



EMBASSY OF THE  
UNITED STATES OF AMERICA

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No. 1342.

Moscow, June 6, 1938.

Subject: Final Report Supplementary to the General Summary Despatch, No. 1341, June 6, 1938, made upon my departure from the Soviet Union. Report on Matters Pending. Recommendations as to Policy.

DEPARTMENT OF STATE  
ASSISTANT SECRETARY  
AUG 10 1938  
*[Signature]*

STRICTLY CONFIDENTIAL.

DIVISION OF  
EUROPEAN AFFAIRS  
JUN 27 1938  
DEPARTMENT OF STATE

LEGAL ADVISER  
AUG 10 1938  
DEPARTMENT OF STATE

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The Honorable  
The Secretary of State,  
Washington.

OFFICE OF THE ADVISER ON  
INTERNATIONAL ECONOMIC AFFAIRS  
AUG 10 1938  
DEPARTMENT OF STATE

Sir:

Division of  
FAR EASTERN AFFAIRS  
AUG 16 1938  
DEPARTMENT OF STATE

Upon leaving this post to take up my duties in Brussels, I have considered that it was incumbent upon me to render a final report to you, covering my conclusions as to the facts which I have found here, the status of pending matters, together with observations as to the manner in which these matters could be best handled; and finally the policy, which in my judgment, it would be in the best interests of the Government of the United States, to adopt with reference to the situation here. I therefore have the honor

Assistant Secretary  
of State  
AUG 19 1938  
MR. SAYRE

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honor to report as follows:

Reference is here made to despatch No. 1341 of June 6, 1938, which is a factual general survey covering; the innate strengths of the Soviet Union; what the present regime has done with these resources; what the weaknesses of this situation are; what the strengths of the present political regime appear to be; what the military power of the Red Army is; what the relations of other powers are to this Government; and what the significances of this situation are in the future with reference both to world economic and political conditions as well as to those of the United States. This report is supplementary thereto and should be read in connection therewith.

SPECIFIC MATTERS STILL PENDING.

The major specific matters now pending between the two Governments are the following:

1. Payment of the Russian debt and proposed loan by the United States or its nationals;
2. The Comintern;
3. The Protection of American Citizens;
4. The Hrinkevich Case;
5. The Rubens Case; and
6. Commercial relationships and the most-favored-nation status.

The Debt and Loan Matter.

Pursuant to the instructions of the Department, no action has been taken by me here in connection with  
this.

this matter except to make it very clear not only to the Foreign Office but to other members of the Government that the Government of the United States considered that the next move in the situation was incumbent upon the Soviet Government (See my previous despatches No. 11, January 25, 1937, and No. 68, February 18, 1937.)\* Despite the fact that several occasions were made by me for the bringing up of the matter, if the authorities so desired, the Foreign Office did not broach the subject.

It is improbable that this Government will make any effort to complete the agreement unless and until some situation shall arise, where it would be desirous of obtaining some special consideration or favor from us. The fact is, in my opinion, that the situation has always presented a basic difficulty to this Government in that under the treaties which the Soviet Union has with other large creditor nations it would be obliged to give equally favorable treatment to that which it extended under this arrangement to the Government of the United States. This probably was the root of the difficulties which the Department has experienced in trying to reach a practical execution of the agreement made by the President of the United States and Commissar Litvinov. Another factor in connection with this matter is now to be found in the fact that the Soviet Union is not now looking for loans from abroad, except on the most favorable terms, and then only at a very low rate of interest. The Soviet Government has enjoyed a favorable actual balance of trade for the last two or three years and

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has

\* See also despatches No. 33, February 6, 1937, and No. 95, February 26, 1937.

has also greatly increased both its production and its stocks of gold; and it is now in a much more independent financial situation than in 1934.

In the event of war the Soviet Union might find it to its interest to renew seriously and in good faith an effort to implement and execute this agreement because of its desire to do business in the United States. Outside of this or some similar exigency it is doubtful whether this Government will bring the matter up.

