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November 3, 1944
9:02 a.m.

HMJr: Frank, I had them contact you in regard to this request for the English.

Frank
Coe: Yes.

HMJr: Now, Lord Keynes and Sir Robert Sinclair are coming here at ten and

C: That's right.

HMJr: I asked you to be here then.

C: Yes, sir.

HMJr: Now, what's this other thing that they want?

C: Well, they finished the -- they've finished the aircraft program, both Navy and Ground Air

HMJr: Yes.

C: and I understand they sent it over to your office with agreement

HMJr: I -- now, that's from the Army?

C: From the Army -- and the Navy Air is in there, too.

HMJr: Is it? Well, I -- I gave it

C: I haven't seen it yet.

HMJr: Well, I gave it to Casaday.

C: All right. Fine. We'll get it from him. And we -- the British apparently want to have in the spirit of -- want to get together in the spirit of showing the urgency of this thing and have, apparently, a little statement from the Army and yourself and themselves and they may have something else that they want to raise but I couldn't get it out of Sinclair if they do. Both Gates and Lovett are out of town.

HMJr: Yeah.

C: And I got in touch with one of -- one of the -- Judge Patterson will be there if necessary. I told him that it seems that it was by way of being a kiss and a blessing. The working -- the working people.

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C:
Cont'd

on the -- on the Army and Navy sub-committees told me they didn't see any need for a meeting, but there may be some questions of higher policy that they want to raise. If so, Sinclair didn't commit himself.

HMJr: Well, now, how are we going to do this? Lord Keynes and Sir Robert are coming at ten. If we're going to meet, the Americans should meet first because late last night in came a letter from Forrestal to me

C: A letter from Forrestal?

HMJr: on the Navy....

C: Is that so?

HMJr: which he wants me to see first.

C: I see, well, Mr. -- Oh, well then, Mr. Secretary, the -- we had set up the sub-committee meeting on the American side for two-thirty

HMJr: Yeah.

C: and a combined sub-committee for three-thirty. Now, tentatively yesterday in talking with Sir Robert Sinclair, we agreed that if it would suit you, we'd have the British come in on the -- on the -- on the full-crop meeting at three o'clock.

HMJr: Well, today is supposedly Cabinet but they haven't let me know. I think it's a three-to-one bet there won't be.

C: Three-to-one bet there won't be.

HMJr: No.

C: What time -- what time

HMJr: Cabinet is -- you've got to count on it from two to four.

C: Two to four. Yeah.

HMJr: I could have it at four and run the thing from four to five.

C: Could we -- could we set up the meeting with the British at four

HMJr: Yes.

C: and ask the Americans to come at three and if they're not there you have someone else

HMJr: No, I don't think we quite understand each other. I should think the Americans should meet first.

C: Yes, sir. But I said three

HMJr: For Americans?

C: Three for the Americans and four for the British.

HMJr: Well, that would be all right.

C: And then if you -- if the Cabinet should come and

HMJr: Just delay it an hour.

C: That's right -- or you could ask Harry or someone to handle the Americans.

HMJr: Yeah -- but -- no, I'd kind of like to be there.

C: Oh, you would? Well

HMJr: I -- I think -- I think by not later than ten-thirty when General Watson sees the President -- I think that by that time I'll know. I'll know by the time -- when Lord Keynes is here at ten -- and you're here.

C: Well, Mr. Secretary, we could do one other thing -- we could set the Americans at four and I suppose the British at five. That's getting a little late.

HMJr: It's getting late because I want to leave this afternoon.

C: Well, then let's not decide it until -- until ten-thirty when we are over there.

HMJr: Why don't we do it that way?

C: Okay, then.

HMJr: Now, I'll get this thing to Casaday -- the British Navy thing and -- so he can, in turn, give it to you. I mean, the American Navy.

C: Yes, and tell him I'll pick it up when I'm over there.

HMJr: Okay.

C: Thank you, sir.

HMJr: Thank you.

November 3, 1944
9:15 a.m.

PROPOSED BOOK ON GERMAN DE-MILITARIZATION

Present: Mr. Glasser
Mr. Schmidt
Mr. Pehle
Mr. Luxford
Mr. DuBois
Mr. Gaston

H.M.JR: What do we do with the Krock story?

MR. LUXFORD: They will blow that up.

H.M.JR: He has just been holding that. Then this thing of Acheson yesterday calling up about Mr. Opie wanting to see Mr. Twitty of the Tribune. Well, the Tribune has nothing. I don't believe that the Tribune and Krock would work together.

And the worst thing of all is (reading from article by Arthur Krock in the New York Times of November 2): "The negotiations began at Quebec with the arrival of the Secretary of the Treasury, Henry Morgenthau Jr., who took along his post-war plan for an agrarian, non-industrial Germany after the war. As reported by this correspondent at the time, Mr. Morgenthau's favorable attitude toward the British lend-lease proposal brought from them in return encouragement of his German plan."

The only person who raised the question of which came first was Mr. Stimson.

MR. DuBOIS: It wasn't very clear before.

H.M.JR: No, but you felt that he knew.

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MR. LUXFORD: I sensed that he knew. I was just waiting for him to spring the Quebec agreement.

H.M.JR: (Continuing) "No representative of the Foreign Economic Administration, which under Leo T. Crowley directs lend-lease, was invited to Quebec either, and this agency became a willing ally of State and War with the objective of shelving the Treasury post-war German plan and returning direction of the subsequent negotiations with the Keynes delegation to State, War, and FEA."

How Arthur Sulzberger, who wants to see the President elected, can run a story like that! Anyway, I don't think there is a thing to do.

MR. PEHLE: No, I should say the trouble is, will it stop there?

H.M.JR: Today is Friday. Dewey can use it tonight or tomorrow.

MR. LUXFORD: Sure, Joe tells me the President is planning to speak on Monday.

MR. DuBOIS: Isn't that what Lubin told you?

MR. PEHLE: Yes.

H.M.JR: Where?

MR. DuBOIS: Hyde Park, I think.

MR. PEHLE: He said on Monday - on human rights.

H.M.JR: The only place he might talk would be Poughkeepsie at five or five-thirty.

MR. DuBOIS: He usually talks every Election Evening, doesn't he, Mr. Secretary?

H.M.JR: The last I heard he hadn't been planning to do it, but maybe he has changed his mind.

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MR. DuBOIS: They had the space reserved from nine to ten, and Dewey has one after it.

H.M.JR: Now, what about this book?

MR. LUXFORD: I think we can show you the outline, first, Mr. Secretary. (Refers to attached copy of Table of Contents)

H.M.JR: Did you men see what George Hall of the Foreign Office said yesterday in Parliament? "The Government spokesman indicated in Commons that the British Government favored confiscating some if not all of the modern equipment of German factories after the war and prevent the Germans from rearming for another conflict."

MR. PEHLE: Very good. You would never guess that from the Directive you read.

H.M.JR: This is the proposal here? (Refers to attached Table of Contents)

MR. LUXFORD: It is a working draft, Mr. Secretary.

H.M.JR: Do you people have the argument against the supervision to show how when they had control after eleven years the last control disappeared?

MR. DuBOIS: Chapter X, for example.

MR. GLASSER: I have a draft of that chapter - Inadequacy of Military and Economic Controls.

H.M.JR: Do you tell how the control worked last time?

MR. GLASSER: Yes.

H.M.JR: In the Times where this fellow took up one point after another and showed the last control disappeared after eleven years.

MR. GLASSER: There is a whole section here on the failure of Allied controls after the last war.

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H.M.JR: Personally, I think that that ought to be right up to the front - I haven't got much time this morning - to show why, if we follow the same pattern of controls, why they didn't work and why they won't work again.

MR. LUXFORD: I don't think we had focused in terms of chapter order. We were thinking more in terms of these being chapters that must be covered and we would wait until we got the chapters.

H.M.JR: I was just thinking out loud. I am more and more impressed that these people think you can do the thing through the control. I think the first idea is you have to knock that down.

(Mr. Gaston enters the conference)

H.M.JR: Hello, Herbert, come in. These boys have been working on a book to go out over my name on the day that Germany collapses. I am just taking a look at it. One of my thoughts was that the fund should go to the American Red Cross, and then we might get these vast volunteer organizations to stimulate the sale of it if they knew that every time they sold a book so much went to the Red Cross.

MR. LUXFORD: I think the Book of the Month ought to put this out.

MR. GASTON: You might at least talk to Harry Scherman about it and get some advice. Whose signature is it going to be?

MR. LUXFORD: The Secretary's.

MR. GASTON: That makes it pretty official. You would have to have consent.

H.M.JR: I am going to do it with or without consent.

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MR. DuBOIS: It can be just Henry Morgenthau, Jr. You don't have to say Secretary of the Treasury.

H.M.JR: Harry Ickes got his out with or without. I don't care. This is going to go with or without consent.

MRS. KLOTZ: You mean you are going to ask for consent and then if you don't get it you are going to do it anyway?

H.M.JR: Yes, Mrs. Klotz.

MRS. KLOTZ: You mean this happens after Elections?

H.M.JR: This happens the day after Germany collapses.

MR. GASTON: This book may come out - the distinction Joe DuBois made is a very good one - it may come out with the signature of Henry Morgenthau, Jr., but not as Henry Morgenthau, Jr., Secretary of the Treasury.

MR. PEHLE: He wouldn't put Secretary of the Treasury. I don't think it makes any difference.

MR. GASTON: He wouldn't be Secretary of the Treasury when the book came out, is the thing I am saying.

MRS. KLOTZ: Oh, ho, ho.

H.M.JR: That is something else again. I am saying that with or without consent that I am prepared to put my name to this book the day after Germany collapses.

MRS. KLOTZ: I have to make this absolutely clear. I say that it is important for you to put it out without asking for their consent. That you would do, you see. But once you ask their consent--

H.M.JR: No, I will mention it to the President. I will say to the President, "I am going to publish a book on how I think Germany should be treated, to be released the day after Germany collapses."

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MRS. KLOTZ: And if he says, no, you put it out anyway.

H.M.JR: That is right.

MRS. KLOTZ: I will bet you two bucks.

H.M.JR: No, one buck - and I am giving you even money!

Anybody else want to bet?

MR. PEHLE: I will bet a dollar.

MR. LUXFORD: I am not going to bet against interest.

H.M.JR: What about Gaston?

MR. GASTON: I am like Ansel, I don't want to corrupt myself. I am still an amateur.

H.M.JR: Well, anyway, two bucks it is. I will have to think of some good reason why the book isn't published. Of course, that goes if the book isn't good enough.

MRS. KLOTZ: Mr. Pehle and I hope, we hope.

H.M.JR: You heard what Gaston said - I wouldn't be Secretary of the Treasury. That is all right.

MR. LUXFORD: I will take a bet on that, too - that you will be!

H.M.JR: Anyway, at least I am encouraging you to go forward. Is that right?

MR. GASTON: I think the book should come out under somebody's signature.

H.M.JR: Where do you treat of what you are going to do with the population of the ~~North~~ ^{South}?

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MR. GLASSER: There is one section here on what is to happen to the German people.

MR. DuBOIS: Chapter XII.

MR. GLASSER: "The future of the German people under this program."

H.M.JR: I would like to take this with me. It looks very comprehensive. Now, I think this. Who is going to approach a publisher on this?

MR. GLASSER: Well, Harry thought that we would first get up the material in whatever shape it is in and then turn it over to some professional craftsman to go over it; and after he has gone over it and we have checked it, and if you agree to go ahead, then you can get in touch with the publisher and perhaps have another professional go over the thing for the last time.

H.M.JR: Have you got a professional in mind?

MR. GLASSER: Not yet, but there are a number of them.

MR. LUXFORD: I was just thinking of men like Stout, and that crowd.

MR. PEHLE: Fadiman.

MR. DuBOIS: Sam Grafton would be an excellent writer.

H.M.JR: Has he written a book?

MR. GLASSER: He has published a collection of daily essays.

MR. PEHLE: Writes very well. Fadiman would be a very good man.

H.M.JR: If you knock it about too much, you know--

MR. PEHLE: That is why I think it is early to do anything until you are very near the time.

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MR. DuBOIS: I think we here in the Treasury can do a pretty good job, myself.

MR. GLASSER: You want to get the professional touch on the writeup.

H.M.JR: These things take a lot of time, until they get it typed, and all that sort of thing. Somebody might ask Internal Revenue - Herbert, you might - what is the arrangement that Stettinius had on his book. All his revenue and royalties went to the Red Cross, I know. Just how did he do that?

MR. GASTON: He had an arrangement whereby it didn't accrue to him by revenue, and that is done by letting the Red Cross be the publisher.

MR. PEHLE: Came up here, didn't it, Mr. Secretary?

H.M.JR: No, that wasn't true in Stettinius' case.

MR. LUXFORD: Willkie made his arrangement with Crowley as the trustee, and then divided the funds between the Chinese, Russian, and American Red Cross.

MR. PEHLE: Morris Ernst would know the whole thing, how to do it. He was in the Willkie picture.

MR. LUXFORD: Also Phil Wenchel.

MR. GASTON: There are several ways to do it. I don't imagine that the income from the Stettinius book was very great.

H.M.JR: Yes, I heard him say two or three months ago, either eighteen or twenty-five thousand dollars.

MR. GASTON: I don't know how big his personal income is. One way is to let it fall within the fifteen percent if it isn't too big. The other way is to contract before publication.

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H.M.JR: I want to contract before publication.

MR. LUXFORD: We are expecting a best seller out of this; with your name on it and this plan it ought to be a best seller.

MR. DuBOIS: It is not just a book.

H.M.JR: Have you boys looked at Vansittart's book?

MR. LUXFORD: No.

MR. PEHLE: Recent?

H.M.JR: Yes, he has written several.

MR. GASTON: Yes, there will be a large sale.

MR. LUXFORD: You have the best advance publicity.

H.M.JR: Then I said doing it through the Red Cross, all the Red Cross chapters can peddle it if they know they are getting twenty-five or forty cents for the local chapter. That would be the way to do it.

MR. GLASSER: I should think it would be better to get a low price so you could get a wide distribution.

MR. SCHMIDT: One of these twenty-five cent editions.

H.M.JR: A dollar.

MR. PEHLE: And not too long a book.

H.M.JR: Who did Willkie's book - I mean, who published it?

MR. GASTON: Simon and Schuster.

H.M.JR: These publishers keep these things very secret, too.

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MR. GASTON: Harry Scherman could give a lot of good advice because he knows the technical game very well and he is not committed to any one publisher.

H.M.JR: You hope!

MR. GASTON: I know he isn't, as a matter of fact.

H.M.JR: Well, let me read this thing. As I say, I am just throwing out a few suggestions. I am delighted, notwithstanding Mr. Pehle's and Mrs. Klotz' and Mr. Gaston's doubts that I will not be Secretary of the Treasury when it comes out. You people have to be prepared for a lot of new things from me after Election and this is one of them. I am going to evaluate where I can do the most good.

MR. LUXFORD: I am glad to hear you say that because I think there is a second book that should be published and that is the program that we drew up for post-war.

H.M.JR: Oh, yes.

MR. GASTON: The economic program.

MR. LUXFORD: It is one that is needed. We can hold that one off until we get this one under way.

H.M.JR: We are talking here very confidentially - no, Pearson isn't there--

MR. GASTON: Arthur Krock is the one to look for.

H.M.JR: The funny story that McCloy told last night was that somebody went to a Cabinet meeting and they said, "Now, this is very, very confidential." And the President looked around and said, "Well, after all, there is no use being confidential because, after all, Pearson sits right here at the Cabinet!" There are two sources he has at Cabinet, one is Wallace and the other is Ickes.

MR. LUXFORD: Just two?

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H.M.JR: Only two that I know about! (Laughter)

MR. GASTON: I know of another one. Another one is Cordell Hull. Cordell Hull tells people in the State Department who will tell Pearson.

H.M.JR: Are you being funny? He is so terrifically anti-Hull.

MR. GASTON: Sure, but he has excellent sources in the State Department.

MR. LUXFORD: There is a pipe-line, too, to FEA.

MR. PEHLE: The article this morning suggests that Dewey has had experience as an agriculturist, and he says Bricker, when he got out of college during the last war, after an athletic career, was ordained as a chaplain in one day.

H.M.JR: Did you find something in Krock's article?

MR. DuBOIS: No, it wasn't here, Mr. Secretary.

MR. GASTON: Krock's first-page story is the story.

H.M.JR: Herbert, you see, there was some monkey-business going on yesterday - this business of Acheson calling up so unctuously, and so worried about Twitty of the New York Tribune going up to see Opie at the British Embassy--

MR. GASTON: What happened there was, I think Twitty - I think the Herald Tribune bureau got an intimation somehow that Krock was coming out with a story and they tried to get it and were not successful. But nothing that we would have put out in the way of a formal release would have done anything whatever to head off Arthur Krock - it might even have tended to stimulate. It wouldn't have done any good. But, of course, he has had the story told to him by FEA or State - probably FEA.

(The Secretary takes a call from Mr. Stettinius as follows)

November 3, 1944
9:50 am

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HM Jr: Hello?

Operator: All right. Go ahead.

HM Jr: Hello?

Edward
Stettinius: Hello, Henry.

HM Jr: Good morning.

S: How are you, sir?

HM Jr: Oh, mad!

S: Well, now I want to go on record with you that nobody from here has talked to Krock. I carried on a quick survey this morning, and no information was given to Mr. Krock from the State Department.

HM Jr: Well, needless to say nobody here would give him that kind of a story.

S: Now, Dean tells me that the British Embassy phoned yesterday that the Times, Herald Tribune men were up there, and that he talked to you and you thought they ought to be referred to Oscar.

HM Jr: That's right.

S: Yes.

HM Jr: No, he didn't tell me about the Times man. He told me that Twitty of the Tribune was up there.

S: Well, the Times man was there, too.

HM Jr: Well, he didn't tell me that.

S: But see Krock has got the whole works there. It's complete from start to finish.

HM Jr: No, Acheson didn't mention the New York Times' man. He just said Twitty of the Tribune.

S: Yes. Well, Acheson said that a Times and a Herald man were at the Embassy, and they wanted to know what to do.

HM Jr: Well, I think this, Ed. I think Krock has had this thing right from the beginning, see?

S: From the British?

HM Jr: I don't know where. No, no - no, no. I think he has had this whole business right from the beginning - there was some article he wrote earlier right after I came back from Quebec which indicated that he knew something about this Lend-Lease, and that he has been holding this until now to make it politically as bad as possible. But there was something he wrote right at the beginning which indicated to me

S: That he knew about the Lend-Lease.

HM Jr: That he knew about the Lend-Lease stuff, too.

S: I have spent a lot of time in the Department since we had lunch and, Henry, I just can't believe that one of our boys has done any dirty work. I really can't believe it. And I've grilled lots of them right in my office alone.

HM Jr: Well, of course, I'm sick of it only for one reason, and that is in case it may have some bad effect on the President.

S: I don't think it will.

HM Jr: What?

S: I don't think this will.

HM Jr: Well, the inference is so dirty - that we bought the British sympathy for Germany through

S: Liberalized Lend-Lease.

HM Jr: That's right.

S: Yes.

HM Jr: That's the dirty inference.

S: I Know.

HM Jr: Incidentally, while I have you on the wire I think I had some one call your office. There is a man by the name of Hall who is Under Secretary of the Foreign Office, and he made a very good statement in Parliament yesterday.

S: Yes, I have it before me.

HM Jr: Hello?

S: Yes.

HM Jr: What - my request?

S: Yes. I got your note early.

HM Jr: Oh, yes. I thought we might get the full text of his statement.

S: Well, I will send the full text to you the moment it is received.

Hrd Jr: Will you do that?

S: It might though - sometimes they come by airgram, and it might not be until this evening, but we will get it to you certainly within the next day or two.

HM Jr: Now one other thing - in a round-about way I heard that Mr. Roosevelt wrote Mr. Hull here recently about treatment of the Germans - short and long distance treatment of them, and military treatment. Are you familiar with the letter that he wrote?

S: Not recently. Not since he has been - not since I have been Acting.

HM Jr: Well, I gather that it was within the last week or ten days.

S: A letter from

HM Jr: The President to Mr. Hull.

S: The President to Mr. Hull.

HM Jr: And you furnished a copy of it to the Army. Hello?

S: Yes.

HM Jr: I wasn't furnished a copy of it.

S: Well, let me look right into it.

HM Jr: Will you?

S: I will.

HM Jr: Please.

S: I will, sir.

HM Jr: And I did ask - yesterday I only heard about it - I did ask Grace if she would look it up, but

S: A letter from the President to Mr. Hull on the long and short-term treatment of Germany.

HM Jr: Of Germany.

S: Right away.

HM Jr: Would you?

S: I will, and you shall have a copy.

HM Jr: Thank you.

S: And both early and often.

HM Jr: I did ask Grace, but she couldn't locate it.

S: Well, leave it with me - I will get it.

HM Jr: Would you?

S: Yes.

HM Jr: Because I take it that Committee at least is still standing.

S: Thatta Boy!

HM Jr: Now have you seen the English Handbook?

S: No.

HM Jr: You haven't?

S: The English Handbook on Germany?

HM Jr: Yes.

S: No.

HM Jr: Well, we have analyzed that, and I would like to send you a copy of our analysis.

S: All right. Okay, old boy.

HM Jr: Thank you.

S: I'm going to see - I'm going to call Harry White and tell him he can come over any time today at his convenience.

HM Jr: Well, he doesn't get in until around 11:00.

S: Well, I will leave word with his office.

HM Jr: Well, I appreciate your calling me, but this

S: I know.

HM Jr: Believe me, I will take your word for it.

S: Well, I am still going to work.

HM Jr: Well, I am, too, but you see on the 29th - have you got just a minute?

S: Yes.

HM Jr: This is the 29th of September - Krock said, "This correspondent was informed today that the British lent an interesting ear to descriptions of the beneficial affect on their hard-pressed economy if Germany were turned into an agricultural nation. The British Lend-Lease debit with us now is six or seven billions." Now if you want to send for it - it is Krock's story in the Times of the 29th.

S: Krock's story in the Times of the 29th.

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HM Jr: And in that thing he tips his hand that he did know about what he wrote today. I am convinced that he knew that on the 29th.

S: All right, boy.

HM Jr: So it goes back to that.

S: Thank you, sir.

HM Jr: Thank you. Are you looking up that letter from the President to Hull?

S: Yes, I'll go right after it.

HM Jr: Thank you.

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MR. LUXFORD: Mr. Secretary, you can assume that he has the Quebec agreement.

MR. GASTON: This story of Krock's is not a one-day story - something that he has written in a hurry; that is something he has spent some time on.

MR. LUXFORD: He is playing trumps.

MR. GASTON: This Herald Tribune inquiry sprung from a leak that Krock was about to spring something. The Times man going along was a cover-up to see what they could pick up directly. That is quite orthodox.

MR. GLASSER: Isn't there something in the Krock story this morning that indicates he has had recent information?

H.M.JR: Yes - "There is belief that Mr. Morgenthau received encouragement at Washington as well as Quebec."

MR. GLASSER: That looks as though that was written from the part of the book that spoke of the interest in England of having Germany de-industrialized.

H.M.JR: "These advantages of the Morgenthau plan helped to improve the advantages and prospects of the United Kingdom. At any rate, some of the British are said to have been impressed by the advantages of the plan."

Definitely, he knew it then. Oh, hell!

