

Regular Meeting
of the
Board of Directors
of
Export-Import Bank of Washington

A regular meeting of the Board of Directors of Export-Import Bank of Washington was held in Room 445, Federal Loan Agency Building, in the city of Washington, District of Columbia, on Wednesday, the 6th day of February, 1946, at 10:30 A.M. of said day.

The following members of the Board of Directors were present: Mr. William McC. Martin, Jr.; Mr. William L. Clayton, representing the Secretary of State and having been designated by the Secretary of State to act for him; Mr. Clarence E. Gauss, and Mr. Lynn U. Stambaugh. Mr. Herbert E. Gaston was absent.

Also present were Mr. Wayne C. Taylor, President; Mr. Hawthorne Arey, Vice President and General Counsel; Mr. W. D. Whittemore, Vice-President; Dr. August Maffry, Economic Adviser; Mr. Norman T. Ness, Economic Adviser on Latin America; Mr. Sidney Sherwood, Secretary of the Board; Mr. Emilio G. Collado, Deputy to the Assistant Secretary of State for Economic Affairs; Mr. Walter C. Sauer, Assistant General Counsel and Assistant Treasurer; Mr. Richard N. Johnson, Assistant to the President; Mr. Frank A. Waring, Economic Adviser on the Far East; and Mr. Bernard R. Bell, Economist.

Mr. Martin, Chairman of the Board of Directors, presided over the meeting and Mr. Sherwood acted as Secretary.

The Secretary presented the minutes of the regular meeting of the Board held on January 30, 1946. The Chairman directed that these minutes be received at this meeting and acted on at the next meeting. Mr. Collado suggested certain corrections which were noted by the Secretary. The Chairman inquired as to whether there were any further corrections in the minutes of the regular meeting of January 23, 1946. There being no further corrections, motion was made, seconded, and carried that the minutes of the January 23 meeting be approved.

Statement of Condition and Earnings Statement for 1945

The Chairman referred to the Statement of Condition and Earnings Statement prepared by Mr. Johnson for inclusion in the Semi-annual Report. As some of the members had not had the opportunity of studying the changes in the form of the report suggested in this presentation the Chairman directed that all comments concerning them should be furnished Dr. Maffry not later than Friday of this week. He stressed the urgency of getting the report to press at an early date.

Chinese Credit

Mr. Waring reviewed the transportation situation in China, pointing out the urgent need for replacement of transportation equipment, which accounts in large part for the coal shortage in many parts of China. Mr. Waring outlined the main points in his memorandum of February

4 to the Board of Directors pointing out that the principal features of the proposed credits to China would fall into the following three categories:

For the purchase of 10 N-3 war-built ships for coastwise travel	\$4,243,750
For the purchase of 16 older ships for coastwise travel, and 4 tankers	4,400,000
For the purchase of transportation and other equipment for emergency rehabilitation, including railway repair material, coal-mining equipment, auxiliary power plants, and petroleum products	<u>37,650,000</u>
Total	46,293,750

Mr. Waring mentioned the problem concerning power plants for China with particular reference to the question as to whether frequencies should be 50 or 60 cycle, which he had discussed with Dr. Wang. He referred to a proposal that China receive one million kilowatt hours from Japan as part of the reparations, As Japanese power is 60-cycle, it would fit in with 60-cycle equipment furnished in connection with the proposed loan. In response to a question, Mr. Waring stated that there is nothing concerning telecommunications in the present proposal and that the Chinese have not pressed for telecommunication equipment.

Mr. Gauss stated that he had observed in China that most plans for reconstruction and development contemplated large American "political" loans and that there was little or no evidence of serious consideration by the Chinese of ways and means of repaying such loans. This Bank, however, in extending credit must have reasonable assurance of repayment. Mr. Gauss suggested that the Chinese should now be put on

notice of the necessity of proper showing on this point.