The Comintern.

With reference to the Comintern situation, I have at all times made it clear to Soviet officials that the attitude of the United States is that it holds the Soviet Union to strict fulfillment of the promises made to the Government of the United States.

There are three factors in this connection, which are important, and which should be borne in mind in this connection:

First. Contacts with the world revolutionary movements in other capitalist countries are now considered by the Soviet officials to be of very vital consequence to the Soviet Union as agencies for military defense. (See despatch No. \_\_\_\_\_ and statement of the French Ambassador with reference thereto.);

Second. There has been some disposition in the past on the part of the Stalin Government to minimize its interest in world revolutionary movements in the past. The interest of this Government in the Comintern is directly in relation to its apprehensions of danger from military attack of the aggressor nations, and at this moment it is again stressing its interest in the Comintern; and

Third. There appears to be little subversive Comintern activity in the United States at the present time.

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The question of the Comintern, therefore, in practical effect, has become largely academic so far as any vital interests of the United States are concerned. Unless, therefore, the idea is implemented in the United States by a greater aggressive and more marked activity than exists at the present time, it would be advisable, in my opinion, strictly to maintain our position with reference thereto as a formal matter, but to quietly ignore the question, unless and until it threatens our well being. For the present at least under existing conditions, it is not advisable "to use a hatchet to kill a fly".

Protection to American Citizens.

The traditional policy of the United States which has been reiterated and emphasized by the Secretary of vigilantly protecting the rights of American citizens has been at all times vigorously projected by this Mission. Two major situations are pending at the present time. They are the Hrinkevich and the Rubens cases. They are the only two American citizens held in prison at the present time on what appears to be political grounds.

In connection with these situations the background here, existing at the present time, should be considered. It is a condition bordering on panic. This Government is obsessed with the idea that it is being isolated by a hostile world and that the hands of all capitalist nations are against it. The war psychology

psychology is strong. A condition of martial law has, practically, been projected. The Government is convinced that it is confronted with the actual menace of hostile aggression by Germany and Japan. It is acting with force and vigor to protect itself and is doing so entirely without regard to niceties. Foreign consulates have been ruthlessly closed. Thousands of foreign nationals have been arrested, imprisoned, and held incommunicado. I have been advised recently by the Ambassadors of England, France, Germany, Italy, Turkey, Persia, and Afghanistan that representatives of their Governments, respectively, have not been permitted to interview their nationals who were imprisoned here prior to their trial. Thousands of Greeks, Persians, and Afghan nationals, hundreds of Germans and Poles, and substantial numbers of English and Italian nationals have been imprisoned and held under such conditions.

The Hrinkevich Case.

The Hrinkevich case arises out of the following facts. Hrinkevich, <sup>born</sup> a Russian, became a naturalized citizen of the United States. Several years ago, during the depression, he came here, married a Soviet woman, lived here for a short time, returned to the United States for a brief period, and then returned here, apparently to make Russia his home. I have been informed that the impression which he made on some of the members of the Mission here was anything but favorable; that he was an ardent Communist; that

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*He impressed Ambrose & myself most favorably when we interviewed him at this time. He was not a Communist.*

his passport was signed in red ink. Apparently since his return he got into trouble with the local authorities and was arrested and imprisoned. This case was taken up last summer (1937) with the Soviet Foreign Office when it was learned that Hrinkevich was imprisoned; and I was promptly assured by Commissar Litvinov that in spite of their attitude with reference to other nationals, representatives of the Embassy would be permitted to interview Hrinkevich. This was promptly done. Two difficulties arise in the case. One is that Hrinkevich does not wish to leave without his wife and child. The other lies in the fact that he does not appear to have means sufficient to take him back to the United States. It is my opinion that it would be advisable to find means for providing funds to take him back to the United States, which can be promptly done upon our application, as I am informed.

The Rubens Case.