MR. LUXFORD: You can start out on the basis that once he knew as much as he did, nobody was going to hold back the rest.

H.M.JR: McCloy said, "I had the letter from the President to Hull in my hand yesterday" - he was over here two days ago - "but," he said, "I didn't feel I had the right to show it to you, but, in effect, I am telling you this letter is in existence."

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I want to say this in behalf of McCloy: After all, if I have any success as Secretary of the Treasury it is my judgment of human nature, and I don't think McCloy would go out and deliberately cut my throat.

MR. LUXFORD: Mr. Secretary, I might agree with you if you say cut your throat; nevertheless, I sat in the CCAC meeting when he was blessing the British as much as he was you, on their book.

H.M.JR: But I still say I don't think he would stab me in the back.

MR. LUXFORD: No, but he agrees with whoever is with him.

MR. DuBOIS: Whoever is doing this is not only interested in stabbing you, but they are interested in stabbing the President.

H.M.JR: Well, I have my own guess.

MR. GLASSER: You don't think it came out of Edmonton, Canada, on the Lend-Lease.

H.M.JR: No, I think this is Cordell Hull, and I have always thought so, in view of the way he talked that day when I came back, and nothing can make me change. They can't find out asking around there.

I was at dinner and I saw Arthur Krock walking with his arm around the waist of Cordell Hull.

MRS. KLOTZ: It sounds awful.

H.M.JR: And Cordell Hull didn't push him away because he didn't want to hurt his feelings. He is that kind of a person.

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This includes the removal or destruction of all war material and the whole German armament industry.

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CHAPTER IV (Cont'd)

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The metallurgical, chemical and electrical plants and equipment in the Ruhr and in the rest of Germany must be removed or destroyed.

(d) Internationalization of Ruhr

The Ruhr and surrounding industrial areas (including the Rhineland, the Kiel Canal, and all German territory north of the Kiel Canal) should be made an international zone.

(e) New boundaries of Germany

Poland should get East Prussia and the southern part of Silesia.

France should get the Saar and the adjacent territories bounded by the Rhine and the Moselle Rivers.

Netherlands should get

Belgium should get

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The remaining German territory should be divided into a North German state and a South German state, with a customs union between the South German state and Austria.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Hm saw
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Secretary Morgenthau

Date

November 3, 1944

TO ~~Mr. Gaston~~
FROM Mr. O'Connell

The simplest, and I believe best, way of seeing to it that the proceeds of any literary work go to the Red Cross, or some other charitable organization (undiminished by any income taxes that might otherwise be payable by the author), is for the author to assign all of his right, title and interest in the manuscript to the charity before he has made a contract for its publication with the publisher.

Joseph J. O'Connell

MSB

November 3, 1944
10:10 a.m.

BRITISH LEND-LEASE NEGOTIATIONS

Present: Lord Keynes
Sir Robert Sinclair
Mr. Lee
Mr. Coe
Mr. Casaday

H.M.JR: Did you people see the very unpleasant story of Mr. Krock's in the paper this morning?

MR. LEE: Yes, I did.

LORD KEYNES: I haven't seen the New York Times.

H.M.JR: The inference in the story is that I have influenced you people to do something about Germany through promising you Lend-Lease. That is all!

LORD KEYNES: Heavens, no! I didn't see that.

H.M.JR: That is all! But he has had this story, I am confident, for over three weeks, because we went back to a story he wrote on September 29 in which he referred to the thing then.

Incidentally, I was very much pleased at what the so-called Under Secretary for the Foreign Office, a Mr. Hall, said in Parliament yesterday. He made a statement about Germany. He said he thought they ought to take most of the machinery out of Germany that had to do with heavy industry. He was speaking for the Government. I have asked for the full text. What position does he occupy?

- 2 -

LORD KEYNES: It is a new post. When Dick Law was made Minister of State - he was previously a Parliamentary Under Secretary - they duplicated the office and made an additional office. Hall, who was a Labor man, in a sense, holds the post that Dick Law held. He is Parliamentary Under Secretary.

MR. LEE: He was in the Admiralty before.

H.M.JR: Did you see the statement?

MR. LEE: No, sir, I didn't.

H.M.JR: Well, now, you asked for this appointment. Do you have something in mind?

LORD KEYNES: It rises out of the deadlock we seemed to have reached with the Navy Department.

MR. SINCLAIR: It is not a declared deadlock, Mr. Secretary. The position is that, if you remember, the Navy Department asked a pretty complete series of questions.

(Mr. Casaday enters the conference)

H.M.JR: Pardon me. (To Casaday) I sent in the letter from the Navy Department. Do you have it?

MR. CASADAY: Yes, I have a photostat.

H.M.JR: Well, I will get the original. It came in late last night.

MR. SINCLAIR: In which we endeavored to give as complete answers as we could, and those answers went in on the 26th of October. We asked for an opportunity to discuss them after they had had time to consider. But two days ago we were told that Sir Admiral Waller was told by Admiral McCormick that the Navy Department had decided what could be done and that their decision was being communicated to you, and they did not feel it was a matter for discussion at this stage.

- 3 -

Well, we waited to see whether, in fact, that would happen. As far as I know, it hasn't happened.

H.M.JR: It happened late last night. As a result of this letter from Lord Keynes, which came in at four or five o'clock, I called up Mr. Forrestal and asked him about it. He thought it had come over the day before. He asked Admiral Horne, but it hadn't. It only got in, I think, as a result of my telephone call. It must have come in at six or seven o'clock last night. I haven't read it yet, but I asked Forrestal what was the idea, and he said the idea was simply this, that he thought they should make up their minds what they should do, and then refer it to the American Committee for advice. He asked if that was the correct way they should proceed before they submitted it to you people.

I said, "Well, that hasn't been the way that the Army proceeded."

He said that he felt this was the way they should proceed. This is in no sense an ultimatum, but they wanted to refer it to the American Committee for advice and then if the top committee thought it was all right, then they would show it to you people.

I said, "It isn't up to me to advise the Navy how to proceed."

I would like to see the letter and study it, but I haven't had a chance to read it.

LORD KEYNES: We have no means of knowing whether it is satisfactory or not. If it is unsatisfactory it would be unsatisfactory on small details that none of us can judge on. Whether the technicians on the two sides ought to be exchanging their views--

(Mrs. McHugh enters the conference. Hands Secretary letter of November 2, 1944, from Secretary Forrestal)

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MR. SINCLAIR: The trouble is one of very small dimensions, relatively, Mr. Secretary, because if you exclude the repairs, which are almost impossible to estimate - it has been running at a level of around eleven million dollars, and then take out quite a considerable proportion for work on new ships which is at present proceeding and will not be affected by these discussions, you are left with something on the order of a quarter of a million dollars representing the "hardware" which the Admiralty is asking for. And off that there is one considerable item. What we are asking for is a very large proportion of American production in that one item. For all the rest of the items, what we are asking for is a tiny proportion of American production.

So there is not in this problem anything like the difficulties, one would say, which require long and complicated discussion as was the case with the Air program or the ground Army program - which discussions were, in fact, undertaken exceedingly thoroughly and quickly.

H.M.JR: Well, as long as Mr. Forrestal has taken this direction, I would like to have an opportunity to study it with my associates on the Committee. But I promise you that before the sun sets tonight we will be in touch with you as to the Navy program. Now, I can't move any faster. This doesn't show the time of arrival, but it was handed to me last night at nine o'clock. It is only dated November 2. He was sure he had signed it on the first. Well, it is dated the 2nd, so he is wrong. So I can't move any faster than that.

MR. SINCLAIR: We very much appreciate it, Mr. Secretary. That was one of the ideas in our minds when we were asking for an early meeting to consider the aircraft agreement, because we felt it was desirable to maintain, as you had so repeatedly emphasized, this sense of urgency over the whole business.

H.M.JR: I am in complete sympathy with the thing, but I do think, in view of the fact that that is

Mr. Forrestal's wishes - he says here, "Before our Subcommittee replies to the British, I would appreciate your informing me whether this procedure is satisfactory to you." So I have got to read it, I have got to give it to the American Committee and give them a chance to answer. But we can move fast enough so that before official sunset tonight - I don't know what time it is, it is around six-thirty - we will be in consultation with you if you are free sometime this evening.

Is there some other matter?

LORD KEYNES: If we have the meeting this evening we shall have in front of us the agreement with the Air people, and that has a clause in it about our underwriting, in Part "A".

We shall have to put in the reserve just before, and I was wondering whether there was an impossibility of clearing. We could suggest an alternative phrase. If we had a phrase about the Dominions similar to the one about the United Kingdom, I think it would be all right. But I don't know what is in the minds of the Air people in putting in this clause which is unconstitutional in asking something which is not possible, and recommending that as a condition.

We think it is something which ought to be discussed if there is anything to discuss in connection with the Dominions' application for Lend-Lease. It seems out of place in this agreement.

I just wanted to mention something which we shall be raising.

MR. COE: It is that old problem, Mr. Secretary, of reciprocal aid from the Dominions, and I think back of it really lies the Army and Navy desire to get in one place some words which deal for all territories. Now, they keep on trying that. The Army ground people did the same thing, as you say. The Air Force people, I think, as Sir Robert says, are just copying the Army ground force one in making sure that they are not retreating one whit more than the Army did.

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H.M.JR: Frank, before I meet with the people again I wish you could have a subcommittee meeting of this thing and sort of air it. Can you do that?

MR. COE: Well, that depends on the time. Now, will you want me to meet with the American group on the Navy matter before you meet with the British group?

H.M.JR: I tell you what I will do. I don't know until General Watson sees the President - sometimes he doesn't see him until eleven - then he gets his appointments. But the minute I know, I will be in touch with Coe and we will try to set up a series of meetings this afternoon. How will that be?

LORD KEYNES: On this Dominion matter I thought it might perhaps help if I let you see beforehand the sort of thing I should be saying.

H.M.JR: Could you get that to Coe?

LORD KEYNES: Yes, by lunch time.

H.M.JR: Fine. Well, as I say, I will not leave town without straightening this thing out.

November 3, 1944
11:24 a.m.

25

HMJr: I have just heard this second that there will be no cabinet.

Frank Coe: There will be no cabinet meeting.

HMJr: Now, so I'm free all afternoon. Now, how can we work this thing?

C: Well, what would you say to the American group, including the Navy, meeting you at two-thirty and then the British group

HMJr: Now, wait a minute. I'd a little bit rather have -- let's say the American group at three. That doesn't rush me quite so much.

C: All right. American group at three.

HMJr: American group at three.

C: And the British at three-thirty.

HMJr: That's all right.

C: Is that all right?

HMJr: That will be perfect.

C: Okay. Then we'll set it up that way and try to get the Navy.

HMJr: American group at three and the British group at three-thirty.

C: Yes, sir. Mr. Secretary....

HMJr: Please.

C: after looking over that Forrestal letter to you, I literally could not see the connection between it and what Sir Robert Sinclair said so I'm going to check back.

HMJr: All right.

C: Is that all right?

HMJr: You mean it doesn't -- I don't -- no, I'm not quite sure

C: Well, Forrestal's letter stated some -- states some conditions

HMJr: Yeah.

C: that the Navy is putting on giving these goods and, by the way, they're being rather tough it seems to me.

HMJr: Yeah.

C: What Sinclair seemed to be talking about was some absolute refusal to give a big block of goods but I couldn't even find it in what Forrestal wrote you. But I guess we can clear that up.

HMJr: Pardon?

C: Thank you.

HMJr: All right.

November 3, 1944 37
2:33 p.m.

John J.
McCloy:

How long are you going to have that movie?

HMJr:

I haven't got it here -- I don't know.

M:

What I was thinking about if -- tomorrow if you could shoot it over here, I'd have our special service people who do that work here take a look at it.....

HMJr:

Wonderful.

M:

.... with an idea of possible use.

HMJr:

Well, now will you hang on while I talk to FitzGerald who handles that? Will you wait just a second?

M:

Right.

HMJr:

(Speaking on the inter-office communication system: Fitz, can you get that Russian picture "Rainbow" over to Mr. McCloy tomorrow? Answer: It's gone back to New York. HMJr: Well, you call them up, will you? Answer: Yes, sir. HMJr: And tell them Mr. McCloy would like to have it to show to some Special Services people. Answer: Right. May I have it brought right back again? Possibly there will be some Treasury people coming down. HMJr: You mean today? Answer: Yeah. You see, it's on the train now. HMJr: Yes. FitzGerald: On the way up. HMJr: Listen, you see if it's agreeable to the Russians if you can deliver it tomorrow morning to Mr. McCloy. FitzGerald: Right. HMJr: Now, how you do it is your business. FitzGerald: Okay. HMJr: Right.) Hello?

M:

Yes.

HMJr:

I don't know whether you could hear.

M:

I got part of it.

HMJr:

Well

M:

It was on its way to New York.

HMJr:

Yes, and he's going to get it -- if necessary, to have a Treasury man bring it back.

M: Oh, fine.

HMJr: And they'll deliver it to you tomorrow.

M: Fine. Fine. It will be over here sometime tomorrow morning, then?

HMJr: I'll have it

M: If you can.

HMJr: I'll have it there to your office by nine o'clock.

M: Okay. Fine.

HMJr: Without fail.

M: Good. Much obliged.

HMJr: And

M: You know what they think about it.

HMJr: Uh -- what's that?

M: They've got experts up there that go over it with the idea of the effects on troops and what not. I'd like to have them see it.

HMJr: Yeah, I'd like to know what their reaction is.

M: I'll tell you.

HMJr: Thank you so much.

M: Okay. Say, I had a very pleasant time last night.

HMJr: We enjoyed having your wife and you.....

M: It was a lot of fun.

HMJr: very much.

M: Thank you.

November 3, 1944
2:36 p.m.

39

HMJr: Morgenthau talking.

Ambassador
Gromyko: Good afternoon, Mr. Secretary.

HMJr: How are you?

G: Thank you. I am very glad to hear your voice.

HMJr: Mr. Gromyko

G: Uh huh.

HMJr: I thought you'd like to know I saw the Russian picture last night, "Rainbow".

G: "Rainbow"?

HMJr: Have you seen it?

G: Yes, I did.

HMJr: Well, it's magnificent.

G: I am very pleased to hear this.

HMJr: And as a result of my seeing it, Mr. McCloy is going to show it to the Special Service Division of the Army.

G: I see.

HMJr: With the possibility of their showing it to our troops.

G: Uh huh.

HMJr: And then I called up Mr. Spyros Skouras, who is President of 20th-Century Fox and told him to see it, and urging him to distribute it through their seven hundred theatres.

G: Uh huh. What did he say?

HMJr: Well, he said he would see it this week-end.

G: (Laughs) I am very pleased to hear this. When did you see the picture?

HMJr: Pardon?

G: When did you see the picture?

HMJr: Last night -- I saw it last night. I sent for it -- to the Treasury -- I had it at the Treasury.

G: At the Treasury?

HMJr: Yes.

G: I see.

HMJr: I saw it in the Treasury last night.

G: Uh huh.

HMJr: And now I'm trying to get the film and sending it over to Mr. McCloy, who I had here last night, also, and he saw it.

G: Uh huh.

HMJr: And he's going to show it to the Army tomorrow.

G: I liked it myself. I think it is very -- very good.

HMJr: Well,

G: It is very realistic. There is nothing -- there is nothing artificial.

HMJr: No.

G: No fiction -- it is simple and terrible, bitter reality.

HMJr: It's -- it's magnificent. And those actors -- you feel as though you're living right in the village with them.

G: Uh huh.

HMJr: I didn't feel that they were actors. Are those all actors or were they some real Ukraines? Are those all professional actors?

G: I think that they made those probably with professional actors.

HMJr: They are?

G: Yes, in "Rainbow" they are professional actors.

HMJr: Well, you might -- I don't know what -- which one of your organizations handle these films, but you might tell them that they may be hearing from Mr. Skouras, the President of 20th-Century Fox.

G: May I ask you to spell his name?

HMJr: Yes, S-k-

G: Uh huh.

HMJr: o-u

G: o-u.

HMJr: r-a-s.

G: r-a-s.

HMJr: S-k-o-u-r-a-s.

G: 20th-Century

HMJr: He's the president of the 20th-Century Fox.

G: I will -- I will write to the proper cinema people....

HMJr: That's right.

G: about it.

HMJr: They have -- if they take it, they have seven hundred theatres.

G: Uh huh. It would be very good.

HMJr: Yes.

G: It would be very good if they

HMJr: If you get anything else as good as that, let me know, will you?

G: If I know -- what did you say?

HMJr: If you have any other picture coming like that, I'd like to see it.

G: Oh, I see, any other picture.

HMJr: As good as that.

G: All right, or better?

HMJr: Better.

G: (Laughs) And if it is better you would not mind.

HMJr: If it's better I would not mind, but if it's as good, it will be very good.

G: All right. I will do -- will not hesitate.

HMJr: Right.

G: All right.

HMJr: And

G: And how are you generally?

HMJr: I'm all right. They kick me around in the newspapers but just as long as I know I'm right

G: (Laughs)

HMJr: on how to treat Germany, I don't mind.

G: I would like sometime to -- to have lunch or to dine with you and Mrs. Morgenthau at the Embassy.

HMJr: Well, we'd like to very much and we're going home tonight to vote.

G: I see. It is a difficult task for you, too, because it is quite a long distance.

HMJr: That's right but I -- I'll get in touch with you. I'll speak to Mrs. Morgenthau and then I'll get in touch with you.

G: Thank you very much. And I hope I will see you on November the 8th. You will be able to come to Washington?

HMJr: No, I'll be in the country.

G: Oh, I see.

HMJr: I -- we sent our regrets.

G: I see.

HMJr: We're going up now and we're going to stay there until the President comes back.

G: Then I hope you

HMJr: You see we live near -- we live near him.

G: I see. I hope I will see you and Mrs. Morgenthau after the

HMJr: You will.

G: the election.

HMJr: You will.

G: All right.

HMJr: And how is your good wife?

G: Thank you. She is all right. She is much, much better than before. How is Mrs. Morgenthau?

HMJr: She's all right, thank you.

G: She is all right?

HMJr: Yes.

G: As to myself, I was -- I spent two and a half months in Moscow

HMJr: Oh.

G: in -- from June the 10th to August the 20th. I departed from Washington on June the 10th.

HMJr: Yes.

G: And arrived just before the so-called... (inaudible)

HMJr: Oh-oh.

G: (Laughs)
HMJr: You don't say it as though you liked it.
G: Oh, I like it.
HMJr: You like it?
G: Yes, because ... (Remainder of sentence inaudible).
HMJr: I see.
G: For the Russian people, it sounds like Italian ... (Remainder of sentence inaudible)
HMJr: The way you said it, it sounded like a swear-word.
G: (Laughs) That's right.
HMJr: All right. Thank you.
G: Thank you for calling.
HMJr: Bye.
G: Bye.

45
November 3, 1944
2:44 p.m.

Operator: Go ahead.

Grace
Tully: Hello.

HMJr: Hello.

T: Mr. Secretary, how are you?

HMJr: I'm alive.

T: That's good. Mr. Secretary, on that memo
you were asking about, the President said,
"No, that was just for the State Department.
It's a 'Top Secret' to the State Department."

HMJr: Well, sometime when I see you, I'll tell
you about it.

T: All right. Fine. If it's a 'Top Secret', they
shouldn't have been handing it around, I take
it, or people shouldn't have known it was there.
But he's not willing to have any copy sent to
any Department.

HMJr: Well, when I see you, I'll tell you about it.

T: All right. Fine.

HMJr: Thank you.

T: All right, Mr. Secretary. Bye.

HMJr: Bye.

TOP SECRET

U.S. Committee on Mutual Lend-Lease Aid
Between the United States and the United Kingdom

Minutes of Meeting in Secretary Morgenthau's
Office on November 3, 1944 at 2:30 p.m.

Present

Secretary Morgenthau, Chairman
Mr. White
Mr. Casaday
Mrs. Klotz

Mr. Acheson
Mr. Taft

Mr. Currie
Mr. Cox
Mr. Coe
Mr. Davidson
Mr. Angell

Mr. Patterson
Mr. Lovett
General Somervell
Colonel Stewart

Mr. Gates
Admiral McCormick

Air Requirements and Reciprocal Aid

MR. MORGENTHAU read a note from MR. COE which reported that the subcommittee on Army and Fleet air requirements had come to agreement except as to the reservation which the United States group had placed in the report--namely, that American agreement on the requirements was conditioned upon the United Kingdom's underwriting reciprocal aid from the Empire as a whole.

MR. PATTERSON explained that the paragraph regarding military reciprocal aid was taken from the Army-Ground Report.

MR. LOVETT said there were two reciprocal aid questions which were quite different. One deals with components, etc. to be supplied by the R.A.F. There is no question about this. The other is the general question of aid from the Dominions and Colonies. This was placed in the air document to bring it into agreement with the ground document.

GENERAL SOMERVELL pointed out that whereas commitment on the part of the United Kingdom to furnish reciprocal aid is categorical and complete, that by the Colonies and Dominions is hazy and gives no assurance that we will get what we need. This was the reason for inserting this reservation. An illustrative case of beef from Australia was given. The Australians were willing to give the beef to our Army provided the British would underwrite the cost of it. Though this was finally worked out, there was a great deal of delay. The proposed assurance from Britain would be of particular value in the Pacific war. There is growing resistance in India to furnishing supplies the U.S. Army asks for. GENERAL SOMERVELL stated that he wanted an administrative arrangement whereby the British spoke for the Colonies and Dominions when they give materials to the United States, in the same way that they did when they asked for articles from the United States.

In response to a question from MR. WHITE, GENERAL SOMERVELL said that the Army's misgivings regarding military reciprocal aid concerned not so much the actual delivery of the goods, as the question of financing. MR. PATTERSON pointed out that it did not matter to the

Army which part of the British Empire paid for the goods, so long as the War Department did not have to pay for them.

There was distributed a document from Lord Keynes (U.S. No. 22) which gave reasons why the British could not make the commitment that was being asked of them. In response to a question from MR. MORGENTHAU, MR. ACHESON said that he thought the question was fundamentally a financial matter and not a constitutional matter as was stated in the British document.

At MR. MORGENTHAU's suggestion, MR. PATTERSON summed up by saying that either the British or the Dominions should agree to underwrite the reciprocal aid program, in which event the reservations could be dropped, or else the U.S. side should uphold the reservations.

MR. ACHESON was not sure that he agreed. Because he thought the question was inherently financial, it could not be answered until decisions had been made upon the British sterling and general international financial position.

MR. COE pointed out that the British would particularly ask whether the Army or Navy were dissatisfied with existing arrangements. If the reply was that goods were being delivered satisfactorily under these arrangements, the British would ask why they should be changed. MR. PATTERSON said that the problem of getting the goods was not acute at the moment, but that existing arrangements would not be so satisfactory when the theatre of fighting was distant from the source of supply.

MR. MORGENTHAU stated that he was not satisfied with the amount of agreement which had been reached by the United States group, and that accordingly he wanted the general American Subcommittee to meet on this and confer with the British further. MR. MORGENTHAU received from GENERAL SOURREVEL assurance that a short delay to obtain agreement on the American side would not hold up any supply deliveries or delay the war.

2. Navy Program

MR. MORGENTHAU explained to MR. QUES that the British were somewhat disturbed about the procedure which was to be followed in discussing their Admiralty requirements. He said that as he understood it, they hoped we would follow the same procedure as on the Army-Ground requirements, where there were detailed discussions by the representatives of the two countries and then an agreement on the handling of the items, which was sent to the top committee as an agreed report. The British had heard about the report which the Navy had drafted, but they had not had a chance to see it, and were afraid that they would not be allowed to see it.