With regard to shipping, Mr. Gauss pointed out that the China Merchants Steam Navigation Company seems to have been set up as the agency for Government monopoly control of shipping in China and stated that this Company has a poor reputation as to both management and operations. He suggested that the proposed credit for ships might be made contingent upon specific assurance that the Chinese Government is taking steps to provide competent management, but added that recognizing that there are difficult political problems involved in the China situation it may be desirable that this suggestion be referred for consideration by the State Department and General Marshall.

Mr. Gauss stated that he sees no necessity for the proposed credit for the purchase of petroleum products; large purchases of such products are made in the usual course in China; China is not without available dollar resources for such operating expenses; and there is no sound reason for our long-term financing of this particular item.

Concerning the four tankers included in the shipping proposal, Mr. Gauss was of the opinion that the Bank should require a satisfactory explanation of their need in connection with the operation of the oil-burning ships. He pointed to the Chinese disclosure that these tankers may later be used to bring crude oil from Arabia for refining in China. Coupling this with the recent purchase of refinery equipment by China from the RFC, it seemed to him that the Chinese Government is anxious to set itself up in the oil business. These proposals, therefore, present a major policy problem for consideration by the Bank, namely,

how far will the Bank go in establishing credits to allow China to cut across the established lines of American business in that country? He suggested that the Bank might discuss the matter of the tankers and refinery with American oil interests in order to get their side of the picture, especially as he understands that the American and British oil companies in China have been negotiating with the Chinese Government on the subject of petroleum development and refining in that country.

Mr. Gauss expressed approval of consideration of the proposed credits for coal mining equipment and power plants, since these projects contemplate expert American technical advice and assistance. However, he believed that the Bank should ascertain more definitely Chinese willingness and recognition of responsibility to repay the proposed loans."

Mr. Maffry commented that there seemed to be a somewhat indifferent attitude on the part of the Chinese Supply Commission toward a detailed study of their ability to repay.

Mr. Clayton stated that, in his opinion, there is a difference between asking the Chinese to express their willingness to pay and determination of their ability to pay. He felt that we must assume their willingness to pay. As to their ability to pay, we can raise the question with them of when they expect to get into a surplus export position so that they can repay. Mr. Clayton felt it would be entirely proper to question China concerning her intention with regard to oil. However, he pointed out that the United States has no right to tell China that she cannot nationalize any of her industries. We can only

decide how much of our money we are willing to lend to China to be used for nationalization of industry. He also was in favor of asking China to establish some reasonable indication that she can amortize the credit for the purchase of ships, although in this connection we might bear in mind that the United States has a great surplus of ships which it is important to dispose of. He also felt that it might be advisable to investigate further Chinese requests for petroleum products.

The Chairman stated that, in accordance with established procedure, the proposal for the \$46,000,000 credit to China would not be acted on at this meeting. He suggested further consideration by the members of the Board of the proposal in the light of the discussion

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and stated that it would come before a subsequent meeting for action.

Cotton Credit

In the course of the above discussion concerning the new proposal for a \$46,000,000 credit to China, the Chairman raised the question concerning problems in connection with the Chinese cotton credit in the amount of \$33,000,000. Mr. Sauer stated that the plan was to make the \$33,000,000 credit to the Bank of China and that Dr. Wang had stated that it would be made available to the Chinese Textiles Industries, which is a government concern. Purchases of cotton would be made in the United States by the Chinese Textiles Industries. Dr. Wang is willing to furnish the Bank with an understanding that distribution of cotton so purchased will be made to government and private mills without discrimination. Mr. Sauer reported that Dr. Wang was unwilling to go along with our request that the Bank allow private interests in China to buy direct from United States suppliers. Mr. Sauer pointed out that Dr. Wang feels that this request goes beyond the credit arrangement.

The Chairman stated that we had attached conditions to the loan which go further than the original proposal and that, in his opinion, this matter falls more within the responsibility of the commercial policy of the State Department than within that of the Bank. Mr. Clayton expressed agreement with this point of view, pointing out that it would be difficult for China to agree to make the purchases of cotton

absolutely free inasmuch as China has the right to control imports. In pursuance of its commercial policy, Mr. Clayton pointed out, the State Department is trying to get rid of controls. He suggested that before signing an agreement we should decide just how far we want to go.