The present status of the Rubens case is that Mrs. Rubens is still confined in prison. The Embassy has maintained contact with the Foreign Office with reference to the matter and has made inquiry from time to time as to how the case is developing and how soon it might be contemplated that the case would be brought to trial.

As the facts were unfolded in this matter, the situation developed into a weak case. Mrs. Rubens' admissions, together with other facts, disclosed that Mrs. Rubens, under the influence of her husband, either  
knowingly

knowingly or otherwise, had not only violated the laws of the Soviet Union in making a fraudulent entry into the country, but had also violated the penal laws of the Government of the United States in aiding and abetting frauds upon passport officials. The known facts seem to establish a fair presumption that the principal defendant Rubens, to whom Mrs. Rubens was an accessory, entered the Soviet Union for an unlawful purpose and under an unlawful United States passport either in conjunction with Soviet conspirators against the Soviet Union or as the agent of some foreign state.

The position became still weaker when Mrs. Rubens <sup>(under)</sup> advised Secretaries Henderson and Ward that she neither needed nor desired the aid or protection of the United States in this situation.

Despite the feeling of resentment which the Soviet Foreign Office had with reference to the alleged unnecessary "peremptory and inconsiderate demand" of the United States in view of the established good will of the Soviet Union as demonstrated by the Hrinkevich case (See previous despatch No. 1007 of March 4, 1938), the situation can be cleared up, in my opinion, without unnecessary asperities, and in such a manner as will uphold and maintain all the rights of the United States which are involved. The deportation of Mrs. Rubens to the United States, if the Government of the United States so desires, can, in my opinion, be effected within a reasonable time.

Commercial



Commercial Relationships and the  
Most-Favored-Nation Status.

The total number of registered American citizens in the Soviet Union is now only 480 (including the Embassy staff), in contrast to approximately 2,500 in 1934, according to the best estimates of the Mission.

Business with the United States, or foreign nations, exclusive of that having to do with military and naval construction, for the present, at least, is "drying up". A strong chauvinistic spirit exists here. It insists that Russian industry shall supply all needs of the Russian market. It appears to be growing stronger. The United States will probably continue to furnish some engineering and technical assistance, and some machinery, but with the exception of armament, the amount will be constantly growing less for the time being.

Barring war orders, there will be relatively little American business here for a number of years, in my opinion. There are no questions of serious American interests or business likely to be involved in this situation.

The Soviet Government frankly makes purchases of new machinery for the purpose of copying it and making the product here.

From time to time the Soviet Foreign Office will continue to urge the conclusion of a general commercial agreement containing the usual most-favored-nation clauses

clauses.\* As a matter of fact, under the system existing here and the attitude of the Soviet Government toward patent rights, copyrights, and the like, there is no real quid pro quo which could be offered to the United States by reason of its entry into such a relationship. It would necessarily be a one-sided arrangement and in the absence of some specific consideration, in my opinion, it would not be advantageous.

GENERAL POLICY.

In view of the shrinkage of the number of American citizens now in the Soviet Union and upon many other grounds a strong argument, from certain points of view, might be made that the continuance of diplomatic relations here is unnecessary under present conditions and inadvisable.

In view of the extraordinary economic and political potentialities which exist here and which will undoubtedly continue to have an increasing effect upon both economic and political conditions of Europe as well as of the world, and particularly in view of the Japanese attitude in the Pacific, it would appear unwise to change the present status or to consider the discontinuance of diplomatic relations except under some severe provocation.

In my opinion the importance of this Mission

should

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\* Although the Soviet Union has most-favored-nation rights with respect to customs duties as a result of the existing commercial agreement, it desires much broader rights.

should not be minimized nor should the diplomatic secretariat be reduced.

Equally important with the continuance of diplomatic relations is the matter of policy as to the methods which are to be employed in matters arising between the two Governments and the general attitude which this Mission should maintain in its relation toward and with the Soviet Government and the Soviet officials.

CHANGED CONDITIONS IN CONTRAST TO THOSE  
OF THREE YEARS AGO.