ADMIRAL McCORMICK replied that the Navy procedure was what the British had suggested, viz., that the Navy should take due note of Admiralty requirements when initiating or revising production schedules. The Navy had thought that it was agreed on all sides that nothing like a protocol was involved. Accordingly they wished to tell the British that they were willing to take "due note," at the same time pointing out certain places where the United States would not be able to carry out British requests, and avoiding mention of over-all dollar figures or dollar figures for particular items. This was the purport of SECRETARY FORRESTAL'S letter (U.S. No. 26) to SECRETARY MORGENTHAU. MR. MORGENTHAU explained that he was not criticizing the Navy's procedure, but that the British did not understand it.

After further discussion, the sense of the meeting was that so far as possible all the different programs should be handled according to a similar procedure, with the British given opportunity to discuss the particular items, the over-all amount to be granted, and the procedures to be followed. The agreement would be embodied in a report to the Committee. MR. QUES stated for SECRETARY FORRESTAL that this procedure was acceptable and that MR. MORGENTHAU might so inform the British at the following meeting.

November 3, 1944
3:00 p.m.

AMERICAN DELEGATION FOR BRITISH LEND-LEASE

Present: Mr. Patterson
Mr. Currie
Mr. Acheson
General Somervell
Admiral McCormick
Mr. White
Mr. Cox
Colonel Stewart
Mr. Lovett
Mr. Taft
Mr. Gates
Mr. Coe
Mr. Davidson
Mr. Angell
Mr. Casaday
Mrs. Klotz

H.M.JR: I thought our luck might hold until Tuesday on the secrecy of these meetings, but it didn't hold out. That is too bad.

(Mr. Taft enters the conference.)

H.M.JR: It is too bad that some people couldn't keep their mouths shut.

Incidentally, we here in the Treasury are not saying anything about this story which broke on the front page of the New York Times this morning by Arthur Krock. The British Embassy kept referring the reporters to us today. Finally, it seems, Mr. Brand told them they could look to the Treasury or the White House for a statement. We are not going to make any statement, particularly in view of what the President said. The question was asked, "Mr. President, any comments on the published report that Britain

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seeks certain Lend-Lease supplies of a non-military nature for resale?"

The President's answer was, "Never heard of it."

MR. ACHESON: We understood that everybody was being referred to FEA. (Laughter)

H.M.JR: That is all right with me.

MR. CURRIE: That doesn't tell us what we are to say.

MR. ACHESON: I thought Oscar had a draft of what he was going to say.

H.M.JR: You (Acheson) and I talked yesterday. As a result of that, you said you would call up Oscar.

MR. ACHESON: I did.

H.M.JR: I just wanted to let you know that at this end our press section is saying nothing. But I feel very badly that the thing has broken. It is too bad one can't work on semi-military matters without somebody having to shoot his mouth off.

Well, Mr. Coe has given me an agenda here which I am reading for the first time, "1. Air Requirements - The report of the Subcommittee, consisting of U.S. Army Air Force and Navy officials, and British Air officers, will not have been seen by the other members of the American Committee. It might therefore be in point to inquire of the American officials who have worked on this side of the program whether there are any problems which they wish to bring before the Committee. As you know, the British wish to bring up the reservation concerning reciprocal aid. If that problem is disposed of satisfactorily, the top committee can presumably accept the report." (Agenda attached)

Now, Mr. Patterson, who would talk?

MR. PATTERSON: General Somervell.

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MR. LOVETT: Is this on the air, sir?

H.M.JR: Yes.

MR. PATTERSON: The air paragraph there on the U.K. The report of our reverse Lend-Lease requirements from the Dominions was taken, as far as the Air Forces were concerned, from the Army Ground report. And that is an item that General Somervell knows the facts about in detail.

MR. LOVETT: There are two aspects of this, Mr. Secretary. The general agreement on the Navy aircraft types has been completed, and we are in accord on it. There were two paragraphs covered in the agreement, one of which relates to a recommendation of the U. S. representatives that the U.K. accept the responsibility for furnishing reciprocal aid throughout the British Empire and Commonwealth, as required by the common interest. As the Under Secretary said, that is in consonance with the ground troops paragraph. But there is another paragraph which was agreed to by the RAF delegation that relates to what is called air items. And as I understand it, there is no question about that since it relates only to the U.K. It reads, "In the interest of the most efficient utilization of shipping at the disposal of the two countries, and depending upon the production of stock possible at the time the U.K. undertakes to continue to supply air items of reciprocal aid within the limits prevailing at the time of the defeat of Germany--". My understanding is that that is not in question, but that the question revolves about the general U.K. guarantee of reciprocal aid. That is included in the air document only to bring it into agreement with the ground.

GENERAL SOMERVELL: The document that the British submitted had two references to reciprocal aid, one having to do with what we were to get from the U.K., which was categorical and complete, asserting they would continue to furnish reciprocal aid at the same scale they were furnishing it now. Consequently, there is no point to discuss in reference to that.

The other reference was to aid that that might be supplied by the Dominions or Colonies. In that reference

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the allusion was very hazy and really gave us no assurance that we would get reciprocal aid that we might need. Consequently, our committee put in as a condition to granting the British what they asked for, that we receive assurance from the British that we would obtain reciprocal aid from the Colonies and Dominions in order to make the most efficient use of shipping. A case in point is the case of beef, which we wanted to obtain from Australia. The Australians had the beef. They were perfectly willing to provide the beef, but they did want assurance from the British Government that they would underwrite the cost of it, inasmuch as the beef was to be delivered to India. The discussion which ensued took a terrific amount of time, but has finally been worked out all right. But we feel that we should receive an assurance from the British Government that they will underwrite or assure us of these reciprocal aid supplies from their Colonies and Dominions. It will be particularly important in the war in the Pacific in reference to New Zealand and Australia. It is always important in connection with India. We have built up a growing resistance in India to furnishing us with the supplies which we ask for.

The British tell us that they are being denied supplies by the Indian Government now on the basis that they are furnishing the supplies to us, and, hence they can't be supplied to the U.K. But something has to be set up, it seemed to our committee, so that the British Government will be the British Government all the way through, in other words, so they won't speak for the Colonies when they get stuff from us, and won't deny the ability to control the Colonies when speaking in reverse. That is the whole point at issue.

If we are going to deal with the British Empire, it struck us that we ought to be consistent in our dealings and they ought to be willing to guarantee to us the same kind of treatment from both directions.

H.M.JR: Now, do I understand, General Somervell, that you have reached an impasse with them?

GENERAL SOMERVELL: No, they merely said that that point was of such great importance that it could not be

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dealt with on the lowly levels at which we were operating. So we had to put that up to you, sir.

MR. COE: Mr. Secretary, we have here, if I may distribute it, the British contention that Lord Keynes just got over, the idea they see in meeting the Army's requests.

(Mr. Coe distributes copies of attached memorandum A)

MR. WHITE: Is the Army's request based on the necessity for getting specific items, or is it that, plus the fact that you don't feel you want to pay for them? Could you separate the two for a moment for discussion? Supposing you could be assured of receiving such things as you want from the sources which you want them to take care of the shipping situation, leaving aside for a moment the question as to what financial arrangements are made between the U.K. and Dominions, or between us and the Dominions. Would that satisfy the Army, or are you also including India in your discussions and negotiations and the question as to how it shall be financed?

GENERAL SOMERVELL: I think our misgivings about actually being able to find the supplies are not as strong as they are about the financing. Our point of view was that we have supplied the British Commonwealth with something like twenty-two billion dollars' worth of materials, and that they in turn have given us about four or five billion dollars worth of materials. And to be perfectly frank, it never occurred to us that we would be expected to pay for anything with the balance so strongly against them.

MR. PATTERSON: I think if we get, for example, beef for our forces in India on reverse Lend-Lease, coming from Australia, it does not matter to us whether the British pick it up so far as financing it is concerned from Australia, or not. If we get it on reverse Lend-Lease, either from Australia or from Britain--

MR. WHITE: Then the problem of the Army is not that you get it, but that you get it on reverse Lend-Lease.

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MR. PATTERSON: That is right. We ought not to have to pay for it.

GENERAL SOMERVELL: And I do think there ought to be the obligation there for them to supply it on a basis of priority other than our going out in the open market and buying it.

MR. PATTERSON: I understood, though, that the question was projected by an unwillingness for a time at least on the part of the Australians to furnish it on reverse Lend-Lease unless the U.K. would pick it up.

GENERAL SOMERVELL: Unless the U.K. underwrote the deal, they were unwilling to furnish it.

MR. LOVETT: There is a somewhat different situation, Mr. Secretary, with respect to the items designed to be covered by Section 10 of the Air Agreement applicable to the Army and Navy air types.

MR. TAFT: It is eleven, isn't it, Bob? Ten is the ground forces, according to their memorandum.

MR. LOVETT: There are two items.

MR. TAFT: Yes, you are talking about the first one.

MR. LOVETT: The first is item ten, and the second is item eleven. Unlike the situation which Mr. White and General Somervell were discussing, our entire scheduling of certain types of products is dependent on the emergency supplies we draw from the U.K., principally in Britain, and to some extent India and Australia, of what we call short-order items. For example, if we have a continued period of high operations with fighter bombers, because of the shipping allocations, we may run temporarily low in our reserve of droppable wing tanks or some other item, but using the droppable wing tanks as an example, because that is a consumable item, we procure those locally. They are simple to make, and they have been providing us with those. Now, if they cease to provide us with those on some reasonable schedule, we must then reopen in this country certain

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facilities which we have diverted to other parts of the program to meet other British or U. S. requirements. And there was no disposition on the part of the Royal Air Forces to question our item ten in any respect.

(Mr. Cox and Mr. Davidson enter the conference.)

MR. PATTERSON: It is just an ordinary routine case of reverse Lend-Lease.

MR. TAFT: More than that, because it is essential. You can't do without it.

MR. LOVETT: You can't do without it unless you re-adjust all the schedules, and they recognize it might require us to reduce the allocations made to them on other items. So to try to make the situation clear, there is that distinction between the problems which we face.

H.M.JR: I would like to ask Mr. Acheson a question. This question is being raised here now in connection between the British and U.K.--is that up in any other matter? Is this something new or something that has been going along on a number of other questions?

MR. ACHESON: The first matter, the one that General Somervell and Mr. White were talking about is a matter which has been talked about before. I think Mr. Lovett is quite right, that the item that he mentions is wholly different and that doesn't raise any of these problems.

MR. LOVETT: And they have accepted that.

MR. TAFT: There was no argument.

MR. ACHESON: I think the other question raises in the British mind--I haven't read this memorandum, but I suppose it raises financial questions.

MR. PATTERSON: Constitutional questions, they say.

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MR. TAFT: The question of whether they can speak for the Dominions.

MR. ACHESON: Well, it is fundamentally a financial question. In our reverse Lend-Lease with the Australians, the Australians have not undertaken to supply items for American forces in other theaters. We discussed that at the time, and the arrangement was made that they should not be called on to do that.

Now, in effect, what is now said is that if the Australians feel that under their agreement they are not bound to do this and they couldn't do it, anyway, then the British should step in and pay the Australians. That is the point. The British say that constitutional question is just a little taut. Nobody is raising a constitutional question; it is really financial.

GENERAL SOMERVELL: I believe this constitutional business is just eyewash.

H.M.JR: Do you gentlemen feel that we want to answer that question this afternoon, or should we let it go over?

MR. WHITE: Mr. Secretary, if they can be assured the supplies, if the Army can be assured what they are asking for with the proper priority, then that might be enough for the moment, leaving the question of the financial arrangements to be dealt with after all the things are in and you have a chance to look at the over-all picture. I don't know how much it amounts to.

MR. PATTERSON: We have a good case on principle in the case of the beef for the troops in India. It may be beyond the past commitments of the Australians, because it is not right in Australia or next door to Australia, but it is a military operation against the common enemy, and it does save a vast amount of shipping that we would have to divert to carriage of that supply away from this country over to India.

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H.M.JR: Now, do I understand this correctly, that you would like to tell them this afternoon that if they will guarantee the amount of beef that you want from Australia you are willing to go ahead with the air requirements?

MR. PATTERSON: Oh, yes.

GENERAL SOMERVELL: No.

MR. PATTERSON: Yes, we are ready with these--

GENERAL SOMERVELL: As far as the air requirements are concerned, yes, but I wouldn't want to tie it up with furnishing beef.

MR. PATTERSON: No, no, the question is whether that clause, clause ten of the general Army program, and clause eleven, which is identical to the air program, should be accepted by the British. It is none of our concern who finances that provision for the beef to the troops in India, for example. If Australia will enlarge her present engagement and pick it up alone, that is O.K. If they won't, then we feel the British should do it. Of course, they have been in a difficult position all along, that is to say, a somewhat inconsistent position, that when they want military supplies, the U.K. speaks for the whole Empire. Their program is framed on that basis. But on the reverse side they say, "Oh, well, we can't bind the Dominions." That has been a weakness in their position all along. At least, so it seems to me.

GENERAL SOMERVELL: Australia is not the only place. For example, we have no reverse Lend-Lease agreement with Sudan, so we get charged for carrying our troops on the railroad, and at the same time we are furnishing locomotives to all the troops. So it extends over the whole British Commonwealth.

H.M.JR: Well, Bob, for my benefit, would you advise me what you think we ought to tell the British on this when we see them? Would you like to sum it up for me?

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MR. PATTERSON: The Dominions now having come in, it would seem to me that either the Dominions should pick up these other items as part of their reverse Lend-Lease program, in which event we can drop these clauses, or the clauses should stand.

H.M.JR: That is simple.

MR. PATTERSON: Don't you think so?

MR. COX: Yes. And that, Mr. Secretary, is influenced by one other fact. The Dominions not only have come in, but they have begun to ask for a more liberal approach, which I think is sound. But the two are tied together, both on the merits and politically. If you are getting more liberal on the amount of Lend-Lease aid supplied and get restricted from the Dominions' standpoint on the reverse Lend-Lease, then the only way you can explain it is on the basis of the financial position, which is at best a difficult thing to do.

H.M.JR: I wonder if that is agreeable to Dean Acheson, what Mr. Patterson said?

MR. ACHESON: I don't really know just where it leaves us, Mr. Secretary. The whole thing seems to me to be a financial question. I think the British point of view will be that if they undertake to underwrite what the Dominions furnish in addition to what the Dominions are required to furnish under their own Lend-Lease, that will increase their sterling obligations, and that is one of the problems with which they are faced. And they won't want to do it.

Now, it is primarily a financial matter. I don't think it is primarily a military matter.

MR. LOVETT: I don't believe we can let the case stand before you, Mr. Secretary, on the basis of the provision of beef or an item of that character for the Far Eastern air forces operating up through the islands in New Guinea, northwestward. A proportion, small to be sure, of their supplies together with items of consumption

character are procured locally through the Australian establishments. Now, if they do not continue that for any reason, it means we must go back into the rescheduling of facilities and cut back on some other items in order to compensate for it.

MR. TAFT: There is no question of taking that away, is there?

MR. LOVETT: I don't think so. I see the problem as Mr. Acheson sees it, that if we agree in principle that this is to be supplied, then it becomes a problem for the British Commonwealth of nations to settle among themselves as to their financial arrangements. But I think we do need assurances that the continuation of supply can be anticipated.

MR. TAFT: That jumps the question, however, the question as to whether it is reciprocal aid or whether it is paid for. The difference there is financial. The thing that is important from the military standpoint is that the beef goes from Australia to India.

MR. LOVETT: I can't see why we should be required to pay for something we are not now paying for.

MR. TAFT: That is right. But that isn't a military problem.

GENERAL SOMERVELL: It becomes a military problem if in making these settlements delay is of some consequence, then, and only then.

MR. TAFT: That is right. We have to settle it one way or the other.

MR. LOVETT: Or we have to ask for appropriations. I think it has a serious implication.

H.M.JR: Mr. Coe, I don't think there has been enough discussion of this on the subcommittee level. Unless there is disagreement, I would like to refer this back to the American subcommittee to discuss it further and confer with the British further. There are too many different

opinions for us to go into a discussion with them this afternoon. I don't want to go into any discussion with them unless we have a united front here, which I don't feel we have at the moment. I mean, Mr. Acheson isn't sure, and I am not sure. There is too much doubt here.

MR. PATTERSON: Well, Henry, it is a very simple case, though. The British come in with a book. The military requirements in that book, they explain, are for the benefit of Australia, New Zealand, and themselves. And they ask us to promise them that we will furnish these military supplies to the New Zealand forces and the Australian forces.

Then we say, "We will, yes, but we think that a requirement of our own forces, where the source is Australia, ought to come in on reverse Lend-Lease."

But they say, "Oh, no, we don't think so."

Their presentation is on one basis, but they don't want ours to be presented on that same basis. They want it to be presented on another basis, which is that they have nothing to do with Australia, although they have requested large amounts of military supplies for Australia. Now, that is all there is, as I understand it.

MR. ACHESON: That isn't all there is; there is another element of question which ought to be coincided; at least you ought to have the opinion of the financial authorities, and that is whether it is or is not desirable to push this reverse Lend-Lease in situations where it increases the U.K. sterling obligations to the Dominions. Now, maybe it is, I don't know. But that is the thing--

MR. PATTERSON: If they want to do it that way, Dean, they ought to pare their own requests down to their own forces and say to the Australians, "You take up with the United States military authorities your military requirements." And we would make engagements directly with the Australians on those items. It seems to me an inconsistency. It is a long standing--it has not come up for the first time by any means. But they have always been in that predicament. Don't you think so?

MR. ACHESON: Yes, that is true.

MR. WHITE: They have taken the position, however, that when it comes to military terms the segregation of Lend-Lease goods is only a very nominal one, that is, it is under the control of the British Army and that it can go anywhere; that has been their point.

Now, I don't know how valid it is, but it has been an inconsistency from the very beginning.

GENERAL SOMERVELL: If that is true, then the reverse ought to be true.

MR. WHITE: Well, certainly--

GENERAL SOMERVELL: We are not asking for anything for any purpose, except the military purpose. Do you see?

MR. COE: Mr. Secretary, if we are to have a subcommittee meeting, I might just say for the military, based upon having heard some of the things the British have said, that they are certainly going to ask questions as to whether the Army Air Force and the Navy are dissatisfied, not with the arrangement, but with the flow of goods, "Are you getting the goods?" And they will want to know in terms of new arrangements whether the existing ones aren't getting you the goods that you are asking for.

MR. PATTERSON: The problem has not been acute yet because the American forces being supplied, say, by Australia and New Zealand in the Pacific have been fighting right in front of those countries. It comes up on a case like the one General Somervell put where the aid to be furnished is to be delivered to a force fighting the same enemy, all right, but in a theater more remote.

MR. TAFT: I think the distinction is somewhat different. The difficulty is in getting reverse Lend-Lease from India for any purpose. In the case of Australia, they have given the Lend-Lease and gone through with their obligations. India hasn't. So the location of the battle

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really has not been a significant element up to date. It has been whether it has been India or Australia.

MR. PATTERSON: I agree with you. If the aid is furnished promptly, it is a financial question.

GENERAL SOMERVELL: And it seems to me that we are entitled to an assurance on that when we start off.

MR. CURRIE: I gather, Mr. Secretary, that Mr. Patterson's suggestions indicated an open mind as to whether he would approach the British or the Dominions, and it might be desirable to canvass this and see whether the assurances can be had there. If so, this problem may not arise with the British. We may not have to ask them to underwrite it.

GENERAL SOMERVELL: I don't think you can solve it, because you don't know what you are asking them to produce.

H.M.JR: Well, gentlemen, I am not satisfied, myself. I have sat in on these things over a number of years, and a similar thing has come up, and I want the State Department thoroughly satisfied on this point. I would like to discuss it further, myself. I can't do it in split seconds. They are outside. I would just like to pass the thing over. Now, it isn't going to hold up anything for the Army in the way of supplies either way, is it, Lend-Lease reverse, or from us to them? Is it going to hold up anything?

GENERAL SOMERVELL: No, I don't think so. This is for next year.

H.M.JR: Is it in any way going to retard the war?

MR. ACHESON: I think it is an over-all question that does not apply particularly to the Army. It applies to the whole ultimate working out.

H.M.JR: As White says, we have this whole question of sterling balances up, and I would like to go into this thing a little more carefully, just as long as the Army tells me that delaying this thing in no way is going to retard the war in any way.

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GENERAL SOMERVELL: No, sir. It could be delayed a week without hurting us.

MR. CURRIE: It just means, Mr. Secretary, whether you want this program given to the British today as being agreed upon. As I understand the Army's position, they are reluctant to give it as agreed upon until given some assurances.

H.M.JR: I would like to hold it up.

MR. WHITE: I think before they come in, Mr. Secretary, if you have time you ought to go to the Navy level.

H.M.JR: Definitely. I definitely would like to hold this thing up and have more discussion on it, what I call the technical level, for lack of a better name. I would like this thing threshed out more, and would like to hold it up for a day or so. You gentlemen have a look at it. You are not happy, are you, Dean?

MR. ACHESON: I agree with you.

H.M.JR: Is that all right with you, Bob?

MR. PATTERSON: Yes, sir.

H.M.JR: Then we are agreed that we will hold it up; as I say, on what I call a technical level, I would like this thing explored further. I think their feelings are a little bit hurt, Mr. Gates; that is the impression I get. If in some way you can give them just twenty-five words that it wasn't that we didn't trust them or anything, but you thought the procedure was--I tried my best this morning to explain to them that this is the way the Navy wanted to do it, and there was no offense meant, but they seemed a little bit hurt because they didn't have a chance.

MR. GATES: I don't understand, Mr. Secretary. They didn't have a chance to discuss it?

H.M.JR: You see, the Army proceeded differently. The Army discussed the thing with them and came to an agreement,

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and then sent it over to this group. You people wouldn't let them see it, decided what you wanted to do, and sent it to me at eight or nine o'clock last night. They have been hearing, you see, for about the last three or four days that that was the way you were going to do it. They kept saying, "Why don't they let us see it?"

I did not answer. But for three or four days they knew it was coming. Then this document was handed to me late last night from Mr. Forrestal and they just feel that they should have had a chance to talk it out first before it came up to the top committee.

ADMIRAL McCORMICK: I would like to point out, sir, that the Navy is proceeding more or less in line with what the British suggested, that the Navy would be a special case. They said in their paper that if they could be assured that the Navy Department would take due note of Admiralty requirement when initiating or revising production schedules, Naval requirements might be regarded as outside any arrangement of a protocol character such as advocated with the other programs. The Navy members of the committee felt that in carrying that out they would want to make the agreement, if you want to call it that, according to the procedure of the Navy Department, telling the British that they would take due note, perhaps pointing out some places where they were not going to be able to carry out their requests, and trying to avoid even mentioning any dollars and cents. That is why Mr. Forrestal sent the letter to you, sir.

H.M.JR: I told Mr. Forrestal that I was not criticizing in any way his procedure. I mean, that is his privilege. And any method that he wanted was entirely agreeable to me. I told him that, and he has told that to Admiral Horne last night.

But I am just saying that the English don't quite understand it, the way you suggested. If you would give them an explanation--

MR. GATES: Couldn't we give them this explanation that we have just given you, because that is the story?