At the conclusion of the discussion it was understood that Mr. Sauer would continue his discussions with officials in the State Department concerned with commercial policy.

Application for Credit by Aeronautical Radio de Mexico.

Mr. Taylor stated that he was in favor of the Bank taking favorable action on the application by Aeronautical Radio de Mexico in the amount of \$3,000,000, repayable with interest at four per cent over a 7-year period. The purpose is to assist in the purchase of United States equipment, material, and services to be used in the establishment in Mexico of facilities for radio communications, meteorological, navigation, and airport control facilities for commercial airlines. Mr. Ness summarized the proposal, referring to the Board's previous consideration which was held pending receipt of Ambassador Messersmith's opinion. He reported that the Ambassador has now expressed his unreserved approval of the proposal. Mr. Ness pointed out that it is proposed that the Bank and the company finance equipment purchases on a 90 per cent-10 per cent basis. Only to the extent that the proceeds of stock

subscriptions applied as working capital exceed 10 per cent of the company's borrowings for the purchase of new buildings and land, therefore, will the members' equity in the enterprise exceed 10 per cent. Mr. Ness stated that on the merits of the proposal he has no reservations, although he expressed some misgiving concerning the five-year term. He thought it might be possible to secure an extension. He was not disturbed about lending for seven years for material which is reported to have only a five-year life. He explained that the material is only a part of the credit and that opinions vary as to its possible life. In other words, the estimated five-year obsolescence is merely a round figure. Furthermore, a shift to v.h.f. equipment might not prove practicable because of the terrain in Mexico. Mr. Stambaugh suggested that member companies be required to obligate themselves to continue payment of monthly assessments until the loan is paid off. The Chairman inquired as to the possibility of obtaining the required credit from the capital market. Mr. Taylor emphasized the urgency of the loan, indicating that it is basically an air safety problem. Mr. Clayton expressed the opinion that the companies should be induced to commit themselves not to withdraw during the period of the loan. Mr. Taylor commented that 80 per cent of the companies are Mexican and that it would not be possible to get them to make such a commitment. In the discussion it was brought out that these companies will not be able to operate under the law without the equipment requested, which would

minimize the likelihood of their withdrawal. Mr. Stambaugh expressed concern lest this loan establish a precedent for 90 per cent financing.

The Chairman stated that in view of the questions raised action on the proposed loan would be deferred until the next meeting.

Charges by Eximbank in Respect of Commissions or Fees

The Chairman stated that Mr. Whittemore is collecting some material on this question which will not be ready for discussion until the next meeting.

The proposed loan to Poland and the request by Taca Airways, S. A. for additional financing were received by the Board for consideration and action at a subsequent meeting.

Semiannual Report

Mr. Collado questioned the desirability of raising in the report the controversial question concerning tied loans.

The Chairman commented that, if the policy concerning tied loans is clearly stated in the report, it would be preferable to do so. To do otherwise might indicate that the Bank was merely evading a controversial issue.

Cancellation of Undisbursed Balance of the First Finnish Credit

Upon motion duly made and seconded, it was resolved as follows:

WHEREAS, by resolution adopted December 13, 1939, as amended, the Board of Trustees of Export-Import Bank of Washington (hereinafter called the "Bank") authorized a line of credit in favor of the

Finnish-American Trading Corporation of New York (hereinafter called the "Corporation") to finance the purchase and exportation of American agricultural and other products to Finland, and by resolution adopted March 1, 1940, as amended, authorized an additional line of credit in favor of the Corporation to finance the purchase and exportation of American agricultural and other products; and

WHEREAS, pursuant to resolution adopted by the Board of Directors of the Bank on January 16, 1946, the Bank has established a new line of credit of Thirty-Five Million Dollars (\$35,000,000) in favor of the Republic of Finland and has agreed to refund the outstanding indebtedness of the Corporation under the aforesaid lines of credit in favor of the Corporation, by accepting the promissory note or notes of the Republic of Finland in the amount of such indebtedness; and

