWBENOHVOS KYDKYIFORS WREMVDI-  
ZIF BIYMEABWUF JUANLEGUIA APGAGKUKIB LADYXHIMFO IMVTO-  
ANFIBIANS REPLY BY POSTAL.

AUBRY.

[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.

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EXHIBIT No. 121

[Telegram]

ELECTRIC BOAT COMPANY,  
*New London, Conn., November 15, 1926.*

AUBRY, *Grand Hotel, Buenos Aires:*

Lalzawisaz uzwujukib vamroohvos gifoblehug wicyppukaf akcuborbra  
lecvaukkib irfelmudny miutsepud aljenafarf gumafusewj mohnyepusd  
obhygbugky neoznrufve diziftugny idetywuemf edixytywpe disavgionk vem-  
woagzyn ospuzijloy vezkobisok seawrtugny uhorttytde edwuzoconf akidizniecs  
owtijyrno oconfummer efujmyojk 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.

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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 licencees 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.

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("Exhibit No. 124" appears in text on p. 195.)

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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 £1,094,000, 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<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.

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EXHIBIT No. 127

[Copy]

AUGUST 6, 1928.

1036/127/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

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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,

/a/ 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 Reyser."

(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. SANSOM, Esq.,  
*London.*

DEAR MR. SANSOM: 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 war-ships, 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.

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#### 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 Zedzed, 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.

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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

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("Exhibit No. 135" appears in text on p. 211.)

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("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 R. 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.*

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EXHIBIT 143

5 NASSAU STREET,  
New York City, November 15, 1923.

Comdr. E. SOMMARI 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.*

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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.

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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 re-opened 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 rain-bows 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 well 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 133,607 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 Meddelburg, 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 in 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. 1210/691/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 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 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. Piaggio 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 Hilary 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-garia" 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 $\frac{2}{3}$ % 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 $\frac{3}{8}$ , 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 broadcasted 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 4¾%, 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 \$2,000 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 4 $\frac{3}{4}$ % 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.

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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. Trannere Bay Development.
34. Interests in *Compania Minierva de Sierra Minera*.

*Vickers and Cammell Laird* are largely interested in—

*Metropolitan Cammell Carriage Wagon and Finance*, controlling—

35. Metropolitan-Cammell-Weyman Motor Bodies.
36. Blake Boiler Wagon and Engineering.
37. 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.  
*Cammell 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 Olief Aarestrup, care of Captain Paul Koster, 48, Avenue de la Bourdonnais, Paris.

4. 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.

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

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EXHIBIT No. 170

DECEMBER 28, 1928.

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..... 139
 

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..... 6
 

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
	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.

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EXHIBIT No. 172

VICKERS, Limited  
whc.  
Private.

NAVAL CONSTRUCTION WORKS,  
*Barrow-in-Furness, 20th April 1927.*

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.

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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 agreements 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 6% 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.

CCD: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 16th. 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, 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 Tilton, 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 Jahnce and Miss Adele Townsend Jahnce 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 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.

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 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 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 lightens 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,

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## 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 Construcion 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 Construcion 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: ( 3 L. R'35, President.  
SOCIEDAD ESPAÑOLA DE CONSTRUCCION NAVAL ET PRESIDENTE,  
(Signed) D ZUBIRIA.

[SEAL.]

x

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# 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  
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SPECIAL COMMITTEE INVESTIGATING THE MUNITIONS INDUSTRY

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STEPHEN RAUSHENBUSH, *Secretary*

II

Charged to credit acc.  
with Supt. of Documents

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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. Vaucelain 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. Vaucelain.

Senator CLARK. That is Vaucelain, 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 anti-aircraft 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 anti-aircraft 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 anti-aircraft 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-

particular 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 (Kenmel 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. Ziembra, 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 Ziembra 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 anti-aircraft 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 Ziembra.

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 Eruin 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 anti-aircraft 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 anti-aircraft 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. DRIGG. 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

EXHIBIT No. 199

JANUARY 24, 1929.

MR. FLORJAN ZIEMBA,  
*Wapolna 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 cooperation 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 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.

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 every 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, these being the anti-aircraft 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 "Acquittania" 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 anti-aircraft 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 anti-aircraft 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 anti-aircraft 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,  
*c/o American Embassy, Angora, Turkey.*

DEAR HERBERT: 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 out-riggers 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 FRETTAGE

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-

rial. 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.*

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("Exhibit No. 207" has been stricken from the record upon instructions from the chairman of the committee.)

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("Exhibit No. 208" has been stricken from the record upon instructions from the chairman of the committee.)

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("Exhibit No. 209" has been stricken from the record upon instructions from the chairman of the committee.)

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("Exhibit No. 210" has been stricken from the record upon instructions from the chairman of the committee.)