Conditions have radically changed since 1935.

When the Soviet Government failed to live up to its obligations under the loan, debt, and Comintern agreements, our Government felt properly aggrieved. Under such conditions it was natural that consular representation and staff should be reduced as a gesture of protest. There was then properly directed a policy of the maintenance of strictly formal relations, characterized by a resolute insistence upon the U.S.S.R. living up strictly to each and every obligation in letter as well as in spirit, and characterized also by an attitude of unyielding, unbending, and perhaps of a critical character. Conditions here, particularly in the last year and a half, however, have radically changed. The situation both here as affecting European Peace, and in the Pacific and the Far East is radically different. An attitude of aloofness which might have created irritations three years ago would have been of little consequence at that time.

Larger

Larger issues are now concerned. Internal conditions are also very different. Now, this Government, apparently, is going through a crisis. The hostility toward foreigners is very intense. Official Government organs assert that diplomatic and consular representations in the Soviet Union are nests for espionage and spying activities of aggressor nations, and that these are actually menacing the Soviet Government. Thousands of Afghans, Greeks, and Turks; hundreds of Germans and Poles; scores of Japanese; and even some British nationals have been arrested and confined in prison for alleged carrying on of subversive activities. These foreign-national prisoners have been kept incommunicado. Diplomatic representatives of their Governments consistently have been refused an opportunity of interviewing these nationals in prison until after trial.

Despite these conditions and during this period, the Soviet Government has gone out of its way to extend particular consideration to the Government of the United States. This has been done, both by conduct and by oral expressions. It was signally demonstrated in both the Hrinkevich and Rubens cases. High officials of the Soviet Union have stated to me that they would go farther in friendship toward the United States than toward any other nation in the world.

On the assumption that the United States decides to maintain diplomatic relations here, it is, in my opinion, advisable that the conduct of this Mission should be projected and maintained in as friendly and

harmonious

harmonious a spirit as is possible, consistent with the strict adherence to the performance of all obligations under the agreements between the two countries. The integrity of our democratic system and our requirement of strict performance of Soviet promises should, of course, always be maintained with vigor; but the methods employed in connection with current matters of relatively smaller importance and, in fact, methods employed in all matters should be based not upon a critical and intolerant attitude that induces irritations, but upon an attitude of tolerant understanding of the difficulties under which the officials here are laboring. It should not be an attitude that would induce suspicion and hostility directed against us. We should not, by reason of our conduct, be classed among "enemy powers".

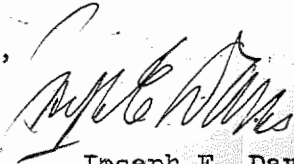
Such a policy does not involve approving in any manner the ideological concepts of this Government. It does, however, recognize the right of self-determination. It is interpretative of the high-minded and Christian-like declarations of the foreign policy of the United States as expressed by the President of the United States and the Secretary of State in connection with foreign affairs. It is a "Good Neighbor Policy", and one consistent with the best traditions of our diplomatic history.

Subsequent to my conversations with the President of the United States and the Secretary of State on the occasion of my last visit to the United States, and  
since

since my return here, and in conformity with instructions as I understood them, I have made an effort to project and pursue this policy. It has, in my opinion, been successful. There is no doubt of the sincerity and the friendliness of the U.S.S.R. toward the Government of the United States, in marked contrast and to a greater degree than to any other nation. It has been my experience here, that where matters are projected as between the two countries in a spirit of tolerance, understanding, and friendliness, there has been a prompt and generous response on the part of this Government to try to accommodate itself to a reasonable agreement.

Upon leaving this post I am able to say that, in my opinion, while at all times we have proclaimed our loyalty to our political ideals and to our system of government, and while we have at all times insistently maintained and asserted with vigor the dignity and rights of the Government of the United States, the conduct of the Mission here has nevertheless reflected the historical traditions of friendship which have existed between the American and the Russian people.

Respectfully yours,



Joseph E. Davies

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