WHEREAS, it is now in order to cancel the undisbursed balances of the lines of credit in favor of the Corporation;

NOW, THEREFORE, BE IT RESOLVED, That the Bank cancel the undisbursed balances of the lines of credit in favor of the Corporation authorized by resolution adopted December 13, 1939, as amended, and resolution adopted March 1, 1940, as amended; and

RESOLVED FURTHER, That the Chairman, Vice-Chairman, President or a Vice-President be and he is hereby authorized and directed to take such action not inconsistent herewith as he may deem necessary or convenient to effect the cancellation and otherwise to carry this

resolution into effect.

Personnel

Upon motion duly made and seconded, it was

RESOLVED, That the President or a Vice-President of the Bank be and he is hereby authorized and directed to employ Margaret R. Abbott as a Clerk-Typist, CAF-4, at a salary of \$2,100 per annum.

RESOLVED, That the authority granted to the President or a Vice-President of the Bank by resolution adopted January 16, 1946 to employ Evelyn Y. Joyal as Senior Clerk-Stenographer, CAF-5 at a salary of \$2430 per annum be and the same is hereby rescinded.

There being no further business to come before the Board, the meeting stood adjourned.

Chairman

Attest:

MINUTES
of the
Special Meeting of the Board of Directors
of the
Export-Import Bank of Washington
Held in Executive Session on Wednesday, February 6, 1946

Following its regular meeting held on February 6, 1946, the Board of Directors of the Export-Import Bank went into executive session. The following members were present: Mr. Martin, Chairman of the Board; Mr. Clayton, representing the Secretary of State; Mr. Stambaugh, and Mr. Gauss. Mr. Gaston was absent. Mr. Taylor, President of the Bank, and Mr. Sherwood, Secretary of the Board, were also present.

Mr. Taylor stated that both Mr. Martin and he had recognized that the present set-up of the Bank was not feasible in view of the fact that the management of the Bank had been vested in a full-time Board of Directors, and that the Bank could not be managed both by the Chairman of the full-time Board and the President of the Bank. In view of this situation, Mr. Taylor stated that he had reached the conclusion that the only solution would be for him to withdraw as President of the Bank. Accordingly, he tendered his resignation to the Board. The Chairman expressed agreement with Mr. Taylor's statement and reported to the Board that he and Mr. Taylor had discussed the situation fully and had mutually agreed that there was no other solution. He further stated that he and Mr. Taylor had gone to the President

together and discussed the matter, and that the President had agreed on the proposed solution. The Chairman expressed regret that the Bank would be losing Mr. Taylor and expressed gratitude to him for the very great assistance he had given during the transition period from the former Board of Trustees arrangement to the assumption by the full-time Board of its management responsibilities.

Mr. Clayton expressed regret that Mr. Taylor would be leaving the Bank and commented that the manner in which this organizational impasse had been solved was unprecedented, at least during his experience in Government. He felt that the fact that it had been solved in this manner was a high tribute to both Mr. Martin and Mr. Taylor in that they had frankly faced the facts and reached a mutual agreement as to the solution of the dilemma. The other members of the Board concurred in the statements made by Mr. Clayton.

It was unanimously agreed that the Chairman should assume the duties previously assigned to the President in addition to those of Chairman. The combining of the two offices was agreed upon as an appropriate method of vesting the management of the Bank directly in the new full-time Board provided for by the recent Export-Import Bank legislation.

In accepting Mr. Taylor's resignation, the Board adopted the following resolution:

RESOLVED, That the Board of Directors of the Export-Import Bank express their sincere appreciation and deep gratitude to Mr. Tayler for his able administration of the Bank during the difficult period of the past year and in the transition to the new form of management. His deep interest and complete cooperation have been of inestimable value in aiding the Board in the assumption of its duties. His departure is cause for sincere regret on the part of each of the members of the Board.

There being no further business, the executive session was adjourned.

Chairman

Attest:
