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Vienna, October 11, 1935.

Personal

Dear Mr. Phillips:

I last wrote you on September 27th and October 4th. I am conveying developments in the Austrian internal and external position in my despatch No. 573 of October 11th.

The major developments are that Austria, as was foreseen, has declared her intention of not applying sanctions. She really had no other course than this which she could follow, and her action will be understood in England and in France. Austria's action on sanctions was obviously taken in agreement with Hungary, but Hungary's treatment by the European press and in European chanceries will not be so gentle as that given to Austria. After all, Hungary was saved by the League from invasion by Yugoslavia last year, and the reasons for her action on sanctions cannot be brought out into the open the way those of Austria can be. Hungary definitely had her eyes on Germany in reaching her decision.

The principal effect of Austria and Hungary not joining in the sanctions will be that of keeping a way open for the passage of supplies from Germany to Italy. It is a question whether Germany will denude herself of war materials for Italy, even though she can get paid for them. In the way of other supplies which Italy needs, Germany is not in a position to send much under any circumstances. Neither Austria nor Hungary are in a position to supply much in the way of war materials, and the general belief here is that even the normal trade

The Honorable
William Phillips,
Under Secretary of State,
Washington, D. C.

between them and Italy will suffer, as Italian payments have already slowed up. The sympathies of the higher official of the Austrian Government are with Italy, but the Austrian population is definitely against the Abyssinian adventure and Italy's attitude towards the League. Commercial circles show very distinctly that they are perfectly willing to send everything possible to Italy on a cash basis, but have no intention of giving any credit, for they fear total collapse in Italy. The net result of Austria's failure to apply sanctions through the League will be that in practice Italy will be able to draw very little from here.

The Government hopes not to be faced by the necessity of having to make a decision on leaving the League. It hopes that Italy will be able to remain in, so that the problem will not arise for Austria. The Government here has, as yet, reached no decision, but I am confident that it will not go further than failure to join in sanctions.

The restoration of the Monarchy in Greece is going to give the Monarchists here a lot of encouragement, but it is not likely to change the situation in Austria in any way in the near future. I do not believe this question will come up in the near future. It is unquestionable, however, that the Little Entente feels so much weakened that I do not think they feel nearly so strongly as they did about going to war in case of restoration here, as they have always said they would. No matter what happens in Europe and how definitely the peace is maintained, I think it is quite clear that the Little Entente's resistance to the Monarchy is a good deal weakened. This does not mean that there is anything in the offing in this connection, for the Monarchists of themselves in Austria are not able to do anything. Whatever happens in this direction depends on the attitude of the Government, which has no intention of further disturbing the general situation with this problem at this time.

I am not going into any further details in this letter, for I am sending you herewith a memorandum which I have prepared on some major aspects of the European situation at this time. It may look like a formidable document to you, but I hope that you may find time to read it. I have had to prepare it under

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the pressure of a good deal of work, and the arrangement is not all that could be desired, but it contains a good deal of interesting information, some of it very important, which I have tried to bring together in small compass. I should be very glad if you would bring the memorandum to the attention of the President and of the Secretary, as it brings together a number of vital considerations which have to be borne in mind in any thought which one gives to the European problem.

I would like to bring to your special attention the first paragraph on page 11, in which reference is made to the initialing of the German-Japanese agreement. Bullitt has been here for a few days on his way back from the South returning to Moscow, and he was tremendously interested in this item, which, he said, was of first importance to him. I told him my source of information and he agreed that it was a thoroughly reliable one, as he also happens to know this person who has reason to be particularly well informed concerning this matter.

The information in the latter part of the memorandum with regard to Germany's attitude I find confirmed from so many reliable sources that I believe it can be entirely depended upon as giving the present situation. In fact, throughout the entire memorandum where there is a statement of fact I have in every case been careful to use only verified data.

Cordially and faithfully yours,