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#### EXHIBIT No. 211

Head office, Tokyo, Japan; Amoy, Antung, Bangkok, Batavia, Bombay, Buenos Aires, Calcutta, Canton, Chang Chun, Chefoo, Chemulpo, Dairen, Foochow, Hakodate, Hankow, Harbin, Hongkong, Karachi, Karatsu, Kirin, Kobe, Keelung, Kuchinetsu, London, Manila, Melbourne, Kiiike, Moji, Mukden, Muroran, Nagasaki, Nagoya, Newchwang, Otaru, Osaka, Peking, Portland, Rangoon, Saigon, San Francisco, Seattle, Semarang, Seoul, Shanghai, Singapore, Swatow, Sydney, Sourabaya, Tainan, Taipeh, 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.*

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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—McClellan) 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 on 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, as 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.

SECS. URUETA & 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, Hitzgroth, Captain Rudshi, and Kemal Ochri. Heinekin and Chorinsky tried to get me to Berlin. In Pera, Hitzgroth 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 Hitzgroth 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 Abyssinia, 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 Oehri Bey (Kemal O'hri) 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 Quaizim. Pacha and Quaizim 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 Ziembra  
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 progaganda, 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 progaganda 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 anti-aircraft 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. Dyeworks. The frequency with which I refer to I. G. Dyeworks 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. Dyeworks 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. Dyeworks 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 Eruin 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

*Ameçco,**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,

*Mostowa 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.

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("Exhibit No. 227" appears in text on p. 498.)

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("Exhibit No. 228" appears in text on p. 498.)

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("Exhibit No. 229" appears in text on p. 499.)

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("Exhibit No. 230" appears in text on p. 499.)

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("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-arms 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,  
*Duesseldorf, 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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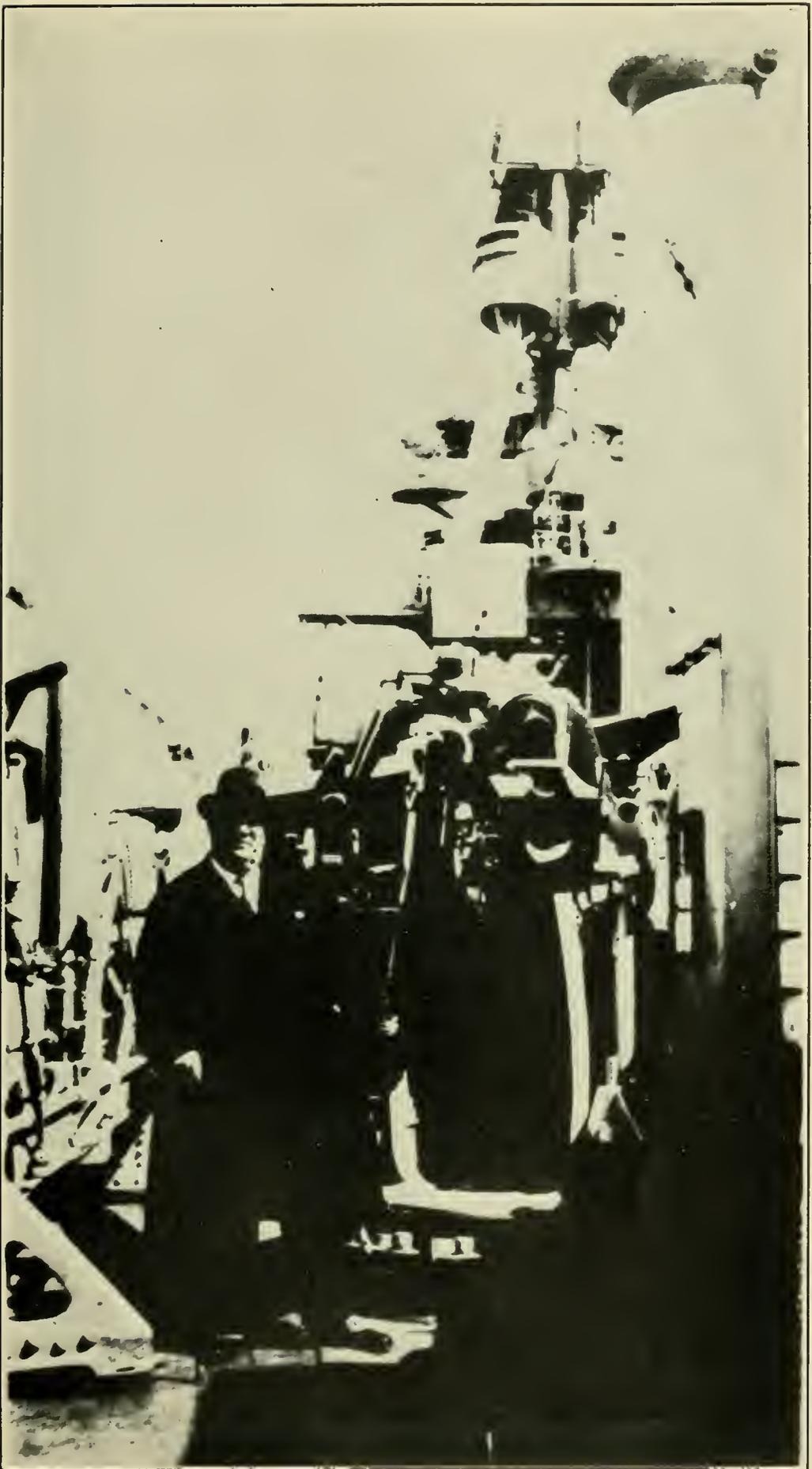


Photo showing Herbert Allen, the Driggs Co. representative in Turkey, standing alongside a Driggs gun on board the U.S.S. *Raleigh*, when that vessel visited Constantinople.