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ADMIRAL McCORMICK: I don't think Mr. Forrestal considered he was addressing anybody on the committee, sir; I think he thought he was addressing it to you, just the U. S. side of the committee, sir.

H.M.JR: I understand it. Well, now, if you could tell them about it, what the Admiralty themselves said. Is the Navy prepared to let the English have a copy of what Mr. Forrestal sent me last night?

ADMIRAL McCORMICK: I think they would prefer not to, sir, unless you think in the end we have to come out and tell the British some dollar and cent values that we are planning to use for planning purposes.

H.M.JR: What are we going to tell them?

ADMIRAL McCORMICK: We are going to tell them in broad terms that the Navy Department will take due note of their requirements.

H.M.JR: And will give them what they want?

ADMIRAL McCORMICK: With certain exceptions, we will probably be able to give them what they want, but not go into detail.

MR. WHITE: Wouldn't you indicate what the difficulties are you anticipate with some of these items in your discussion with them so they would, in effect, have the substance of this letter?

ADMIRAL McCORMICK: That is right. The question of avoiding--entering into any signed agreement as the other two committees have done--what we are trying to avoid is in line with what they suggested themselves.

H.M.JR: Is it agreeable to you people to proceed this way, that the Navy--you proceed as you think best, and we will see where it gets us. Is that all right?

ADMIRAL McCORMICK: Yes, sir.

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H.M.JR: It is all right with me.

MR. WHITE: I think certainly this letter should not be made available until the Navy has had an opportunity to reshape it with that in mind.

MR. GATES: They would reshape it with what in mind?

MR. WHITE: I didn't know; I gathered you felt this was drafted for the Secretary's own information and that if you were drafting any kind of a letter or document to transmit to the British for their perusal or examination it might not take precisely the same form. But hitherto, you see, they have had such documents of this character that have been made available on other areas.

MR. COX: Mr. Secretary, don't you think what is causing them some concern is that the Admiralty presents certain views and says they hope that the Navy will give due regard to them. They don't know whether the Navy has given due regard and agrees in principle a hundred percent or ninety-eight percent. I should think the thing that might satisfy them if it is agreeable to the Navy is to say they are proceeding along the lines of the Admiralty; they agree with the view, and they would like to sit down and talk to them about the items that have created the doubt, either by reason of supply, or something else. Then you sit down and discuss specific cases on the facts, which gives them an opportunity to listen, and also comment if they have any comments.

MR. GATES: I understand that part has been done, has it not, on the specific items?

ADMIRAL McCORMICK: We asked the British for details. Of course, they came through with an item of a hundred million dollars which was not in this paper, although they mentioned that they would be prepared. I have talked to Admiral Waller several times about the thing, but he is in the dark.

H.M.JR: Can you at a subsequent meeting--are you willing to sit down with them and tell them approximately

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we are ready to supply them? I take it you have not yet done that?

ADMIRAL McCORMICK: No, sir, we have not yet done that.

H.M.JR: Is the Navy Department willing to do that?

ADMIRAL McCORMICK: I think they will in broad terms.

MR. GATES: Mr. Secretary, these items are in common use to both of us, and as your strategy develops, it depends on which force can better use them. It might be bad today to give something which we might need ourselves next year. It isn't a question of having enough for each.

H.M.JR: Isn't that going to be controlled through the Munitions Assignment Board?

MR. GATES: It should be.

H.M.JR: That is the understanding. We have so notified the British.

ADMIRAL McCORMICK: Yes, sir, that is the way it will be controlled, but I think we all feel that if we sign papers in dollars and cents that it is a little bit of a commitment that we would like to avoid if we can.

H.M.JR: If you don't mind my being frank, I don't think the Navy can take that position in view of this Quebec agreement. I think everybody concerned is making agreement subject to the material being available on the decision of the Munitions Assignment Board at the time it is ready for distribution.

ADMIRAL McCORMICK: I think that is what Mr. Forrestal asked you the question about, whether the Navy could take this.

H.M.JR: I didn't quite understand that.

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MR. WHITE: Mr. Secretary, may I call your attention to a sentence which they have referred to which I think is quite in point? The sentence the Navy referred to is the important key sentence. (Hands the Secretary "British Lend-Lease Requirements" Document.)

H.M.JR: I don't quite understand this: "If, therefore, we can be assured that the Navy Department will take due note of the Admiralty requirement when initiating or revising production schedules, our Navy requirement might be regarded as outside any arrangement of a protocol character such as advocated in paragraph six." Do you mind explaining that?

ADMIRAL McCORMICK: Well, I think they realize that naval requirements are much more full than any other, sir, and that ships move around and it is very hard to picture exactly what they will be doing in any one year. So they realize there that it probably wasn't particularly appropriate that we would have a more or less rigid, signed agreement on the subject. That is why Mr. Forrestal thinks that the British have already said they don't have to sign it.

H.M.JR: Where in Mr. Forrestal's letter does he ask for that?

(Admiral McCormick points out sentence.)

H.M.JR: ... "telling them the specific problems, but not to mention the financial situation."

My answer to that specific question is--if it is left to me--but I don't want to decide this alone. My own personal feeling, talking for the Treasury, is that they should mention the specific dollars.

Now, I would like to ask Mr. Acheson how he feels, and then Mr. Currie.

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MR. ACHESON: I should think most certainly they should, Mr. Secretary.

H.M.JR: Have you seen this letter?

MR. ACHESON: No, sir, I haven't.

H.M.JR: I am sorry. It only came in last night.

Will you see that Mr. Acheson gets a copy? Is there any reason why Mr. Acheson or Mr. Currie can't have a copy?

ADMIRAL McCORMICK: No, sir. I think they are really asking for guidance on it.

H.M.JR: Let me read the paragraph out loud:

"The Navy Department is now prepared to inform the British that in conformity with requests contained in paragraph thirteen, page twelve, the British requirement for the first year of page two, due note will be taken of the Admiralty requirement when initiating or revising production schedules, in doing so, planning to set forth general and specific conditions contained in this letter, but not the financial consideration which I am including herein for your information. Before our subcommittee replies to the British, I would appreciate your informing me whether this procedure is satisfactory to you."

In other words, we didn't allow enough time today. I can't blame myself, so I have to blame Coe.

Anyway, my feeling is that as long as Mr. Forrestal has asked, that they should.

Now, what is yours, Mr. Acheson?

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MR. ACHESON: I don't see any reason why the Navy shouldn't proceed exactly the way the Army and Air Forces and other people are proceeding, which is to get up a joint recommendation, which is one which, if accepted, can govern production schedules and the whole thing be subject to the Munitions Assignment Board when the time comes for delivery.

Now, this sentence which the British wrote here on Page 12 was in the light of a request which they make over on Page 14, that the Army items be a firm assignment. That has already been turned down. There isn't going to be any firm assignment. So that puts the Army on the same basis as the Navy. I don't see how you get anywhere if you just say we are going to take due note of everything in this book. They don't know whether that "due note" means you have turned it down or not.

If you have a joint recommendation that certain items as far as Lend-Lease are concerned are ones which you would put into production and hope to have available for the British Navy, all of that is subject when the time comes to diverting all of it to the United States Navy, or any other use that the war calls for.

H.M.JR: Mr. Currie?

MR. CURRIE: I agree with Mr. Acheson. I think the same procedure should be followed by all the agencies. I think we all have a distinct understanding that this is most certainly not a protocol, that it must be fulfilled, that it is subject to review and revision at any and all times. That was clearly understood by the British.

H.M.JR: Mr. Patterson, do you care to express an opinion?

MR. PATTERSON: No, I would rather not.

H.M.JR: Mr. White?

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MR. WHITE: I agree with Mr. Acheson and Mr. Currie, and I think that is what they intend to do. In fact, that is what they have here. They are going to tell them the substance of those things which they think they can give them and the reasons why they think they can't give them some of the things, and they have in this letter, aside from the first part which is addressed to you, I think, all that the British can wish in the way of information, though they will doubtless want to argue some of the details with them.

A further notation, which I gather the Navy is making a strong point of, is that there is much less certainty with respect to Naval deliveries than there is with some of the other items, that it is subject to much greater change.

I also gather that they intend to make the substance of this available, so that I don't really see where there is any difference of opinion.

MR. PATTERSON: When we listed our items with the British on the two programs we had, we conditioned delivery of all of them by a general clause that they were subject to conditions at the time, and decisions of the Munitions Assignment Board. That took it out, as it has been said, of the firm protocol idea.

MR. WHITE: I don't see how the British could take anything less than this, because one of their points which they are making through here is that they have to plan their own production, so they have to have some idea of what they can hope to have considered in planned production for the United States. So unless they got some such information they could take the position that they don't know whether we would try to produce these.

H.M.JR: Does anybody have a contrary opinion?

(No reply)

H.M.JR: Mr. Gates, are you willing to accept the recommendations, or do you feel you have to go back to Mr. Forrestal?

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MR. GATES: I think I should go back to him. You will notice in connection with your letter there on the attachment, it goes into detail a little more on their requirements and our comments as to where we are short and our ability to meet those. I think that will show you some of our problems.

H.M.JR: I mean, in order to give you an opportunity, supposing I state it like this, that we have met, we have discussed this question of the letter from the Navy to me, and we hope to have an answer for them by Monday - by tomorrow - on how they will proceed.

MR. GATES: Your Committee hopes to have an answer from us?

H.M.JR: I will put it this way, "The Committee hopes to be able to be in a position to discuss with the British the question of these items." I will put it on the Committee and not on you. Is that all right?

MR. GATES: It sounds all right to me.

H.M.JR: Can you see Mr. Forrestal tonight? Will he be available?

MR. GATES: He was. He planned to leave town. He was uncertain about it. If he is there I will certainly see him when I go back, yes.

H.M.JR: You couldn't settle it over the phone?

MR. GATES: I can talk to him.

H.M.JR: Do you want to go in Mrs. Klotz' room now?

MR. GATES: All right.

H.M.JR: It puts me in a little awkward position to have them come in, but if you could settle it so you could say to them, "We are ready to sit down with you"--

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MR. GATES: As I understand it, it is your Committee's recommendation that the Navy sit down with the British as the other Committees have done and come to you with a joint resolution and recommendation.

I will go and call him. (Mr. Gates and Admiral leave the office temporarily)

MR. WHITE: Mr. Secretary, did you have any idea of any special time when this has to be done? Do we have anything to shoot at?

H.M.JR: Yes, the day before Thanksgiving! Do you think we could have them in? I hate to keep them waiting. What can we start on? We can simply tell them, on this question of the Army, that we would like to postpone that and refer it back to the Subcommittee?

GENERAL SOMERVELL: May I say something? You don't mean to refer it back to the military committee?

H.M.JR: What I call a Technical Committee. It has been composed of Mr. Cox, Mr. Currie, Mr. Acheson, and Mr. White.

GENERAL SOMERVELL: Yes, that is all right, because we can't do any more with it.

H.M.JR: Somebody sits on it for you, don't they?

MR. PATTERSON: I don't think so. I agree it is entirely a fiscal matter if we are assured of the source, and therefore we tender it to you (Mr. Acheson).

MR. TAFT: Plus the factor that Bob raised, and that is your appropriation. In other words, the decision might affect your appropriation, in which case you are very much concerned.

MR. LOVETT: Yes, and we are under, then, the obligation to go into detail as to how and why we did this, and so forth.

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H.M.JR: I know you are in a hurry, Mr. Lovett. If it is agreeable to Mr. Patterson, what I would like to do is have you stay just long enough for us to settle this thing that is going to be referred back on the technical level. Then if you want to, just excuse yourself. It is all right. Is that agreeable?

MR. PATTERSON: Yes, indeed.

MR. COE: Mr. Secretary, would there be any objection to the British stating their point or amplifying it? I think they will want to talk about that Paper, against the reservation which the Army and Air Force people made.

H.M.JR: Do you think that will give them an opportunity to cover up my ignorance?

MR. WHITE: No, it will give the Committee an opportunity later to discuss the matter more intelligently.

H.M.JR: Mr. Acheson, don't you think you could use a man like that in the State Department?

MR. COX: With striped pants!

H.M.JR: Then the point is to ask them to discuss this?

MR. COE: And I should say let the Army and Air Force say what they want to, too.

H.M.JR: All right with me.

MR. LOVETT: Do you want to do that, really, sir? I thought your idea was to avoid trying to compose the matter today by reference to the Technical Committee. If you have them in and they state a case, and then we are asked to respond, we are trying it before you right here.

H.M.JR: I think that is a mistake and that is what I am trying to avoid. I am glad Mr. Lovett raised the point.

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I am trying to avoid a free-for-all discussion with the British until the Americans are together.

MR. WHITE: You could avoid that by just having them talk about this without having the Army express their side. The alternative, Mr. Secretary, is to say hello - good-bye. That may be all right.

H.M.JR: What is the matter with that?

MR. WHITE: That may be just the thing to do.

H.M.JR: That would be my impression, subject to advice.

MR. ACHESON: What was his advice?

H.M.JR: Hello and good-bye.

MR. ACHESON: I think that is fine! (Laughter)

MR. PATTERSON: We can perfectly well say to them that their Paper has been received and we have had discussions and we have decided to refer our side of it to a technical subcommittee. There is no use going into an argument about it.

H.M.JR: And that our technical subcommittee will be in contact with them.

MR. GATES: That is all right, yes. We will sit down with the British and try to arrive at an agreement and make recommendations to your Committee.

MR. WHITE: There is the answer.

MR. CURRIE: Mr. Secretary, after you say hello and good-bye, if you would like to suggest--

H.M.JR: We can say more than that, we have the Navy now; we have a piece de resistance.

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MR. CURRIE: But if you would like to have an adjournment meeting for a preliminary discussion of some additional information, we would like to have on the balance of payments in connection with Chapter 3 items, we can spend ten or fifteen minutes discussing some of those considerations with them.

MR. WHITE: Yes - it is not necessary.

H.M.JR: I sort of subscribe to the "hello-good-bye" theory. I notice Mr. Lovett has an engagement. Is that Congressional, or something?

MR. LOVETT: I am all right. I am fresh from the Multilateral Post-War Convention in Chicago, and I promise you, this is a great relief!

AGENDA FOR U.S. MEETING1. Air Requirements -

The report of the Subcommittee, consisting of U.S. Army Air Force and Navy officials, and British Air officers, will not have been seen by the other members of the American Committee. It might therefore be in point to inquire of the ~~British and~~ American officials who have worked on this side of the program whether there are any problems which they wish to bring before the Committee. As you know, the British wish to bring up the reservation concerning reciprocal aid. If that problem is disposed of satisfactorily, the top committee can presumably accept the report.

2. Navy Program -

Secretary Forrestal has written a letter describing the conditions on which our Navy will accept a proportion of the British requests. He has requested that you, or this Committee, advise whether these assumptions are correct. The letter is brief and if distributed at the American meeting, it should be possible for the American officials to pass upon it quickly.

AGENDA FOR BRITISH MEETING

1. The Agenda for the British meeting consists of items 1 and 2 above. Keynes (for no. 1) and Sir Robert Sinclair, (for no. 2) have definite points they wish to make and it would seem appropriate to call upon them first. In connection with the air program, you may wish to emphasize the great degree of agreement which has been reached quickly.

TOP SECRETCOPY NO. 19C.C.L.L.(44)13rd November, 1944COMBINED COMMITTEE ON MUTUAL LEND-LEASE AID BETWEEN THE U.S. AND U.K.GROUND ARMY AND AIR AND FLEET AIR ARM RECOMMENDATIONSNote by U.K. members

On behalf of the British Group I hope that the recommendation of the U.S. Representatives in Clause 11 can be worded rather differently for it would be constitutionally impossible for us to implement any such condition in its present form. When a similar clause was mentioned in the proposals relating to supplies for the ground forces, I pointed out that it raised wider matters, and the matter was left open.

Reciprocal Aid from the Dominions is governed by separate Reciprocal Aid Agreements with the U.S. Government, to which the U.K. Government is not a party. So far as we know these Agreements are working very well, and no case has been reported to us in which any difficulty has arisen. We have no reason to think that the Dominions are not ready to reaffirm their existing commitments.

If there are questions relating to Reciprocal Aid with India or the Dominions which the Committee wishes to see discussed with the Governments of these countries, I suggest that such discussion should be entered upon through the proper channels between the U.S. Government and the Government from which the Reciprocal Aid in question is being asked.

Meanwhile the British group ask that the recommendations both of the ground Army and of the Air and Fleet Air Arm Agreement be accepted with the deletion of clause 10 in the Ground Army Agreement and of clause 11 in the Air and Fleet Air Arm Agreement.

TOP SECRET

COPY NO. 39

C.C.L.L.(44) 5th Meeting

COMBINED COMMITTEE ON MUTUAL LEND-LEASE AID
BETWEEN THE U.S. AND U.K.

MINUTES of a Meeting held in Mr. Morgenthau's Room
in the U.S. Treasury, on 3rd November, 1944
at 3:30 p.m.

P R E S E N T

Mr. Morgenthau (In the Chair)

U.S.Representatives

Mr. Acheson
Mr. Taft

Dr. White
Mr. Casaday
Mrs. Klotz

Mr. Currie
Mr. Cox
Mr. Coe
Mr. Angell
Mr. Davidson

Mr. Gates
Admiral McCormick

Mr. Patterson
Mr. Lovett
General Somervell
Colonel Stewart

U.K.Representatives

Lord Halifax
Rt. Hon. Ben Smith
Lord Keynes
Hon. R.H.Brand
Sir Robert Sinclair
Sir Henry Self
Mr. Opie

Mr. Lee) Joint Secretaries
Mr. Coe)

1. REPORT IN NEW YORK TIMES

MR. MORGENTHAU said that the U.S. representatives had been giving some thought to the question of whether an official statement ought to be issued in view of the story by Arther Krock which had appeared in the New York Times. The conclusion had, however, been reached that in view of what had been said by the President at his Press Conference earlier in the day, the best course would be to issue no statement.

2. RECIPROCAL AID FROM THE DOMINIONS AND INDIA

MR. MORGENTHAU said that the U.S. representatives had given some preliminary consideration to the paper (CCIL(44)1) which the U.K. representatives had circulated earlier in the day. They had not, however, been able to reach considered conclusions on the subject and he thought that the most satisfactory arrangement would be if the questions raised in that paper were examined by representatives of both the U.S. and the U.K. at Sub-Committee level.

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3. U.K. NAVY REQUIREMENTS.

MR. MORGENTHAU said that the U.S. Navy Department was now prepared to discuss with the U.K. Naval representatives the detailed requirements which the U.K. had put forward, with a view to making agreed recommendations to the Main Committee. It would be appropriate if Admiral Waller could now get into touch with Admiral McCormick so as to arrange for such detailed discussions to be begun. ADMIRAL MCCORMICK said that the Navy Department had first considered that it would be better to reach certain broad conclusions before examining the programmes in detail. They were now, however, prepared to follow the procedure indicated by the Chairman.

4. U.K. AIR AND FLEET AIR ARM REQUIREMENTS.

SIR ROBERT SINCLAIR referred to the combined report on the U.K. Air and Fleet Air Arm requirements which had been submitted to Mr. Morgenthau on the 3rd. November

He said that on behalf of his colleagues he would wish to place on record his appreciation of the way in which the discussions leading to the agreed recommendations in the report had been conducted. It was particularly satisfactory that, as in the case of the Ground Army requirements, there had been a full and frank discussion of the operational basis upon which the U.K. needs had been framed and that there had been no disagreement as to that basis.

Sir Robert went on to say that if regard were had to the fact that a sum of \$200 million had been earmarked in the Air programme for spot items and contingencies, there was comparatively little difference between the U.K. demands as originally put forward and the recommendations in the agreed report. On the other hand, in the field of the Fleet Air Arm requirements there was a serious disparity between the U.K. requirements and the acceptances as set out in the report, particularly in two types of aircraft: Corsairs and Avengers. The U.S. representatives had, however, indicated that circumstances might arise in the future which might make it possible to allocate additional quantities of Corsair and Avenger aircraft to the United Kingdom. The U.K. representatives would therefore wish to suggest that a sum of \$75 million should add to the total of the financial provision as put forward in the report in order to give financial cover for such a contingency. Sir Robert emphasised that the provision to the United Kingdom of additional Corsair and Avenger aircraft would be of great operational importance since there was no production in the United Kingdom of torpedo carrying carrier-borne aircraft with performances comparable to that of the Corsair and the Avenger.

There was some discussion on the question of whether there would not be adequate financial cover against the circumstances which Sir Robert Sinclair had in mind in the sum of \$200 million which had been earmarked in the air programme to cover contingencies and spot items. Sir Robert Sinclair said, however, that of that sum \$130 million represented cover against the possibility that B-29's would be made available to the United Kingdom at a later stage, while the balance of \$70 million was intended to cover spot requirements particularly in the radar field where the incidence of spot requirements and new developments was apt to be heavy. It was finally decided that the question of whether an additional sum of \$75 million should be set aside, as urged by Sir Robert Sinclair, should be referred back for consideration by the Combined group which had produced the report on the Air and Fleet Air Arm requirements.

Sir Robert Sinclair said that he wished to make two other observations on the report of the Combined Group:-

- (a) Paragraph 7 of the report (stating that the detailed scheduling of radar equipment and components would be proceeded with as soon as possible) was of particular importance to the United Kingdom since the U.K. production in the radar field was very dependent upon the provision of components, etc., from the United States. The U.K. representatives hoped, therefore, that a detailed monthly schedule of deliveries could be worked out as soon as possible.
- (b) It would be appropriate to make a brief reference to the requirements of the Australian and New Zealand Air Forces. Since those forces were operating in spheres of U.S. strategic responsibility, no details of their requirements had been included in the programmes dealt with by the Combined Group. He was glad to say, however, that he understood that as a result of discussions between the U.S. Departments concerned and the Dominion representatives, no difficulty was likely to arise in this field.

MR. MORGENTHAU said that the American Group would note and consider the points made by Sir Robert Sinclair.

5. TOTAL OF U.K. REQUIREMENTS.

LORD KEYNES said that it might be of interest to the Committee if he mentioned that, as a result of certain modifications in the programmes of requirements and of changes due to the repricing of certain items, the total cost of the U.K. programmes in both the munitions and non-munitions field now appeared to be nearer \$5 billion than the original figure of \$6 billion. This revised figure was exclusive of (i) any additions to Lend-Lease programmes which might arise as a result of the consideration of the proposals in Chapter 3 of the British case (ii) certain financial provisions on the munitions programmes for contingencies, spot items, delivery charges and the like.

(Signed) Mr. Lee
Mr. Coe

Washington, D.C.
7th. November, 1944

November 3, 1944
4:00 p.m.

BRITISH LEND-LEASE NEGOTIATIONS

Present:	Mr. White	Lord Halifax
	Mr. Acheson	Lord Keynes
	Mr. Patterson	Mr. Ben Smith
	Mr. Casaday	Mr. Brand
	Mr. Currie	Mr. Opie
	Mr. Coe	Mr. Lee
	Mr. Gates	Sir Robert Sinclair
	Mr. Taft	Sir Henry Self
	Mr. Angell	
	Mr. Lovett	
	Colonel Stewart	
	Admiral McCormick	
	General Somervell	
	Mr. Cox	
	Mrs. Klotz	
	Mr. Davidson	

H.M.JR: May I say I am very sorry that this story broke today in the New York Times. I had hoped that we wouldn't have any leaks, but our luck has sort of run out. And talking in view of what the President said in his press conference today about this, we are not proposing to make any statements. I think it would be a little simpler if your press people at the Embassy didn't refer all the reporters to us!

LORD HALIFAX: You mean not refer them all to you!

H.M.JR: Yes. I gathered that Mr. Brand was telling them they could get something from the Treasury or the White House. Well, they are not going to get anything from the Treasury, and I doubt they will get anything from anybody else. But there is no statement in view of what the President said.

LORD KEYNES: What did he say?

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H.M.JR: The question the President was asked was, "Mr. President, any comments, please, on the published report that Great Britain seeks certain Lend-Lease supplies of a non-military nature for resale?"

The President's answer was, "I never heard of it."

So in view of that, there will be no statement forthcoming from here. So I say it is very unfortunate. But we only have four more days to go.

Gentlemen, I apologize for holding you up, but we didn't allow time enough for this important discussion. But in regard to this Paper you have given us on mutual Lend-Lease between the U.S. and U.K., ground Army and air fleet, air arm recommendations, we very carefully noted this Paper and we have spent almost an hour here discussing it. The result is that, frankly, we have not come to an agreement among ourselves. And therefore the Committee has referred it back to what we call our Technical Committee and the Technical Committee will discuss it and will be in touch with what, for lack of a better name, we call your technicians.

So if you will bear with us, we are not prepared to discuss it because we are not of one mind among ourselves.

LORD KEYNES: Is there any further explanation, Mr. Secretary, we can give?

H.M.JR: I am sorry, Lord Keynes, not now, because I am afraid to get into a discussion, and I don't want to discuss it when there isn't united agreement among ourselves. But our Technical Committee will meet, will talk it over, and will be in touch with you gentlemen. But as I say, we have been an hour trying to come to an agreement and haven't. Now, that doesn't mean we could not agree. I don't want you to go away thinking this is an insurmountable barrier, but it is just that we should have allowed half a day and we allowed half an hour. So, if you will bear with us, I know the members of our Technical Committee will pretty promptly be in touch with you gentlemen.

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As I say, please don't go away thinking this is something insurmountable. So, if you don't mind, we need more time.

If this is agreeable, Mr. Patterson and his associates, I think, are anxious, they have other work - we would be glad to have you stay, but if you want to go, why that is all right. (Gen. Somervell, Mr. Patterson and Col. Stewart leave the conference)

Now, as to this much-discussed letter of Mr. Forrestal's, I received it late last night - and you can correct me, Mr. Gates - the Navy is now prepared to sit down and discuss with representatives of the British Navy, their requirements.

Is that stating it correctly, or would you rather put it in your own language?

MR. GATES: That is right. That is my understanding. We will come to whatever agreement we can and make our recommendations to your Committee the same as the other Committees have done.

MR. SINCLAIR: Might I ask, Mr. Secretary, would Mr. Gates like Admiral Waller to get in touch with someone?

MR. GATES: I suggest he get in touch with Admiral McCormick.

H.M.JR: But this is open for any discussion now that you gentlemen would like.

MR. SINCLAIR: I think the first step is to do what is suggested, if I may say so, Mr. Secretary, to discuss the situation.

H.M.JR: Mr. Gates, you and Admiral McCormick are ready any time?

MR. GATES: That is my understanding, yes, Mr. Secretary, we are.

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LORD HALIFAX: Sounds all right, doesn't it?

H.M.JR: This may sound very short to you, but we have been one hour on this Paper here and could come to no agreement, but at least I think we have made real progress as far as the Navy is concerned.

But if there is anything else that any of you want to raise, this will be a good time to do it.

MR. GATES: Mr. Secretary, Admiral McCormick has just brought up a point and that is that we, the American Navy, were working originally according to the suggestion contained in your Paper, that these subjects may be considered broadly and be duly noted. That is the basis we have been going on up until this afternoon when we had our meeting with you - just to clarify our position a little further on that.

MR. SINCLAIR: Would it be in order, Mr. Secretary, to comment on the Air agreement now, apart from that question that you already referred to?

H.M.JR: Well, they have all gone.

MR. GATES: If there is anything in fleet air--

MR. SINCLAIR: I was proposing to make one or two comments on the main agreement, if they are not inappropriate.

H.M.JR: Make your comments and then I will--

MR. SINCLAIR: Well, I wanted first of all to acknowledge, as we did in the case of the ground Army, our appreciation of the way in which these discussions have been conducted, and to state again, as was the case with the ground Army, the fact that the military basis of our needs was fully and frankly discussed. And there is no point of difference to be recorded on that. In certain cases our basis was modified in the course of discussion, and in others, notably the fleet air arm, I think acceptances really fall below our requirements.

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The difference between our requirements and the acceptances is in the Army aircraft type equipment a comparatively small percentage, if the relatively large item of two hundred million dollars referred to in paragraph nine is taken into account. But a large part of that two hundred million dollars may be required if certain aircraft, for example, the B-29, on which no commitment or acceptance can be made at present, can later be made available.

But in the case of aircraft for the fleet air arm, there is a very serious disparity between our requirement, on the one hand, and acceptances on the other. That applies particularly to two types, the Corsair and the Avenger.

We realize the uncertainties which make it impossible in the judgment of the Navy Department to accept larger quantities than those stated in the schedules at this stage. They have, however, assured us the quantities now accepted are minimum quantities and it is conceivable that circumstances may arise, for example, the greater use by the U.S. Navy of Hell-Divers and Avengers, which would make it possible, without prejudice to the operation by the U.S. Navy, to allocate to the British a larger proportion of those types.

And although it may be going too far to expect that in that event the whole of the gap may be bridged, we suggest it would be wise to include in the total financial provision over and above the amount stated in the schedules, an amount of seventy-five million dollars as financial cover for any such possibilities.

In making this suggestion we realize that it carries with it no commitment on the part of the U.S. Navy Department beyond that which has already been clearly implied in the discussions that are taking place: Namely, that if circumstances should change and additional quantities of these types do become available, they will be allocated to the British.

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We mentioned this to the Navy Department before this meeting and after seeing the report, and I hope that Mr. Gates will confirm they have no objection to that suggestion.

I ought perhaps to add that we have not got in production in the United Kingdom any torpedo carrier operators, carrier-borne aircraft of comparable performance to the Avenger, and the new version of the Barracuda does not come into production in September.

The position with which we are faced, with which our Admiralty are faced in that regard, is a serious one, and I would be less than fair to them if I did not make that point very clearly at this meeting.

I don't know whether you have had an opportunity of considering that, Mr. Gates?

MR. GATES: I have not had an opportunity of considering it. I only heard indirectly that there is a possibility just being discussed at some point.

Just to clarify myself, you are proposing adding on the air program seventy-five million dollars to the two hundred million dollars that you already have, for contingencies, making that two hundred and seventy-five million for contingencies.

MR. SINCLAIR: That is right, but--

MR. GATES: Doesn't the two hundred million cover both Army and Navy?

MR. SINCLAIR: No, it was originally - the two hundred, in fact, was discussed and agreed on the Army aircraft side, do you see? Then the fleet air arm discussions took place subsequent to that, and the extent of the shortage, difficulties with regard to Avenger and Corsair, were not realized at the time that the two hundred million was discussed.

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Now, we quite realize that on present plans by the U.S. Navy there are not additional aircraft likely to be made available, but there are certain contingencies in which they might become available, and we are asking that if those contingencies arise--

MR. GATES: That is right. There is a possibility of the program increasing. I had misunderstood that. I thought that the two hundred million dollars was to cover both the Army and the Navy requirements, and from what I knew of it, it seemed to me that was sufficient.

MR. SINCLAIR: One hundred and thirty of the two hundred, you see, is represented by the B-29 alone, which the Army air force wants us to leave on one side because of their current difficulties with that type, do you see? So you have seventy to cover certain difficulties in the radar field because of changing of types. That amount was discussed in relation to radar on the Army air ground side.

H.M.JR: Might I interpose - you are way beyond my depth - aren't these just the kind of things that you are going to sit down and discuss with the Navy and try to get together?

MR. TAFT: No, this is the Air, Mr. Secretary.

MR. GATES: It has been agreed on, and the letters have come in to you. This is just adding another item. I am not prepared to answer for us on this, Mr. Secretary, now.

H.M.JR: Will you take it under consideration?

MR. GATES: Yes. It means going back to Mr. Patterson and Mr. Lovett and all signers to this agreement that we have already agreed on, to add another seventy-five million to it.

MR. WHITE: Mr. Gates, might one interpret that additional amount for contingencies to cover an expenditure

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on anything, or was it certain specified types - parts?
What is the interpretation?

MR. GATES: I thought the two hundred million covered contingencies for airplanes and accessories and parts, and I thought within that two hundred million there is enough leeway to take care of any increased planes for the fleet air arm. If I am wrong, I was misconstruing it.

MR. WHITE: Sir Robert, is your interpretation of those contingencies in terms of specific items, or much more general?

MR. SINCLAIR: It is worded completely generally, Dr. White. In the course of discussion of the amount, the point was made that about one hundred and thirty might be required in the event the B-29 situation cleared. The remaining seventy was considered on both sides a reasonable amount for radar contingencies. That was the understanding in the discussion. The fleet air arm discussions were subsequent to that discussion. We didn't know at that time the degree of the short-falling there would be in those two rather important types of the fleet air arm.

If allocations, of course, can subsequently be made, we are doing no more than use a part of the provision that is now made. This amount is not spent until there is a clear case for doing so. Only we all thought it would be wise, in view of this situation--

MR. GATES: You think you will need seventy million - we are getting into some details - seventy million over and above the two hundred million already allocated?

MR. SINCLAIR: Radar and components.

MR. GATES: There is two hundred million allocated to that now.

MR. SINCLAIR: They do from past experience find in this radar field that new types are being developed so

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quickly - that applies to the forces of both nations - they are continually changing, scrapping old types and bringing in new ones.

MR. ACHESON: Mr. Secretary, may I ask whether this was all discussed by the Committee which has reported? Has this all been taken up and thrashed out?

MR. SINCLAIR: No, sir, the Committee which has reported did not discuss this item at the time of signing the agreement, or at the time the agreement was forwarded to us. We were left with this very substantial short-fall which was in discussion up to the very last moment, do you see? And when we saw the extent of it and obtained from the Admiralty their view as to what would be the inevitable consequence, we considered it was desirable to include this additional provision that I mentioned.

LORD KEYNES: Isn't this something which has to go back to the Committee?

MR. SINCLAIR: We did put that to the Navy Department, but I am afraid Mr. Gates was away in Chicago at the time. We put it to the Navy Department as the only thing we could do in the circumstance, giving the intimation that we would like to raise this point at this meeting.

But we are very happy to discuss it further, Mr. Secretary, if you would like that.

H.M.JR: Well, that is up to you, but I think it should be raised at the lower level, if you don't mind, because it has me very much - to make a pun - in the air! I just can't quite follow it. There is no reason why you shouldn't raise it.

Is that what you think, Mr. Acheson?

MR. ACHESON: Yes, I was trying to get clear as to whether this was an appeal from a decision already made, or something omitted from the discussions.

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H.M.JR: I gather it is an afterthought.

MR. SINCLAIR: Yes, I hoped it would be regarded by the Navy Department as a wise precaution under the circumstances.

MR. GATES: I will be glad to go back to this Committee, Mr. Morgenthau, and ask if they won't reopen their agreement and consider this additional seventy-five million.

H.M.JR: I take it it is really an afterthought, isn't it?

MR. GATES: There is a little difference of opinion on that. We thought at the time the two hundred million covered the Navy contingencies as well as the Army.

MR. SINCLAIR: May I make two other points, Mr. Morgenthau, very briefly? I would like to call attention to the importance of paragraph seven, in which it is stated that the detailed scheduling of the components and the radar will be proceeded with as soon as possible.

I would like this Committee to appreciate that the United Kingdom program is to a large extent dependent upon the supplies of components and considerable equipment such as radar which we get from this country. Therefore, this paragraph in the agreement is of very great importance to us and we have every reason to believe that the service departments here, both the War Department and the Navy Department, will cooperate fully with us in arriving at a detailed schedule of monthly deliveries as soon as possible.

The other thing which I perhaps ought to make clear is that in Chapters 1 and 4 of our general case, reference was made to the effect the Australian and New Zealand air forces, operating as they do, in a sphere of United States strategical responsibility, cannot be included in such an agreement as this, and that their requirements would be the subject of direct discussion between them and the United States.

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Well, we are, of course, interested observers in this matter, and I thought it would be appropriate to say here that from the discussions that have already taken place it appears to be clear that no difficulty under that heading is likely to arise. I thought I ought to clear that point, because we had referred to it.

H.M.JR: If the respective secretaries will note what Sir Robert has said, we will give it due consideration.

MR. SINCLAIR: Thank you very much, sir.

H.M.JR: Anything else, Sir Robert?

MR. SINCLAIR: No, sir.

H.M.JR: Lord Halifax?

LORD HALIFAX: I have nothing.

LORD KEYNES: Mr. Secretary, there is one point which I think might be of some interest to report. Our original proposal in the big book came to just over six billions, compared with ten billions on a comparable basis. Well, now we have cut down our oil requirements and the shipping. The ground agreement which is passed and this Air one, certain items have been cut out and certain others the prices have been changed. We thought it would be useful to compile a statement showing what effect it has had on our total application. It appears instead of being around six, that on a comparable basis it is rather less than five, now. If you then add on the things that went into the six, namely, certain transport charges and these spot margins for unspecified items, then it is a little more than five. But as compared with the six, very nearly a billion has disappeared for one reason or another. So we are now thinking in terms of five plus, and not six plus.

MR. WHITE: That is what we read in the Times this morning!

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LORD KEYNES: Except it isn't on those items, unfortunately. (Laughter)

I thought it would be interesting to know. And, of course, that doesn't allow for any changes there, maybe, in certain other programs. But I think it doesn't cover the Navy, which we haven't dealt with, but I think, otherwise, it is probably fairly near the final figure. It is on the order of five, and not on the order of six.

H.M.JR: That is good news.

Is there anything else, gentlemen? Then we stand adjourned.

TOP SECRET

COPY NO. 20

LEND LEASE IN STAGE II

NEW ZEALAND

Attached below are (1) a quantitative analysis of the requirements already tabled for New Zealand under Lend Lease for the first year of Stage II; this quantitative analysis is tentative and subject to adjustment between items according to the circumstances applying at the time of requisition; and (2) a further memorandum indicating the manner in which New Zealand's requirements would be increased if the civilian and capital goods rules could be relaxed.

(Signed) A.W. Snelling

Washington, D.C.

3rd November, 1944

QUANTITATIVE ANALYSIS OF NEW ZEALAND REQUIREMENTS ALREADY TABLED.

Following are the commodities and actual quantities used to arrive at the dollar figures outlined in "Amplification of Material in Chapter 4: Lend Lease Requirements of Australia, New Zealand and India":-

<u>Material</u>	<u>Quantity</u>	<u>Value</u>	<u>Total</u>
Carbon Steel	43,750 tons	\$3,500,000	
Tinplate	16,000 "	2,000,000	\$5,500,000
Phosphate	40,000 L.T.	240,000	240,000
(In view of the improved shipping situation, it is conceivable that nearer 60,000 L.T. valued at \$360,000 will ultimately be shipped from U.S.A.)			
Sulphur	50,000 L.T.		760,000
<u>Miscellaneous Fertilizers & Chemicals</u>			
<u>Fertilizers</u>			
Muriate of Potash	5,000 S.T.	170,000	
Potassium Sulphate	500 "	20,000	
<u>Chemicals</u>			
Sodium Chlorate	500 "	95,000	
Methyl Ethyl Ketone	13 "	2,700	
White Arsenic	100 "	10,000	
Metachrome Mordant	26 "	10,000	
Tanning Extracts	77 "	8,000	
Caustic Potash	60 "	10,000	
Nicotine Sulphate	25 "	56,000	
Methyle Isobutyl Ketone	30 "	7,000	
Stayco "A"	26 "	3,000	
Rubermakers Refined Sulphur	100 "	4,500	
Formaldehyde	88 "	11,700	
Miscellaneous		40,000	450,000
<u>Naval Stores</u>			
Pine Tar Retort	116 "	17,400	
Rosin Oil	45,000 gals.	30,000	
Turpentine	138,000 "	83,000	
Gum & Wood Rosin	1,200 S.T.	120,000	250,000
<u>Miscellaneous Raw Materials</u>			
Carbon Black	500 S.T.	115,000	
Dextrine	116 "	11,800	
Filter Earths	40 "	1,500	
Refractory Material	242 "	25,000	
Diatomaceous Earth	216 "	10,000	
Miscellaneous		50,000	250,000
<u>Tobacco</u>			
	1,950,000 lbs.		1,250,000
<u>Manufactured Items</u>			
Trucks	795 Units		1,000,000
Automotive Parts			1,000,000
Agricultural Equipment comprising:			3,000,000

<u>Material</u>	<u>Quantity</u>	<u>Value</u>	<u>Total</u>
1583 Tractors	30 Disk Plows	720	Attachments for
438 Garden Tractors	1022 Mowers		Cultivators
	1067 Haying Machine Attachments	1271	Garden Tractor Cultivators

TRACTOR ATTACHMENTS

242 Hydraulic Attachments	471 Haybalers	150	Other Planting, Weeding, etc.
513 P.T.O.	25 Hay Loaders		
6 Pairs Wheels	218 Cultivators	150	Furrow Openers
10 Pulley Assemblies	10 Planters	87	Harrows
	48 Cornshellers	24	Distributors
	152 Tractor Hoe Listers	731	Seeders
		24	Broadcast Seeders

TRACTOR SPARES

241 Combines	193 Power Sprayers
165 Engines	313 Dusters Hand
575 Mouldboard Plows	2 Transplanters

MACHINE SPARES

6 Weeders
3 Onion Pullers
2 Topper Graders

<u>Hand Tools</u>	700,000
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<u>Miscellaneous Items</u>	375,000
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ADDITIONAL ITEMS FOR NEW ZEALAND

1. The Application of the Civilian Goods Rule

In submitting a list of additional material which New Zealand might obtain from the United States if the civilian goods rule was relaxed to take care of material essential for the national economy of New Zealand, it is necessary, first of all, to stress the inevitable delays in procurement resulting from the protracted negotiations involved in determining the percentage of any requisition which may be approved by the Foreign Economic Administration.

One example is a recent requisition for Carbon Black which has been held up for some time in order to determine civilian percentage. In this particular case the civilian percentage works out at 8 per cent. of the total quantity covered by the requisition leaving the balance of 92 per cent. to be procured under Lend Lease. This illustration is very simple as the material does not cover any wide range of types or specifications. In the case of some other materials where articles requisitioned are components or parts to be used in production of certain materials, it is difficult to determine the percentage of "civilian use". Supplies and parts of, say, miners' safety lamps for coal-mines would be such a case. The civilian percentage of coal produced can be determined but carrying the "percentage formula" down to supplies and parts of safety lamps introduces a meticulous factor of calculation which causes serious delays.

Although this aspect has already been mentioned in the case previously submitted no allowance has been made for relaxation of present rulings. If the civilian goods formula were amended these estimates of New Zealand's requirements under

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Stage II would be increased by \$4,000,000. The principal item would be tobacco - 4,000,000 lbs. value \$2,500,000, the balance being made up of raw materials which are at present excluded under the civilian goods formula, e.g. steel, sodium chlorate, potassium sulphate, white arsenic, tanning extract, caustic potash, nicotine sulphate, metachrome mordant, stayco A, rosin oil, pine tar oil, turpentine, gum rosins, rubbermaker's refined sulphur, carbon black, dextrine, filter earth, diatomaceous earth, formaldehyde, refractory material, bitumen and other miscellaneous raw materials.

2. The Application of the Capital Goods Rule.

The application of the capital goods rule seriously affected New Zealand. As had been pointed out New Zealand has no heavy manufacturing industries and it is necessary to import most types of machinery required in the Dominion. A specific example regarding this is a demand received for heavy equipment for the New Zealand Navy Dockyard at Auckland which services United Nations naval craft and also merchant vessels. Demands totalling approximately \$400,000 were approved by the United States Navy representatives in New Zealand and despatched through United States Navy channels to Navy authorities in the United States. After considerable delay these demands were passed by the Navy Bureau of Ships to the New Zealand Supply Mission, Washington, for procurement as the items were mainly outside the normal types of materials ordered by the United States Navy. These demands were under action in late 1943 and two small requisitions to the value of \$7,500.00 were approved for Lend-Lease. The introduction of the November 1943 capital goods rule specifically excluded the balance of the demands from Lend-Lease procurement, despite the end use of the materials. Subsequently cash procurement was effected in the United States for \$66,500 and in Canada under Canadian Mutual Aid for a value of \$30,000, leaving at the present time machinery valued at \$207,000 still under action.

A most serious aspect of this particular case has been the long and continued delays encountered in the supply of this material, all of which is for essential war purposes.

At the present time no satisfactory estimate can be made of the amount that would be involved if the capital goods ruling were relaxed. Full information as to strategical commitments in Stage II is not at present available, and the matter would require reference back to New Zealand before detailed figures could be produced.

Nov. 3, 1944

TO:

Secretary Morgenthau:

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Mr. Gaston handed this to me and asked me to advise you that Mr. Shaeffer had told the British Embassy not to refer the reporters to the Treasury again.

P.B.M.

From: Mr. FitzGerald

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE

TO Mr. Gaston

FROM Mr. Shaeffer

C.P.D.

November 3, 1944

Mr. Daishes of the Information Office of the British Embassy, informed me that the Honorable R. H. Brand, "Head of the United Kingdom Treasury Delegation" was the person responsible for spreading the report that either the Treasury or the White House would issue this afternoon, or this evening, a statement on various problems including comments on Krock's story in today's New York Times.

Daishes said Brand had given this report to at least a dozen newspaper reporters following a conference this morning with unnamed officials of the Treasury. Incidentally, Daishes informed me the Embassy is being swamped with queries on the matter.

11-3-44 99 ✓

Mr. Dickerson

VERBATIM

CORRESPONDENT: Mr. President, any comments please on the published report that Great Britain seeks certain lend-lease supplies of a non-military nature for resale in their own export trade?

PRESIDENT: Never heard of it, never heard of it.

CORRESPONDENT: It was in the New York Times this morning.

PRESIDENT: I'm sorry.

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L E N D L E A S E

WASHN - A P - PRESIDENT ROOSEVELT SAID HE HAS NEVER HEARD OF A STORY THAT THIS COUNTRY IS CONSIDERING GIVING GREAT BRITAIN 2 500 000 000 DLS OF NON-MILITARY SUPPLIESX FOR EXPORT RE-SALE

THE NEW YORK TIMES PUBLISHED TODAY A STORY SAYING MR ROOSEVELT AND HIS ADVISERS HAVE THE PLAN UNDER CONSIDERATION AND ARE DISCUSSING IT WITH A BRITISH DELEGATION HEADED BY LORD KEYNES

WHEN MR ROOSEVELT SAID HE NEVER HAD HEARD OF THE STORY A REPORTER TOLD HIM IT APPEARED IN THE TIMES THIS MORNING - THE PRESIDENT REPLIED ONLY THAT HE WAS SORRY IMPLYING HE STILL HAD NOT HEAR OF IT

-V-

WASHN - I N S - PRESIDENT ROOSEVELT TODAY FLATLY DENIED A REPORT THAT LEND-LEASE GOODSX TO BRITAIN WILL BE MADE AVAILABLE FOR BRITISH RE-EXPORT

AT SAME TIME OFFICIALS OF FOREIGN ECONOMIC ADMINISTRATION ACKNOWLEDGED THAT A NEW LEND-LEASE AGREEMENT IS BEING NEGOTIATED WITH GREAT BRITAI TO COVER THE PERIOD OF THE PACIFIC WAR AFTER THE COLLAPSEOF GERMANY AND THAT RESTRICTIONS WILL BE RELAXED ON BRITISH EXPORTATION OF GOODS ACQUIRED FROM UNITED STATES BY DIRECT PURCHASE

MEANTIME IT WAS LEARNED THAT A SWEEPING PLAN BY WHICH ECONOMY OF GREAT BRITAIN WILL BE SUPPORTED BY FINANCIAL AND ECONOMIC ASSISTANCE FROM THE UNITED STATES DURING -PHASE TWO- OF THE WAR HAS BEEN DISCUSSED AND GENERAL PRINCIPLES AGREED UPON IN WASHINGTON CONFERENCES BETWEEN BRITISH AND AMERICAN EXP-ERTS IT WAS LEARNED TODAY

THE PLAN INCLUDES A PROPOSAL TO CONTROL RECONVERSION IN BOTH COUNTRIESX SO THAT BRITAIN WOULD NOT BE -OUTDISTANCED- BY THE UNITED STATES IN PRODUCTION BETWEEN THE TIME OF GERMANY-S FALL AND DEFEAT OF JAPAN

THE CONFERENCES HAVE FOLLOWED A PATTERN LAID DOWN IN A DIRECTIVE PREPARED AT QUEBEC BY PRESIDENT ROOSEVELT AND BRITISH PRIME MINISTER CHURCHILL - THE GENERAL PURPOSE OF THE PLAN IS TO KEEP BRITISH ECONOMY -IN STEP- WITH AMERICAN ECONOMY DURING THE PERIOD BETWEEN THE END OF THE EUROPEAN WAR AND THE END OF THE WAR WITH JAPAN

THE LEADING BRITISH NEGOTIATOR IS LORD KEYNES ECONOMIC ADVISER TO THE BRITISH TREASURY WHO CAME TO WASHINGTON FROM LONDON DIRECTLY AFTER THE QUEBEC CONFERENCE

AS THE KEYNES CONVERSATIONS DRAW TO A CLOSE A STATEMENT IS ABOUT TO BE ISSUED BY THE TWO GOVERNMENTS WHICH WILL COVER THE FOLLOWING MAJOR POINTS OF AMERICAN AID TO BRITAIN

1- LEND LEAVE WILL BE CONTINUED THROUGH -PHASE TWO- OF THE WAR- IT IS UNDERSTOOD THE BRITISH REQUEST FOR LEND-LEASE IN THIS PERIOD AMOUNTED TO 6 500 000 000 DLS

2- RELAXATION OF EXPORT CONTROLS WHICH HAVE PREVENTED BRITAIN FROM RE-EXPORTING LEND-LEASE GOODS - THE ORIGINAL RESTRICTION AS SET FORTH IN A BRITISH WHITE PAPER TWO YEARS AGO REQUIRED THAT UNITED STATES OFFICIALS SHOULD PASS ON ALL BRITISH REQUESTS FOR EXPORTS SO LONG AS BRITAIN WAS ACQUIRING GOODS UNDER LEAND-LEASE

THIS WOULD NOW BE MODIFIED TO PERMIT BRITAIN TO RE-ENTER THE EXPORT FIELD BUT WHETHER SHE WILL BE PERMITTED TO RE-EXPORT LEND-LEASE GOODS OR ONLY GOODS BOUGHT FOR CASH HAS NOT BEEN DETERMINED - ONE AMERICAN OFFICIAL TOLD INTER-NATIONAL NEWS SERVICE THAT RE-EXPORT OF LEND-LEASE GOODS -WILL BE PERMITTED- ONLY OVER MY DEAD BODY-

3- COORDINATION OF RECONVERSION - THE OBJECTIVE IS TO HOLD BACK RECONVERSION OF WAR INDUSTRIES IN UNITED STATES TO A DEGREE WHICH WOULD BE -FAIR- TO GREAT BRITAIN AND TO PREVENT UNITED STATES FROM GETTING OFF TO A HEAD START IN CAPTURING POST WAR EXPORT MARKETS

AT FIRST AN ATTEMPT WAS MADE TO REGULATE THE RECONVERSION OF THE TWO COUNTRIES IN GREAT DETAIL SO THAT MANUFACTURERS OF A GIVEN LINE OF GOODS IN UNITED STATES WOULD KEEP IN STEP WITH THE SAME TYPE OF MANUFACTURERS IN GREAT BRITAIN

THIS WAS ABANDONED HOWEVER AS BEING TOO COMPLICATED AND AN -OVERALL- PLAN WAS SUBSTITUTED WHEREBY THE TWO COUNTRIES WILL BE KEPT TO THE SAME PERCENTAGE OF RECONVERSION AT A FIXED DATE - - NAMELY SIX MONTHS AFTER THE COLLAPSE OF GERMANY

IT IS UNDERSTOOD THAT THE FIGURE OF 40 PC HAS BEEN DISCUSSED - THAT IS BOTH COUNTRIES WOULD AGREE TO RECONVERT BY NO MORE THAN 40 PC OF NORMAL PEACE TIME CAPACITY AT THAT DATE

WITHOUT SUCH AN AGREEMENT BRITISH EXPERTS HAVE ARGUED THAT THEIR INDUSTRY WOULD BE OUT-DISTANCED IN -PHASE TWO- OF THE WAR WHEN ALL BRITISH PRODUCTION WOULD HAVE TO BE WAR PRODUCTION BUT A LARGE PART OF AMERICAN PRODUCTION COULD BE CONVERTED TO CIVILIAN GOODS

ON OTHER HAND IF BRITAIN CONTINUES TO RECEIVE LEND-LEASE GOODS AND IS PREVENTED A DEGREE OF RECONVERSION A -FAIR- BALANCE COULD BE ACHIEVED - AN AMERICAN OFFICIAL EXPRESSED IT THIS WAY

-WE DON-T EXPECT BRITAIN TO MAINTAIN A 100 PC WAR FOOTING TO QUALIFY FOR LEND-LEASE-

-V-

BRITISH-AMERICAN LEND-LEASE DISCUSSIONS

WASHN - D J - TOP OFFICIALS IN FOREIGN ECONOMIC ADMINISTRATIONS SAY THAT IT IS NOW ESTIMATED BRITISH LEND-LEASE REQUIREMENTS FOR 1945 WILL REACH 6 500 000 000 DLS

DISCUSSIONS CURRENTLY BEING CARRIED ON BETWEEN STATE DEPT AND F E A OFFICIALS FOR THE U S AND LORD KEYNES AND A STAFF OF EXPERTS FROM GREAT BRITAIN CENTER AROUND THIS FIGURE ALTHOUGH AS THE WAR PROGRESSES IT MAY BE SUBSTANTIALLY REDUCED

NONE OF THE ITEMS COVERED BY THE ESTIMATE FOR LEND-LEASE INCLUDE NON-MILITARY PRODUCTS WHICH BRITISH COULD RE-EXPORT IN REBUILDING HER WORLD TRADE

SAID ONE OFFICIAL- -THE BRITISH HAVE NEVER ASKED FOR THE RIGHT TO RE-EXPORT LEND-LEASE SHIPMENTS IN BUILDING UP COMMERCIAL TRADE AND THE U S WOULD NOT ACCEPT SUCH A PROPOSAL IF IT WERE MADE-

THE ESTIMATED 1945 LEND-LEASE REQUIREMENTS OF BRITAIN GREW OUT OF THE ROOSEVELT-CHURCHILL QUEBEC CONFERENCE OFFICIALS SAID - HOWEVER AT THOSE SESSIONS NO FIGURE WAS ACTUALLY ARRIVED AT - THE CONFERENCE ARRIVED AT -STRATEGIC DECISIONS- FOR THE UTILIZATION OF LEND-LEASE GOODS AND THE FACILITIES AND PRODUCTS OF BOTH BRITAIN AND U S THROUGH POOLING FOR THE SPEEDIEST POSSIBLE VICTORY

DETERMINATIONS ARRIVED AT IN QUEBEC WERE TURNED OVER TO STAFF CHIEFS OF ARMY NAVY AND AVIATION OF BRITAIN AND THEIR COUNTERPARTS IN THIS COUNTRY FOR PURPOSE OF CONVERTING THEM INTO ACTUAL MUNITION ITEMS AND RAW MATERIAL AND FACILITIES FOR USE IN MILITARY PRODUCTS - FOOD ALSO WAS INCLUDED ON THE LIST

DECISIONS OF THE STAFF CHIEFS WERE THEN RELAYED TO THE COMBINED RAW MATERIAL AND COMBINED WAR PRODUCTIONS BOARDS COMPOSED OF REPRESENTATIVES OF THE TWO COUNTRIES FOR PURPOSE OF PREPARING SCHEDULES FOR THE FUTURE OUTPUT AND UTILIZATION OF POOLED AMERICAN AND BRITISH PRODUCTS OF WAR

NOV 3 1944

LORD KEYNES AND MEMBERS OF THIS MISSION HAVE BEEN IN THIS COUNTRY FOR WEEKS. OFFICIALS SAID WORKING ON CURRENT AND FUTURE LEND-LEASE AND CASH REQUIREMENTS OF THE BRITISH

AS PRODUCTS NOW BEING SHIPPED UNDER LEND-LEASE NO LONGER ARE NEEDED FOR WAR. THEY ARE TRANSFERRED TO A CASH PROGRAM WHICH LORD KEYNES IS ALSO NEGOTIATING ON WITH F E A AND STATE DEPARTMENT OFFICIALS - AN EXAMPLE IS THE REMOVAL OF MACHINE TOOLS FROM THE LEND-LEASE SHIPMENTS TO BRITISH NEARLY 12 MONTHS AGO - IT WAS FOUND THAT THEIR NEED FOR WAR PRODUCTION WAS LESS AND FOR CIVILIAN PRODUCTION GREATER AND THAT THEREFORE THEY WERE NO LONGER ELIGIBLE UNDER LEND-LEASE

THE UNITED KINGDOM AND UNITED STATES LEND-LEASE AND TRADE CONFERENCES ARE SEEKING TO DEVELOP HOW AND WHEN PRODUCTS NOW GOING TO BRITAIN FOR WAR PRODUCTION - RAW MATERIALS AS WELL AS MILITARY PRODUCTS - CAN BE CUT DOWN AND IN THEIR PLACE SUBSTITUTED CASH ITEMS WHICH BRITISH WILL BE FREE TO RE-EXPORT OR USE IN GREAT BRITAIN FOR REBUILDING HER HOME ECONOMY

LIMITING FACTORS IN MEETING REQUESTS OF BRITAIN FOR AMERICAN PRODUCTS TO BE BOUGHT FOR CASH AND USED FOR RE-EXPORT IN BUILDING COMMERCIAL BRITISH TRADE ARE THE SAME AS THOSE WHICH HAVE BEEN BOTTLENECKS IN WAR PRODUCTION AND DISTRIBUTION OF WAR PRODUCTS TO THE VARIOUS THEATRES OF WAR - THEY ARE - RAW MATERIALS FACILITIES MANPOWER AND SHIPPING SPACE

THE AMERICAN-BRITISH CONFERENCES NOW GOING ON WITH RESPECT TO FUTURE SHIPMENTS TO BRITAIN UNDER LEND-LEASE AND FOR CASH ARE ATTEMPTING TO PROJECT INTO THE FUTURE WHAT CAN BE MADE AVAILABLE TO THE BRITISH FOR CASH - BUT OFFICIALS SAY IT WOULD BE PERFECTLY SILLY TO ATTEMPT TO BE SPECIFIC ABOUT GOODS TO BE AVAILABLE FOR NON-MILITARY PURPOSES WHEN THERE ARE SO MANY LIMITING FACTORS - IF RAW MATERIAL WERE AVAILABLE FOR CASH IT WOULD STILL HAVE TO BE CLEARED BY THE COMBINED RAW MATERIAL BOARD AND THEN SHIPPING SPACE NOW USED FOR LEND-LEASE WOULD HAVE TO BE MADE AVAILABLE

THE F E A HAS FUNDS TO SHIP THE 6 500 000 000 DLS OF LEND-LEASE ITEMS TO BRITAIN SINCE ONLY THE NON-MILITARY ITEMS COME OUT OF ITS 5 000 000 000 DLR APPROPRIATION - DIRECT MILITARY ITEMS - - MUNITIONS GUNS ETC - - ARE TAKEN OUT OF MILITARY AND NAVAL APPROPRIATIONS RATHER THAN F E A FUNDS

-V-

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EXECUTIVE OFFICE OF THE PRESIDENT
WAR REFUGEE BOARD

INTER-OFFICE COMMUNICATION

DATE November 3, 1944

TO Secretary Morgenthau
FROM J. W. Pehle

The following is the story on the Eisenhower statement:

On September 28, 1944, I sent a letter to McCloy transmitting the suggestion that General Eisenhower issue a statement warning the Germans against the extermination of persons held in forced-labor battalions and in concentration camps. We had been getting many requests for additional statements by the President and by military authorities and it was felt here that it made more sense for Eisenhower to issue a statement which would not be interpreted as a political gesture. Also we felt that such an action might have some effect since Eisenhower presumably will be in charge of certain parts of Germany when occupied. A copy of the statement transmitted to McCloy is attached, marked Exhibit A.

Simultaneously, this statement was cleared in principle with the State Department which suggested certain language changes.

On or about October 9, Judge Rosenman called me concerning a request that Proskauer had made that the President issue a statement. I told Rosenman about the proposed Eisenhower statement and he was fully in agreement that it would be preferable for General Eisenhower to issue a statement rather than the President. He asked if he could be of any help in pushing the statement with the military authorities and I sent to him a suggested memorandum from the President to Secretary Stimson approving the statement. The President signed the memorandum to Secretary Stimson on October 18. A copy of the President's memorandum is attached, marked Exhibit B.

In the meantime, the War Department transmitted the text of the proposed statement to General Eisenhower for his views. Eisenhower said that he had no objections to issuing the statement provided a change was made in the language to change the words "Without regard to their nationality and whether they are Jewish or otherwise" to read "Without regard to their nationality or religious faith". The War Department submitted the matter to the British authorities who also suggested an unimportant language change which was made.

Upon receipt of Eisenhower's comments the War Department replied to the President's memorandum on October 20, furnishing him with a copy of the statement in its latest form and telling him that the matter was pending with the Combined Chiefs of Staff. Apparently the President, instead of filing the revised statement or writing on it "Approved, F.D.R.", signed the statement and returned it to the War Department. The War Department was somewhat mystified by the President's signature on the statement and asked me to clear up the matter. Judge Rosenman's secretary checked into the facts and told me to advise the War Department that the President had merely meant to approve of Eisenhower issuing the statement.

It is expected that General Eisenhower will issue a statement along these lines in the near future. The latest version of the statement is attached as Exhibit C.

At the same time, we are working through the State Department to try to get Russian military or civil authorities to issue a comparable statement, which would be very significant since the Russians, to our knowledge, have never taken any such action.

I have searched my recollection further as to whether I mentioned this matter to you. I know that I intended to do so and thought that I had. However, since you do not recall it I assume that you are correct and you were not kept up to date on the matter. Certainly you should have been.

Attachments



GERMANS!

There are within your midst large numbers of persons in forced-labor battalions and in concentration camps. A great many citizens of the United Nations, including Poles and Czechoslovaks are among these captives. There are also among them many persons who have been declared by Hitler to be stateless. Without regard to their nationality and whether they are Jewish or otherwise, Germans, these are my orders: You shall disregard any order from whatever source, to molest, or otherwise harm or persecute any of these people. As the Allied armies, already firmly on German soil, advance, I shall expect to find these persons alive and unharmed. Severe penalties will be inflicted upon anyone who is responsible, directly or indirectly, in large measure or in small, for their mistreatment. Those now exercising authority, take heed!

(Text of proposed statement by General Eisenhower as transmitted to McCloy on September 28.)

"EXHIBIT B"

October 18, 1944

MEMORANDUM TO SECRETARY STIMSON

There is attached a proposed statement to be issued by General Eisenhower with respect to prisoners in enemy concentration and forced labor camps which the War Refugee Board has submitted for consideration.

In view of the seriousness of the situation, I think General Eisenhower should issue such a statement as promptly as possible.

FDR

GERMANS

There are within your midst large numbers of persons in forced-labor battalions and in concentration camps. Without regard to their nationality and whether they are Jewish or otherwise, Germans, these are my orders: You shall disregard any order from whatever source, to molest, or otherwise harm or persecute any of these people. As the Allied armies, already firmly on German soil, advance, we shall expect to find these persons alive and unharmed. Severe penalties will be inflicted upon anyone who is responsible, directly or indirectly, in large measure or in small, for their mistreatment. Those now exercising authority, take heed!

EXHIBIT "C"

GERMANS!

There are within your midst large numbers of persons in forced-labor battalions and in concentration camps. Without regard to their nationality or religious faith, Germans, disregard any order from whatever source, to molest, or otherwise harm or persecute any of these people. As the Allied armies, already firmly on German soil, advance, we shall expect to find these persons alive and unharmed. Severe penalties will be inflicted upon anyone who is responsible, directly or indirectly, in large measure or in small, for their mistreatment. Those now exercising authority, take heed!

(Latest version of the Eisenhower statement - Nov. 3, 1944)

NOV 3 1944

Dear General Eisenhower:

When I saw you last summer you asked me if the Treasury could make up a book of specimens of the various currencies and stamps which had been made for use by the Allied Armies in the several European countries. I now have those books as follows:

1. Specimens of Allied Military Lira and Postage Stamps
2. Specimens of Supplemental French Franc Currency and Postage Stamps
3. Specimens of Committee French Franc Currency and Postage Stamps
4. Specimens of Allied Military Mark Currency and Postage Stamps

These are rather heavy to ship to you in Europe and I have given instructions for them to be held in safekeeping here in the Treasury until your return or receipt of further instructions.

With kind personal regards, I am

Cordially yours,

(H. M.) H. 93 Jr.
[Signed] H. Morgenthau, Jr.

General Dwight D. Eisenhower
Supreme Headquarters
Allied Expeditionary Forces

NOV 3 1944

Dear General Holmes:

When I was in Europe last summer you and General Eisenhower asked me for books of specimens of the various currencies and stamps which had been made for use by the Allied Armies in the several European countries. I now have those books as follows:

1. Specimens of Allied Military Lira and Postage Stamps
2. Specimens of Supplemental French Franc Currency and Postage Stamps
3. Specimens of Committee French Franc Currency and Postage Stamps
4. Specimens of Allied Military Mark Currency and Postage Stamps

These are rather heavy to ship to you in Europe and I have given instructions for them to be held in safekeeping here in the Treasury until your return or receipt of further instructions.

A letter to General Eisenhower advising that similar books have been prepared for him has gone forward.

With kind personal regards, I am

Cordially yours,

(Signed) H. Morgenthau, Jr.

General Julius I. Holmes
Supreme Headquarters
Allied Expeditionary Forces

November 3, 1944

My dear Jack:

I am returning to you herewith copy #338 of "Germany and Austria in the Post-Surrender Period". Thank you very much for letting me study this document.

Yours sincerely,

[Signed] Henry

Honorable John J. McCloy,
Assistant Secretary of War,
War Department,
Washington, D. C.

P. S. Enclosed herewith find copy of my letter to Stettinius.

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TOP SECRET

THE ASSISTANT SECRETARY OF WAR
WASHINGTON



20 October 1944

Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Washington 25, D. C.

Dear Mr. Secretary:

I enclose some policy directives prepared by the British for submission to the EAC covering Germany and Austria in the Post-Surrender Period.

As we are short of these copies, I wonder if you could return this to me after you have had a chance to go over it. We are working on it now and will have our suggestions in due course but as our work is not completed on them I cannot give them to you now.

Sincerely,

A handwritten signature in cursive script, appearing to read "J. G. Kelly".

Inc.

TOP SECRET

November 3, 1944

Dear Ed:

I am sending you herewith Memorandum on the British Draft of Policy Directive for Germany.

This was shown to the War Department, and with their approval I gave a copy of it to Lord Cherwell just before he left.

Sincerely yours,

(signed) Henry

The Honorable Edward B. Stettinius, Jr.,
Under Secretary of State,
Washington, D.C.

November 3, 1944.

Dear Mr. Wels:

I appreciate greatly your kindness in sending me a copy of a letter to you from a New York lawyer now serving in France as a lieutenant.

Naturally I was much interested in what he said about the "Morgenthau plan" as well as in other judgments of the men at the front.

The opinions of thoughtful soldiers on matters such as your correspondent discusses certainly are worth heeding.

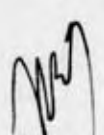
Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Isidor Wels
551 Fifth Avenue
New York 17, New York

HEG/mah



LAW OFFICES
MOSS & WELS

FRANK MOSS (1903-1980)
ISIDOR WELS
RICHARD H. WELS

551 Fifth Avenue
New York (17) November 1, 1944

Hon. Henry Morgenthau,
Secretary of the Treasury,
Washington, D. C.

My dear Mr. Secretary:

Yesterday I received a letter from a New York attorney whom I know very well. I have a high regard for his judgment. He has been overseas for a couple of years and is now serving as a lieutenant in France. I send this to you because of the reference to your plan.

Sincerely,

Isidor Wels

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TO:

Mrs KLG

The Secretary
will find this
Spec's letter
quite interesting

JKG

FROM: MR. GASTON

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EXTRACTS FROM A LETTER RECEIVED FROM A NEW YORK
LAWYER, NOW IN FRANCE. THE LETTER IS DATED
OCTOBER 8th, 1944.

- - - - -

The whole idea of going home has raised a helluva hullabaloo over here because of the Army's recent publication of its plan for partial demobilization after the defeat of Germany. The joker is that publicity accompanying the plan said that we were consulted, and the plan was the net result of our suggestions. Yet nobody has found anybody who was consulted, nor for that matter anybody who is satisfied with it. Preferences and priorities are given to the men with children, which means that those who quickly married and had pregnant wives the day after in a vain effort to avoid the draft are now given the stamp of approval by the army. Penalized are the more conservative single men who decided to wait until this mess was over and they knew their economic ability before taking on family obligations. Also, no distinction is made between ages, so it doesn't make any difference whether you are 21 or 41.

If the men over here were consulted, they have the best plan of all, but no Congressman would have guts enough to suggest it. They think that the major job of policing of Germany should be done by European countries with most at stake. Of course, we should be represented with a cadre made up of regular army men plus those selectees who want to stay. Then there should be compulsory military training for one year, with four months spent in basic training in the states and at least six months on occupational duty in Germany. The kids thus on duty would lose nothing socially or economically; in fact, they would be broadened by the experience. Our country would have an army, and middle aged single men would be able to go home, marry and have families and there would be no gap in the next generation. But you find a Congressman who would suggest such legislation. Compulsory military training costs votes, and nobody wants to lose votes. Yet there is no doubt that it is the best plan to cause the least discomfort to the least number of people, and anybody in the states who will even start a whisper about it will be a permanent hero over here.

* * * *

Everybody over here is pretty angry about the treatment accorded German PWs. True, we should **obey** the Geneva conference rules, because we have our own boys who are prisoners to think about. But there is no sense to this bending over backwards about it. Why should they get new tents to sleep in, cigarettes to smoke, and oranges to eat in the very face of Frenchmen who haven't had an orange in five years, and who when they were PWs in Germany were rewarded with a clout over the backs if they even ventured a thought about a cigarette.

The handwriting on the wall is now clear. We are afraid that the softies back in the states, who fight their wars from cocktail bars and Park Avenue sofas have the ears of the powers that be. Soon will come the day when the American public will feel

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that the Germans are really a peace loving, sauerkraut eating, beer drinking people, who were misled by a handful of nasty men. Individual German citizens will claim that they were really pro-Ally all the time, that they were **never** Nazis, and that they only joined the party out of economic necessity. And the stupid Americans will believe them, and ship tons of clothing and food stuffs, while the recipients will laugh heartily at us behind our backs for being the fools that we are.

We now hear talk about reconstruction of German industry to pay reparations. Our attitude is: To hell with the reparations. Every country in the world is presently making a sucker out of America, and we might as well play sucker to the extent of a few more billions, and follow the Morgenthau plan to make Germany strictly an agricultural country. Let her industrialize, and we will be back here fighting in another 20 years. The difficulty is that a lot of people are talking and planning about things they know nothing about. Maybe if they were here and understood the news behind the news it would help change their minds. Maybe they don't realize behind the news that when a certain city is taken there is a story of blood, terror, horror, death, and wounds worse than death. If they saw a little of that, they wouldn't be quite so soft.

TO:

Mrs Klob

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Note that this
letter asks the
publisher of the
Cincinnati Enquirer
to drop in sometime.
He is likely to accept
since his press is the
trust department of
American Security & Trust
Co., just across the street.

FROM: MR. GASTON

WES

November 3, 1944.

Dear Mr. Ferger:

I thank you for your courtesy in writing to me in reply to my letter erroneously addressed to your predecessor, Mr. Wiley.

My appreciation of the Enquirer's editorial is increased by the knowledge that you as publisher directed its preparation.

I hope you will find it convenient to call on me on one of your visits to Washington.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Roger H. Ferger
Publisher, The Enquirer
Cincinnati 1, Ohio

HEG/mah

The Cincinnati Enquirer

One of the World's Greatest Newspapers

OFFICE OF
THE PUBLISHER

Dear Mr. Morgenthau:

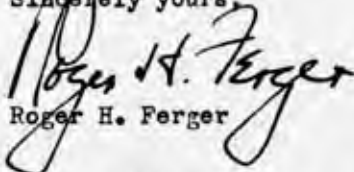
Your letter of October 19th, addressed to W. F. Wiley, our late Publisher, who died on August 24th, was referred to me upon my return to Cincinnati this morning. I succeeded Mr. Wiley as Publisher of the Enquirer.

I am glad you approve our editorial treatment of the highly controversial question - "Conversion of Germany."

So frequently in questions of this kind there is so much more heat than light that people are inclined to let their emotions run away with their judgment. We followed this question very carefully and felt that you made a sane contribution in the matter and that Major George Fielding Eliot added to the weight of your cause. That was the reason I had prepared the editorial which you mentioned.

Your letter we will regard only as a personal expression and will not publish it. I want you to know, however, your interest is appreciated.

Sincerely yours,


Roger H. Ferger

The Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D.C.

October 31, 1944

November 3, 1944

Mr. Erwin D. Canham
Editor, The Christian Science Monitor
Boston, Massachusetts

Dear Mr. Canham:

A paragraph in the editorial in which you "come out" for Dewey disturbs the admiration I have always had for the Christian Science Monitor and moves me to write to you personally. The paragraph reads: "No one knows how much of the new stiffening of German resistance is due to the amazing episode in which Mr. Roosevelt allowed Secretary Morgenthau to by-pass the State and War Departments and bring out a plan for German industry with which Herr Goebbels was able to frighten all Germans."

There are several features of this that seem to me to depart a long way from Monitor standards of accuracy and intelligence:

(1) "allowed Mr. Morgenthau *** to bring out a plan***." Mr. Morgenthau didn't bring out anything. Flynn of the Wall Street Journal and Hightower of the Associated Press printed stories purporting to summarize confidential recommendations made by Secretary Morgenthau to the President. They were characterized by Joe Harsch in a story in the Monitor as "leaks" and Secretary Morgenthau does not know their source to this day; nor do I. His investigations have convinced him that they didn't come from the Treasury.

(2) "*** to by-pass the State and War Departments." The newspapers have reported that the President appointed a Cabinet Committee to consider the question of the treatment to be accorded Germany after the war, the members chosen by him being the Secretary of State, the Secretary of the Treasury and the Secretary of War. If as a result separate memoranda by each one of the three members of the Committee were submitted to the President is there any record on which the charge that anybody was "by-passed" can be fairly based? I wonder if the thought here can be that the terms of peace to be imposed on Germany, which will affect the whole future of the world for generations, are the sole business of any one or two members of the Cabinet - that

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they are purely of military or diplomatic concern - and that the President has no right to consult others. That would seem to me a strange concept indeed.

(3) "No one knows how much of the new stiffening of German resistance is due" etc. I think in fact that no one has any military basis or authority for believing that there has been any new stiffening of German resistance based on this episode or any other propaganda consideration. Did the going become tougher on the Italian front? On the eastern front? There is no evidence of it. What we do know is that after the hard shell of German resistance in Normandy was broken the Germans scurried back behind the Westwall, naturally losing a good many men in the process, and that, once behind their prepared defenses on German soil, they have resumed a vigorous resistance. Did any sane person expect anything different? Certainly no military man with any claim to competence did. Two pretty good Republican newspapers have expressed themselves on this point. The Herald-Tribune on October 1 said of Senator Johnson of Colorado that "his charge that 'prior to the announcement of the Morgenthau plan the Germans were surrendering in droves; now they are fighting like demons' is simply nonsense." The Chicago News said on October 17: "In conclusion we beg leave to disagree with those who think the Germans in France surrendered because of the leaflets we dropped on them, and are fighting harder now because of Mr. Morgenthau. The Germans in France surrendered because they were utterly defeated in one of history's most brilliant campaigns. The Germans now fighting us are not those who surrendered. These Germans are fighting hard because they have been and are good soldiers. When we beat them, they too will surrender." I won't labor the contrast between these statements and the Monitor's paragraph, which I can't help appraising as both partisan and irresponsible.

I haven't the slightest doubt that we could save the blood and the lives of thousands of American boys if an early peace with Germany was our main desire and we were willing to pay the price. We could do that simply by assuring the Germans that we would take no territory from them and would allow them and even help them to reconstitute their economy and go on with our blessing and forgiveness as they were before the war. Hitler and Goebbels have said practically this. And they trust us; they would take our word even if we wouldn't take theirs. Why don't we do that and isn't the idea that we ought to do just that implicit in the Monitor's editorial? Or have we an objective in this war which forbids such a course? The notion that at this stage of the war we ought to avoid making the Germans angry seems to me both ludicrous and tragic. It is tragic because it seems to reflect

the idea that we have no aims in this war and that all the blood and suffering are pointless and without good cause or reason.

If I took the view that German resistance had been stiffened at the needless cost of American lives through the publication of stories about the "Morgenthau plan", I would not hold the American press guiltless. This was not a story given out by or with authority. Its source was nameless and it was printed on the authority of the press associations and newspapers that circulated it. We have, I believe, a voluntary censorship under which reputable American newspapers agree not to print matter that is harmful to the public interest and likely to interfere with the conduct of the war. If the newspapers which gave currency to this story now say that it was harmful, that it stiffened German resistance, and even that it cost "thousands of American lives", do they not convict themselves of an act that it will be hard for them to defend before their own consciences?

I don't accuse them of prolonging the war or needlessly sacrificing American lives; but I think they can be accused of it with far more reason and justification than can the Secretary of the Treasury.

This may seem to you many words on a small text. I wouldn't write them if I didn't have high respect for you and for the Monitor. But in this I think you were gravely wrong.

Sincerely,

(Signed) Herbert E. Gaston
Assistant Secretary of the Treasury



THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

November 3, 1944

TO THE SECRETARY:

Mr. Bowles of the OPA has asked Mr. Bartelt to ascertain if you would be good enough to make a talk to the OPA Sixth War Loan Rally to be held around November tenth or some day thereafter at your convenience. I am told they have about 3900 employees.

Mr. Bowles would be very glad if you could do it, and he would introduce you.

*sub**yes he'll do this*

NOV 3 1944

Dear Mr. Helm:

I wish to thank you for your letter of October 7th in which you gave me some very interesting information concerning the reception of the new War Bond redemption procedure in your area. It is very helpful for me to know how any new move in the War Bond program is received throughout the country for this program has been the people's program from the start and anything bearing on it is of great concern to me.

It is reassuring to know that public reaction to the new procedure has been good, and I shall relay your message to members of my staff here to whom it will be of interest and value.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Grover C. Helm,
President,
The National Bank of Bloomington,
Bloomington, Illinois.

RWC:deb

(DIGEST FROM SECRETARY'S MAIL REPORT)

Grover C. Helm, President, The National Bank of Bloomington, Bloomington, Illinois. Knowing how vitally interested you are in the new program of allowing banks to cash Series E Bonds over-the-counter, I thought that you would be pleased to view the record of one country bank, such as our own. * * * On the first day 189 of the 279 bonds redeemed had been issued by Credit Unions and factories. We have talked to several bankers, and the majority of them informed the writer that the notice having gone out that October 2nd would be the first day, naturally many people who would have sent their bonds in during the last two or three weeks waited until the opening day, which, of course, made a lot of activity in their banks, but most of them thought it would gradually dry up. The reaction of the public is wonderful. They appreciate the fact that they do not have to pay either 25¢ or 50¢ and we have been told in some instances they have had to pay \$1.00 for certification of their bonds. You are to be congratulated for the inauguration of this new policy. (Referred to Mr. D. W. Bell)

MEMORANDUM FOR THE SECRETARY.

November 3, 1944.

Mail Report

With a sharp decline in correspondence about the Sixth Drive, our mail returned this week to more normal proportions.

Although it is too early to determine the volume to which it may rise, general bond correspondence indicates the development of several sore spots. In the last six days there have been indications of trouble in the delivery of bonds purchased by service personnel of the War Department. The increase in such complaints brought in 15 or more letters from relatives of service men reporting that September bonds, and occasionally July and August bonds, have not yet been received. Most of these writers explained that in the past, bonds always reached them by the middle of the month. The other sign of possible serious future trouble is in connection with the red tape surrounding the cashing of bonds and checks in the names of men killed in action. Apparently Treasury and bank officials are refusing the telegrams sent by the War and Navy Departments as proof of death, and wives and parents of men ~~so~~ killed do not see how they can get the ordinary Death Certificate and so receive the money that they need. There have also been indications that this dissatisfaction and distress is being reported to Congressional representatives and that we will hear from them in protest over the way these matters are handled.

There were only 20 bonds submitted here for redemption, and there was no further opposition to the over-the-counter plan for cashing them.

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Memorandum for the Secretary.

November 3, 1944.

The tax mail is still light. We received 16 demands for overdue refunds, and a few letters calling attention to pension trust funds which the writers seem to believe are being established to evade taxes.

The plan for making Germany an agricultural nation elicited 9 communications, and for the first time there was more unfavorable than favorable comment.

Letters forwarded from the White House during October totalled only 188, of which 140 were re-routed. It is interesting that approximately 65% of this mail concerned the nonreceipt of income tax refunds.

J. F. Forbush

Favorable Comments on Postwar Plan
for Germany

Joe H. Green, New York, New York. I heartily support your idea that Germany be shorn of all heavy industry for at least 50 years so as to end once and for all the beastly Teutonic menace to the world. Hoping you will continue this very worthy fight, and with my best wishes.

Capt. Benjamin Markoff, APO 511, c/o Postmaster, New York, New York. STAND BY YOUR GUNS HENRY! I am sure that you have been deluged with numerous letters from all over the world regarding the practical stand to make Germany an agricultural country. As an officer of the U. S. Army, serving 15 months overseas, and close to four years in the service, I am not in a position to be active politically, nor will circumstances permit me to dedicate all my energies to "educate" those who believe in a strong Germany after the war! * * * I do not want my children, or even my grandchildren, to have to fight our NAZI Germany again. To prevent this recurrence, every machine that can potentially produce weapons of war must be transferred on a quota basis. * * * Since when is the economy of Germany so important to the rebirth of French industry? Or Dutch, Belgian, Danish, Norwegian, Polish, Czech, Greek, Italian, or Russian, for that matter! Each of these countries would benefit more advantageously from intensification of their local resources. * * *

Charles Lahnstein, New York City, transmits copy of the following letter he has written to Mr. Louis Nizer of New York: "On Tuesday, October 24, 9:30 p.m., I listened to the American Forum of the Air -- 'What to do with Germany'. In the South American newspaper, Pueblo Argentino, in Montevideo, there is a report that high Nazi officials have already

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arrived in Buenos Aires to prepare refuge for the Nazi gangsters. Among those are Colonel Walter Osterkamp, former Commander of a Pursuit Squadron in Werneuchen, Germany. Osterkamp arrived with an Argentine passport made out in the name of Theodore Schmidt. Mr. Theodore Schmidt got a job in a school of aviation in Cordova in Argentina. * * * At the American Forum, Dr. George N. Shuster and Dr. John Haynes Holmes have tried to use all their influence to help those good, poor Germans. * * * Let's keep in mind that the attitude of the German militarists is that of professionals who have acquired high skill in a difficult and dangerous game. Their business is to wage war -- war to the knife. Their proficiency was not quite enough to win the game in 1918, so they employed the years of apparent peace in improving their skill. If it turns out once more that it has proved insufficient, the German militarists, the Prussian junkers, and the German industrialists will probably waste little time in repining. * * * Once more the German militarists will say to themselves: 'Well played, but lost!' Let's get ready for the next rehearsal in 1960. * * * "

Isidor Wels, Law Office, Moss & Wels, New York City. Yesterday I received a letter from a New York attorney whom I know very well. I have a high regard for his judgment. He has been overseas for a couple of years and is now serving as a Lieutenant in France. I send this to you because of the reference to your plan. " * * * Everybody over here is pretty angry about the treatment accorded German Prisoners of War. * * * Why should they get new tents to sleep in, cigarettes to smoke, and oranges to eat in the very face of Frenchmen who haven't had an orange in five years, and who, when they were Prisoners of War in Germany, were rewarded with a clout over the backs if they even ventured a thought about a cigarette. We are afraid that the softies back in the states, who fight their wars from cocktail bars and Park Avenue sofas

- 3 -

have the ears of the powers that be. Soon will come the day when the American public will feel that the Germans are really a peace loving, sauerkraut eating, beer drinking people, who were misled by a handful of nasty men. Individual German citizens will claim that they were really pro-ally all the time, that they were never Nazis, and that they only joined the party out of economic necessity. * * * We now hear talk about reconstruction of German industry to pay reparations. Our attitude is: To hell with the reparations. Every country in the world is presently making a sucker out of America, and we might as well play sucker to the extent of a few more billions, and follow the Morgenthau plan to make Germany strictly an agricultural country. Let her industrialize, and we will be back here fighting in another 20 years. The difficulty is that a lot of people are talking and planning about things they know nothing about. Maybe if they were here and understood the news behind news, it would help change their minds. Maybe they don't realize behind the news that when a certain city is taken, there is a story of blood, terror, horror, death, and wounds worse than death. If they saw a little of that, they wouldn't be quite so soft.

Unfavorable Comments on Postwar Plan
for Germany

R. F. Kelly, Willowbrook, California. I have a boy who suffered hardships unknown to the cushion pushers of Washington. He was with the first contingent of Marines to land in the Solomons on August 7, 1942. * * * My boy spent twenty-six months overseas, and when he finally came to the states for a furlough, what happened? He came in to Roosevelt Base in Wilmington, where he stayed for two days; he was then sent to San Diego in a truck packed with Marines to stand up for over one hundred miles. He was kept in San Diego for several days before he received his furlough papers. What did he see when he came home? Several bus loads of prisoners of war brought to Long Beach to an amusement park to enjoy themselves - cushioned buses to ride in, if you please! It is the above conditions that make American fathers and mothers who love their boys, hate and despise men like yourself and Harold Ickes..Ickes, the Jap-loving skunk. You and your unconditional surrender. How many mothers and fathers want to hold out for unconditional surrender? None. I hope that the Roosevelt bureaucrats are so badly defeated in November that they will hide their deceitful faces forever. I would like to see you and some of your ilk in the front lines and kept there until the war is over, and it would be over soon. I am sending copies of this letter to two good Republican Congressmen who have our country's interest at heart, who do not joke and laugh while our youth are spilling their blood, like your Commander-in-Chief does. Dewey is a man whose heart goes out to these grieving mothers and fathers, and does not wish to burlesque during times like these. So here is hoping that the War Mongers are completely eliminated in November.

William Upshur, Orlando, Florida. The present writer just finished reading Shirer's "Berlin Diary". Although he rakes Hitler and his henchmen over the coals good and plenty, he says over and over again that the German people as a whole were entirely apathetic at the beginning of this war; no enthusiasm, no fireworks, no meetings, speeches, and shouting, which shows that the people were against the war. Only a comparatively small, but loud and energetic minority, the Nazis, was for it. Much like with us, 85 to 95% were against our entering this conflict. As Hoover says -- you can have peace or revenge, not both. The idea of taking away from the German people the Saar, the Ruhr, East Prussia, Silesia up to Oder, would mean war, not peace, as Clemenceau cynically said of the Versailles makeshift.

1st. Lt. R. L. Heitkamp, c/o Postmaster, New York City. "From the Front". For God's sake, quit giving the German people an incentive to fight! Unconditional surrender is a hard enough bargain to strike without such promises as your plan for Germany. I agree with your plan, but why publicize it. * * * Germany still has a lot of fight left and you people with your plans for Germany -- demobilization, V-day, etc., do not make it easier for us. * * * Bear with us a little longer and it will all be over. Confidentially, we do not give a damn what happens to Germany after we defeat them on the battlefield, so long as we get back home, but quick! See our point? Don't make Germany a "tougher nut to crack".

General Comments

Solon G. Vlasto, President & Publisher, Atlantis Greek Daily, New York City. In increasing numbers we receive every day inquiries from our readers who anxiously are asking us if they are able to send material and financial aid to their distressed relatives in the liberated areas of Greece. To all our efforts to get a definite response to our inquiries, through the various authorities in New York, the only answer we have received so far is that they expect further orders from the State and Treasury Departments. Could it be possible, Mr. Morgenthau, that the sending of help to Greece by Americans of Greek descent be expedited so that the suffering there might be relieved more quickly and the anxiety of our people here minimized? On behalf of the Americans of Greek descent I express to you my deep appreciation and sincere thanks for any measures to be taken by the Treasury Department as you may see fit, with the assurance that you will have the everlasting gratitude of the Americans of Greek descent whose relatives in Greece are in dire need.

Walter G. Fuchs, M.D., Monticello, New York. In 1943 I filed a TFR-500 report in reference of my property in Germany that had been confiscated at a time when I was settled here as a physician. In the German R. St. Bl. 1938 (Reichs Stener Blatt), page 575, I am listed as expatriated and confiscated and I asked the Treasury Department in Washington for to please send me if possible a copy from this paper or a short statement. I received an answer, but besides was a sentence: "The reports on Form TFR-500 do not in any way constitute a registry of claims". Now, what else do they constitute? Why had we to file the TFR-500? For me they mean a claim and I will never give up the claim. If you can spare the time, I would appreciate to hear what the Government of the United States has in mind to do with the property of Americans in enemies' countries.

Donald Coe, Bronx, New York. When I heard about the K-9 Dogs being sold I wrote right away to the Treasury Department and offered \$10 for one. Last night on the radio I heard a man say they might be \$1.00. Gee, I sure want one of these dogs. I know lots about them because I had a poodle for 5 years. I am 12 $\frac{1}{2}$ years old and know how to take good care of dogs. My mother says its all right for me to have one of the K-9 dogs but doesn't think I have a chance. * * * Please, Sir, give me a chance first to applie for a dog. My Mother said the auction would be during the day and I go to school so that I wouldn't have a chance. If the treasury department has already got my name on the list I hope I hear from them so I can have the dog by Christmas or maybe before. Thank you very much for selling such swell dogs all traned to obey.

Congressman Lindley Beckworth (Texas). I wish to quote a pertinent portion of a letter I have received from Mr. Bryant Payne, East Texas Salt Water Disposal Company, Tyler, Texas."* * * I was under the impression that this Congress was going to do everything within their power to avoid the scandal and rotten disposal of surplus materials from the last war. I can't understand why it is necessary to have junk dealers and that sort to be the first purchasers from the Government when many outfits, such as ours and the Farmers Coops, could bid on and receive the stuff right out of the Service Commands. I know that consideration has been given to this surplus material, but why wait until all of it is disposed of under the setup as outlined in the letter received from the Eighth Service Command before the rest of the business firms and the individuals in the United States have a chance to bid on it? I think that every returned soldier should, if he desires, have the right to buy an airplane, a pair of shoes, or whatever he desires, at the same prices that these so-called dealers have a right to purchase at." * * *

Gerald M. Fennell, St. Moritz, New York City. I call your attention to the enclosed clipping, setting forth that there is now one billion dollars of French balance available in this country for you to apply on that Republic's six billion dollar debt to the United States, and which has been owing to this country upwards of a quarter of a century -- and on which, one of their leading generals told me while in the occupied part of Germany during the last war, they never expected to pay a sou. My experience is that they never pay a nickel of their debts, and I have had an office in Paris and have done business with the French people commencing in the 80's. This is an opportunity to at last collect some of the interest that they have owed us without ever paying a penny on account.

The following letter was addressed to the President by Mrs. E. D. Cargill, President, South Gate Hospital-ity House, South Gate, California, and referred by the White House to the Treasury for handling: "In South Gate, a city of about 43,000, we have a Hospitality House for servicemen that is the pride of the entire community and is supported entirely by volunteer contributions. We provide lodging for about 3,000 boys a month and serve them meals 24 hours a day -- all absolutely free. * * * About three weeks ago an investigator from the Internal Revenue Office came in and found us guilty of the hideous crime of coloring the margarine. On October 17th we paid a fine of \$7.40 and we were told that we would be watched and if we colored any more margarine we would be fined \$600. (they flatter us -- where would we get \$600.?). It is positively revolting to serve this stuff without some color. We understand that there are other patriotic, nonprofit organizations in this same predicament and wondered if you, in this national emergency, couldn't do something to correct this unjust and ridiculous situation."

Favorable Comments on Bonds

George E. Olmsted, Traverse City, Michigan. This letter is merely to express an appreciation of your brief and explicit letter of October 21 regarding quotas for employees for the Sixth War Loan. Previously we have received an excessive amount of literature and even long telegrams regarding the Drives. At least, as far as we are concerned, such use of borrowed funds has a depressive effect on management and employees alike. If the funds supplied are now to be used to a larger extent to supply equipment, rather than furnish publicity, we will all feel better about investing in War Bonds.