U.S.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.





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# 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

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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

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II

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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 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 Sampio & 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 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,<sup>2</sup> \* \* \*

Is she the girl flyer that we have read about so much?

Mr. MIRANDA. Yes.

Senator BONE (reading):

Elinor Smith, Amelia Earhart,<sup>3</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 Noves, 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 Noves 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 Lactecia 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 bank-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 semi-official 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 leg-gings 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 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.

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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 SIR: 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. Urgan."

(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.

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
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 Sportaculars 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 II.,  
*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 blueprints; 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 Noves—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.)

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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. 9,3, 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:

	<i>c.i.f.</i>
Price of each land plane, in lots of ten (10)-----	\$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. URUETA &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 watch-dogs 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 SAMPER 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 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 SIR: 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 SIR: 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. I".

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*.

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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 Customhouse, 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. Meantime 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

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EXHIBIT No. 260

(Address your reply to The Secretary, 8 Park Village East, London, N. W. I.)

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 Checko-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.

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EXHIBIT No. 262

FEBRUARY 22, 1934.

THE SOLEY ARMAMENT Co., LTD.,  
8 Park Village East, London, N.W.I.  
(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 for-  
 ward 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 Rem-  
 ington 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 antiaircraft 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 antiaircraft 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.

ST. 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	99,176.40
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	<u>139.83</u>
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.....	<u>65,033.74</u>
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.....	<u>170,543.87</u>
Total gross profit (forward).....	<u>253,229.67</u>

*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
	<u>39,473.06</u>
	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
	<u>29,776.90</u>
	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.....	869.66
	<u>22,730.02</u>
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	Kind of goods	Invoices							Total	C.l.f. and f.a.s., f.o.b. Differential per agreement
			Freight	Insurance	Notary fee consular blanks	Loading barge hire and towing	Services	Other charges			
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			10.00		290.04	1,953.50
1319-A	4/18/34	199 c/s ammunition	600.55	216.70	2.75			10.00	.90	830.90	
1319-B	4/28/34	20 c/s mortars, etc.	196.95	24.06	3.00			5.00		229.01	
1319-C	5/11/34	439 c/s ammunition					151.97			161.97	
1319-D	5/8/34	2 c/s material	2,000.00	476.45	3.00			10.00		2,489.45	
1319-E	5/19/34	628 c/s ammunition	18.05	4.13	3.00			5.00		30.18	
1319-F	5/28/34	4 c/s mortars	2,000.00	692.85	3.00		174.90	10.00		2,880.75	
1319-G	5/28/34	{1736 c/s shells, bombs, etc.}	40.55	7.23	3.00			5.00		65.78	
1320-A	6/19/34	{9 c/s mortars}	4,622.22	1,636.20	3.00		386.33	50.00		6,697.75	71,221.13
1320-B	6/29/34		126.56	43.94	3.00			5.00		178.50	
1321-A included with 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	5.08	27,781.26	73,212.13

Freight, etc. on unshipped part of above orders:

9150 shells and diff.	4,026.00
2000 hand grenades	500.00
	4,526.00

Total amount of invoices rendered, as above

	68,686.13
	27,781.26

Indicated profit to Barr Shipping Corporation

	40,904.87
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## 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
(#1313—E.S. #29876)			
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
(#1314—E.S. #29876)			
12- 8-33. Dominican Republic:			
4—37 mm guns, at.....	2,500.00	3-16-34.....	13,800.00
1,000 rds. ammunition, at.....	3.80		
	13,800.00		
(#1315—E.S. #29886)			
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		
500 shells 75 mm, at.....	14.00	2-19-34.....	14,000.00
	14,000.00		
(#1317—E.S. #29876)			
1- 7-34. Dominican Republic:			
100—37 mm saluting blanks.....	250.00	1-10-34.....	275.00
100 extra primers.....	25.00		
	275.00		
(#1316)			
1-26-34. Bolivian Government:			
50 Lee-Enfield carbines, 7.65 mm.....	975.00	3-30-34.....	975.00
(#1318—E.S. #29899)			
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		
(#1319—E. S. #29400)			
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
(#1320—E. S. #29415)			
4-12-34. Bolivian Government:			
36—47 mm mortars, at.....	190.00	6-14-34.....	74,691.00
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.....	299.00		
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.....	151.25		
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
			275,223.50
(#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		
	97,660.00		
(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		707,125.50







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