Unfavorable Comments on Bonds

Edith Nourse Rogers, House of Representatives. (Massachusetts) Relatives of men killed in action in the service have told me of difficulty in cashing War Bonds bought by the men or with their funds, either direct or on the survivor plan. Banks now refunding these purchases are asking for a death certificate which is not furnished by the Army, Navy, or Marine Corps, and are being referred to the Bureau of Medicine or Surgery, etc., for statements. Certainly the official announcement or telegram of death is considered sufficient for the services to give and some provision should be made to expedite the payment in such cases on the statement these survivors are given. Even a statement secured from a coroner in Texas on the death by accident in the Army flying service had to be sent to Chicago -- a duplicate or photostatic copy was not accepted. I believe that with the number of such casualties, there should be some system or plan by which expedited action is possible, as simple as possible, without the necessity of writing for official statements, and banks so instructed. * * *

Mrs. W. G. Doyle, New York City. Recently I complained about the Mfg. Trust Co., refusing to cash a bond in an emergency. The gentleman's name is Mr. Sears, who said it is his bank's ruling not to cash one for anyone that isn't a depositor. Today I verified his statement by going there and asking for his name. I asked for his name because a John L. Sullivan, Assistant Secretary of the Treasury, added insult to injury when he answered my complaint by saying, "I am confident that the Mfg. Trust Co., which has a record of whole-hearted cooperation in the Savings program, did not reject your application because you are not a depositor". I hold a few thousand dollars worth of bonds, have been too patriotic to get that kind of a line. My sons are also very active with the armed forces, and Mr. Sullivan's quotation is a bit off for a man in his position.

Senator Burnet R. Maybank (South Carolina) transmits the following letter he has received from Mr. C. P. Mangum of Chesterfield, South Carolina: "I am writing about a small matter, about which I do not know if anything can be done. Not knowing the regulations of the Government regarding issuing duplicate checks, I just thought I would write you how I have been treated, and just let it go at that. * * * I had to cash in one of my small bonds (\$25.00); no delay, and I received the check for the bond on August the 1st, 1944; endorsed it and sent it to Peoples Bank and Trust Company, Pageland, South Carolina, for deposit. About ten days after this, I made request for a duplicate as the check was lost or destroyed in the bank at Pageland. Several days elapsed and I received a surety bond to be executed, and on its return to the Charlotte Branch of the Federal Reserve Bank of Richmond, Virginia, I received notice they had forwarded it to the Treasury Department. * * * I waited approximately two weeks, and wrote the bank in Charlotte that it occurred to me the Treasury Department had had ample time to approve or reject it. No reply. * * * After waiting some two weeks longer, I wrote the Charlotte Branch of the Federal Reserve that it appeared to me I had lost the surety bond as well as the check, and for the protection of my bondsman to please return the bond, and I would let it go at that. No answer to this. * * * Sometime two weeks after this last statement, I received the bond from the Treasury Department, pointing out two places for me and my bondsman to sign -- had it completed and returned it to Washington, D. C. This was two weeks ago last Friday, the 13th of October. No replies to any of my inquiries. * * * I may be wrong, but I think I was due the courtesy of an answer to my request. Just think, two and a half months have passed since starting to get a duplicate check, and no encouragement that I will ever get it. Excuse me, but I am darn sore over the whole business."

Unfavorable Comments on Taxation

Mr. William Plummer, Eckhart Mines, Maryland. Again I find it necessary to write you about my 1943 income tax return money. This is the third time I have written about my tax money. It is rather funny to think everybody all around here has received theirs and I have yet to hear from mine. * * *

W. Erle White, President, White's Auto Stores, Wichita Falls, Texas. This corporation established an employees' profit-sharing trust for eligible employees in accordance with the 1943 Revenue Act. The trust agreement provided that the corporation would contribute to all trust members 15% of their annual salary. This, in the opinion of our attorneys and our accountants, complied fully with the Revenue Act of 1942. Shortly after establishing the trust we filed an application with the Treasury Department for approval. About sixty days ago we were notified by the Fort Worth office that many amendments would have to be made to the trust agreement. All of these amendments, we think, are wholesome and good for the corporation and the trust members except one. This is the rule which the Treasury Department has made that provides that stockholder officers of the corporation cannot have more than 30% of the trust contribution. This has the effect of reducing our contribution 50%, or from 15% to 7½% each, as four of us are the sole owners of this corporation. This is one of those businesses that was started back at the forks of the creek in the small town of Clinton, Oklahoma, in 1930. * * * We are still the sole owners, the directors and officers of the corporation. Under your discriminatory rule, half of our contribution is being taken away from us for 1942, 1943, and for all the years to come. There is another corporation right here in Texas that we know of that is much larger than ours, and 98% of their stock is owned by one man. Under this same discriminatory rule, his

corporation can contribute 30% of his salary for his benefit, whereas ours can contribute only 7½% of our salary, or 30% for the four of us as a class. The officers of large corporations, such as United States Steel Company, Montgomery Ward & Company, and General Electric, will be eligible for contributions from their corporations of 15% of their salaries because in no case do any of them own as much as 10% of the voting stock of the corporation. The rule, in our opinion, has the effect of benefiting officers of large corporations and one or two officers who own small corporations, but it robs the officers of country corporations such as ours that are owned by three or four people. * * * Is it the policy of the U. S. Treasury to discriminate against middle-class proprietors of businesses? * * * Do you believe that a discriminatory rule of this sort is in keeping with the true American spirit of equal justice under the law? * * * We are seeking the truth from you as the individual who has more to do with the policy-making of the Treasury Department than anyone else, and the answers you give us to our questions will enable us to chart the course of our future as businessmen.

Mowbray F. Pearson, Spokane, Washington. Your Department, through Mr. Ray Algeo, head of the Spokane office, is still trying to collect unemployment compensation on Ace Company's customers. On August 21 I sent a registered letter to you personally, asking for an abatement of this wholly unjust tax, which your Department had no right to levy in the first place. I paid for a person-to-person registered letter and asked for a return receipt. I did not even get a return receipt to show you got the letter. * * * I am entitled to an answer to official correspondence. I insist that you have no right to proceed further until you answer my letter and demand for abatement dated August 21, 1944 and registered, and marked addressee only - return receipt requested. * * The Ace Company, a corporation, sold ice to independent

dealers who took out a license with the State Tax Commission to do business. They collected the State Sales Tax and paid it to the Tax Commission. They bought their ice outright, stood their own shrinkage from cutting and melting, decided their own credit risks, stood their own credit losses, and other business expenses. The Ace Company paid them no wages. There was no basis on which to make assessments, so your assessments are wholly unwarranted and incorrect. * * * The Ace Company never had eight employees so it is against the law to levy any assessment. * * * The Department of Internal Revenue has repeatedly refused the Ace Company or Mowbray F. Pearson any information about how this assessment was arrived at. That is prima facie evidence that this is a fraudulent assessment. Demanding unemployment compensation on customers' unknown profits is impossible from a businessman's point of view, so the Ace Company went out of business. * * * Mr. Ray Algeo informs me either I have to sell some assets to pay this assessment against the Ace Company, a corporation, or he is going to do it. He said, "You had better do it because sales at public auction do not bring very much". These assets I have accumulated during a period of 49 years of hard work. Now your Department says I have to sacrifice those assets for 10¢ or 15¢ on the dollar to pay the assessment against the Ace Company (which it did not owe), and then I can sue to get back the amount. What would I get back if I won the suit? The amount of the tax? The amount it would cost me to replace what I sold at a tremendous sacrifice? What about the expense I have already been to? What about the loss of business and profit? * * * President Franklin D. Roosevelt talks very glibly of "Freedom from Fear" and "Freedom from Want" and "Social Security" and "Justice for All". Is that just hollow mockery, campaign oratory, and double talk that he produces for window dressing while the bureaucrats stab citizens in the back when they are trying to make an honest living? If there is such a thing as honor and justice in Washington under the Roosevelt Administration, I demand an abatement of this unjust assessment that your own records show is wholly unjust. If you deny an abatement on this request, I demand a

hearing on this matter. There has never been an open hearing on this at any time. You had a "Star Chamber" proceeding which I was not notified about, and at which I was not present, and then decided contrary to the evidence brought out at the hearing.
* * *

C. S. Fensom, Watkins-Cottrell Company, Hardware, Cutlery, Guns, Etc., Richmond, Virginia. You will find enclosed herewith a prospectus of the American Cyanamid Company, dated October 30, 1944, which probably already has been submitted, or will be submitted, for your consideration. The writer is also enclosing a copy of letter he has written in answer to this plan. No doubt the matter has received very careful consideration from your department, but it does seem it is time to stop this excessive retirement plan, which practically all of the very large corporations have adopted and which is going to impose a burden later on on the small taxpayer, which they are going to be unable to meet. * * *
(The following is taken from a copy of a letter addressed to the American Cyanamid Company, New York City, by Mr. Fensom.) " * * * I do not care to vote in favor of the proposition as outlined in your prospectus. I think it is very unfair and unjust to the stockholders; it is very nice for the employees. Too many corporations, whose officers happen to be well paid, are either establishing a retirement system of their own or paying to some insurance company, tremendous amounts of money to handle it for them. The result is that the stockholders, as well as the Federal Government, are both penalized, and the Government surely needs the taxes. It is making someone else pay tax which should be paid by corporations. * * * While profits are reasonable and dividends can be paid to stockholders, that is pretty good. But the day is coming, and it may be sooner than some think, when the net profits are going to be considerably reduced, and the stockholders

are the first to be penalized. * * * It seems to the writer that the big corporations are hedging and it is making the small people probably pay a larger proportion of taxes than they should. * * * Personally, I wish the Government would prohibit all of the big corporations from carrying out a plan which is both penalizing the Government and the stockholders, and the small business man."

Asa E. Martin, State College, Pennsylvania. The enclosed pension plan of the American Cyanamid Company impresses me as illegal and a clear attempt to put something across. The enclosed was accompanied by a proxy which called for a grant of voting power to the Board of Directors of almost unlimited power without any provision for a negative vote. Since the individual is practically helpless in cases of this kind, will you look into the proposal to make certain that it is a worthy proposition? I can see no reason for the presentation of the proposal in advance of your ruling on the case if they do not have some sinister motive in view. Please read the enclosed NOTICE TO STOCKHOLDERS and ask to see the PROXY sent to stockholders.

NOV 3 1944

My dear Mr. Celler:

You have requested an expression of this Department's views on your resolution, H. J. Res. 287, "To create a Committee on Federal and State Relations".

The resolution would provide for the creation of a Committee on Federal and State Relations, to be composed of three members of the Senate, three members of the House, and one representative from each of certain departments, including the Treasury Department. It would further provide that the Committee shall study the relations between the Federal Government and the governments of the various States and their political subdivisions with a view to determining what steps should be taken to bring about coordination and cooperation among the various levels of government and thus eventually to solve among other matters such problems as interstate trade barriers and conflicting and multiple tax levies. The Committee would submit a report of its studies and investigations, together with its findings and recommendations, to the President and Congress.

The need for coordinating the fiscal activities of Federal, State, and local governments has long been recognized by this Department. In appearing before the House Ways and Means Committee on May 27, 1939, I suggested "that Congress create a small temporary national commission to report to Congress as soon as feasible on the various aspects of intergovernmental fiscal policy and propose a plan for the solution of the problems involved". In a letter of April 4, 1940, to Representative Treadway on H. J. Res. 35, 76th Congress, 1st Session, I reiterated the need for such a commission, stating, "I have always regarded the problem of Federal-State conflicts in

taxation and overlapping of taxes as one of particular urgency, calling for the earliest possible consideration and solution".

In June 1941, I appointed the Committee on Intergovernmental Fiscal Relations to make a thorough-going study of this subject. This committee submitted its report to me in January 1943. The Report has since been printed, pursuant to Senate Resolution 160, as Senate Document No. 69, 78th Congress, 1st Session (595 pages). The subjects it covers are indicated by the following list of chapter headings:

- I. Development of the Coordination Problem.
- II. Coordination Devices and Institutions.
- III. Problems of Interstate Relations.
- IV. Problems of Federal-State-Local Relations.
- V. Fiscal Policy.
- VI. Miscellaneous Problems.
- VII. Specific Taxes (Income, Business, and Death Taxes).
- VIII. Specific Taxes (Excise, Sales, and Pay-Roll Taxes).
- IX. Specific Expenditures.

The study proposed by H. J. Res. 237 would be valuable in further focusing attention on the urgent problems of Federal-State relations and would be helpful in the search for appropriate solutions to such problems. I should like to suggest, however, that in the interests of a balanced point of view, the bill be amended to provide for the appointment of representatives of the States and their subdivisions to the proposed Committee on Federal and State Relations.

The Department has been advised by the Bureau of the Budget that there is no objection to the submission of this report to your Committee.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Hon. Emanuel Celler,

House of Representatives.

Mr. Board

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, 25, D. C.

1448

OCT 28 1944

My dear Mr. Secretary:

This will acknowledge the receipt of Administrative Assistant Bell's letter of October 25, 1944, transmitting two copies of your proposed report to Congressman Celler, relative to H. J. Res. 287, "To create a Committee on Federal and State Relations."

One copy of your proposed report is returned herewith, and I am authorized by the Director of the Bureau of the Budget to advise you that there would be no objection to the submission thereof to Congressman Celler.

Very truly yours,

V. E. Almond
V. E. Almond,
Acting Assistant Director,
Legislative Reference.

The Honorable,

The Secretary of the Treasury.

Enclosure:

Copy of proposed report.

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, 25, D. C.

AUG 26 1944

My dear Mr. Secretary:

Advice has been requested of the Bureau of the Budget as to the relationship to the program of the President of the proposal contained in H. J. Res. 287, a resolution "To create a Committee on Federal and State Relations."

Before giving advice regarding this proposal, the Director of the Bureau of the Budget would appreciate receiving an expression of your views with respect thereto.

Very truly yours,


Assistant Director,
Legislative Reference.

The Honorable,

The Secretary of the Treasury.

B-27

EMANUEL CELLER

10th District New York

MEMBER OF

COMMITTEE ON THE JUDICIARY

WASHINGTON SECRETARIES:

BESSIE EFFRAY MARGARET BROOKS

Congress of the United States
House of Representatives
Washington, D. C.

NEW YORK OFFICE:

1480 BROADWAY
New York City

1324 NEW HOUSE OFFICE BUILDING
WASHINGTON

NEW YORK SECRETARIES:

JACOB BRALLA MARY DOUGHERTY

June 22, 1944

Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

Enclosed please find a bill I have offered
together with explanatory statement.

I would appreciate your view thereon. I expect
to have a hearing on H. J. Res. 287 directly after the
coming recess. Your observations would be timely and
most welcome.

With assurances of highest esteem, I am

Sincerely yours,

Emanuel Celler
EMANUEL CELLER

Enc:

NOV 3 1944

Dear Mr. Hinckley:

I have your letter of October 30, 1944, advising of your desire to establish in your office a legal committee to advise with your General Counsel on questions of law that will arise from time to time under the Contract Settlement Act. Mr. Thomas J. Lynch, Assistant General Counsel, will represent this Department on such committee.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Robert H. Hinckley,
Director, Office of Contract
Settlement,
Federal Reserve Building,
Washington 25, D. C.

JJO'C:mv

OFFICE OF CONTRACT SETTLEMENT
FEDERAL RESERVE BUILDING
WASHINGTON 25, D. C.

DIRECTOR

(Haley)
Ex 3300
31.410

October 30, 1944

The Honorable
Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.

Dear Mr. Morgenthau:

I have come to the conclusion that it would be desirable to establish at this time a legal committee of the Contract Settlement Advisory Board to advise with the General Counsel of this Office on questions of law that are arising under the Contract Settlement Act and otherwise. I should therefore appreciate your informing me of the name of the individual you have selected to represent you on this committee.

Sincerely yours,


Robert H. Hinckley



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

November 3, 1944

TO THE SECRETARY:

On November 1 you sent Harry White and me a memorandum regarding the investigation of American banks in Paris, and suggested that we advise the Secretary of War what we are doing so that he does not place new responsibility with them.

At the suggestion of General Carter we have designated five of the American banks, including the American Express Company, as government depositaries. This was done for the purpose of enabling them to file application with the State Department for passports for their employees who would go from the United States to France.

The War Department was told, however, that no official use will be made of any of these American institutions until the whole matter has been further clarified. The War Department will not, therefore, deposit any funds with these banks until General Eisenhower approves the entry into France of representatives of American firms. Finance officers in France have been authorized to use the Bank of France and its branches so that there is no immediate problem in this connection.

sub



100-20

11

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
November 3, 1944

TO Secretary Morgenthau
FROM Mr. White

You called to my attention the report that American sailors, uninformed of the regulation permitting Americans to carry only \$2 bills into Mexico, have debarked there carrying \$5, \$10 and \$20 bills and have been compelled to accept scalpers' discounts on them. You asked that I do something about it.

I have conferred with Foreign Funds Control and it has been decided to amend the pertinent regulation to permit Americans to carry \$5, \$10 and \$20 bills. A cable has been prepared asking the American Embassy in Mexico City to confer with the Mexican authorities with the view of securing joint action to that effect. The Mexican Government is being informed of the experience of American sailors and men of the Merchant Marine, and a request is being made that provision be made for the interchange of dollars and pesos at par.

For purposes of effective enforcement Mexican regulations have been parallel to our own, and the lifting of the ban on these other denominations accordingly requires that the two Governments proceed jointly.

NOV 4 1944

In reply please
refer to: 74850

To: Mr. Francis H. Russell
Division of World Trade Intelligence
Department of State

From: Orvis A. Schmidt

It would be appreciated if the following message were dispatched to our Embassy in Mexico:

"Reference Treasury Department General Ruling No. 14 prohibiting the exportation of United States currency to Mexico; and the decree and regulations of the Republic of Mexico prohibiting the holding in, the importation to, and the exportation from, Mexico of United States currency. Treasury, in attempting to improve the operation of its currency controls and to reduce to a minimum any interference of such controls with normal commercial activity, has from time to time considered the desirability and feasibility of relaxing these controls, where such action would not result in any benefit to the enemy. Treasury feels that the excellent cooperation given by the Mexican Government since inception of the controls under reference has considerably minimized the possibility of Mexico being utilized as a dumping ground for looted currency, and that there may be accordingly some justification for relaxing these controls to some extent. As a result, Treasury is presently considering a program whereby existing controls would be modified to permit U. S. dollar notes of \$1, \$5, \$10 and \$20 denominations, in addition to \$2 bills and minor coins, to cross the border between the United States and Mexico.

"Because of the joint nature of the controls affecting dollar currency movements within and between Mexico and the United States, Treasury will not take any action with respect to modifying such controls without first obtaining the views and concurrence of the Mexican Government. You are, accordingly, requested to discuss with the appropriate Mexican authorities the modification currently under consideration by Treasury and discuss with them the steps that concurrently would have to be taken by them to accomplish the desired relaxation. If the Mexican authorities agree to this relaxation, it will be necessary for them to modify their decree so as to make legal in Mexico the holding of, or dealing in, United States currency in denominations of \$1, \$2, \$5, \$10 and \$20. The present Mexican import and export prohibitions should also be modified to permit the importation or exportation directly from or to

the United States of such denominations of U. S. currency. In these discussions, you should impress the Mexican authorities with the desirability of examining their import controls so as to prevent a possible influx of dollar currency into Mexico from countries other than the United States and to prevent Mexico being used as a conduit for the return of looted currency to the United States. Special provision must, however, be made to permit members of the armed forces of the United States and members of the U. S. Merchant Marine who debark from U. S. ships in Mexican ports to import into Mexico U. S. currency in denominations of \$20 or less and to exchange such currency for Mexican pesos at par. Treasury has been informed that at present U. S. soldiers, marines and sailors debarking at Acapulco are unable to exchange currency in denominations of other than \$2 except at a substantial discount and desires that this matter be corrected as quickly as possible. With reference to your Airgram A-3665 of October 10, 1944, the above proposed relaxations of the currency controls on the Mexican border would simplify the enforcement task of Customs, thereby enabling them to exercise greater care with respect to large denomination currency.

"You are requested to report urgently the results of your discussions with the Mexican authorities as well as your views and recommendations with respect to this matter."

The Department will appreciate being advised of the Embassy's reply in this matter just as soon as it is received.

(SIGNED) Cyril A. Schmidt

NOV 3 1944

Dear Dean:

This will acknowledge your letter of October 30, 1944 in which you request authorization to designate Harold Glasser as the permanent United States representative on the Committee on Financial Control of the Council of the United Nations Relief and Rehabilitation Administration.

I am glad to have your statement of the value of Mr. Glasser's services on UNRRA problems on previous occasions. The Treasury Department is pleased to authorize his designation as the permanent United States representative on the Committee on Financial Control.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable,
Dean Acheson,
Assistant Secretary of State.



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
A-A

October 30, 1944

Dear Henry:

I refer to our exchange of letters last August when you were so kind as to designate Harold Glasser as a member of the delegation which accompanied me to the Second Session of the Council of the United Nations Relief and Rehabilitation Administration. In addition to general advice to me on a variety of financial matters, including questions which arose in connection with the Italian program, Harold served as the United States representative on the Committee on Financial Control of the Council of which I am Chairman. As was the case at the First Session in Atlantic City about which I wrote you last December, Harold's services throughout the Session were of tremendous value to me and all of the other members of the delegation and I am most appreciative of your having made his services available for the Session.

The Committee on Financial Control is a permanent committee of the Council which meets from time to time, on an average of about once every six weeks, to consider a variety of financial questions within its competence. I believe that it would be appropriate in view of the functions of this Committee for the Treasury Department to furnish the United States voting member. Since Harold Glasser is thoroughly familiar with the financial problems of UNRRA since its inception, I should be most grateful to you if you would authorize me to designate him as the permanent United States representative on the Committee.

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.

Assistant Secretary

FOR DEFENSE



BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

November 3, 1944

HENRY MORGENTHAU JR. - THE VOICE BEHIND THE WAR REFUGEE BOARD

By MURIEL LEVIN

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WASHINGTON---

It is not generally known, but Henry Morgenthau, Jr., for twelve years Secretary of the Treasury, is the weighty voice behind the War Refugee Board.

A tall, shy man whose relations with the press - and consequently the public - have been awkward, Morgenthau is the type of administrator who fosters initiative in the experts he harnesses for the Treasury Department, though he maintains the whiphand throughout. Legendary are the daily meetings of his "9,30 group." Gathered at a round table every morning, each of his assistants in turn has a chance to voice his problems and gripes, and the group, very much dominated by Morgenthau, seeks ways out of dilemmas.

It was not at one of these meetings that the idea of the War Refugee Board was advanced, according to Herbert B. Gaston, senior Assistant Secretary of the Treasury, upon whom Morgenthau leans heavily for public relations. But it might well have been, and it was this willingness to listen to his underlings that resulted in his being approached by a group of young Treasury Department aides, among whom were Randolph Faul, then general consul, and John W. Fehle, a special assistant in charge of the foreign funds control.

They knew, too, that Morgenthau, son of a distinguished Jewish lawyer and philanthropist, who made a fortune in Bronx real estate, has had a well-developed "social conscience" since his teens when his desire to improve social conditions drew him to work at the Henry Street Settlement in New York. Later, when he had forsaken real estate and banking for farming in upstate New York, he and his young wife, Elinor Patman, a niece of the Lehmans, furnished East Fishkill Township with its first clinic, organized a small mobile library, and ran a crusading farm magazine.

Appalled by the terror in Europe, brought into focus for them through their dealings with refugees here whose funds they controlled, the Treasury Department aides broached to Morgenthau the idea of U. S. action to save the Jews from the fate decreed by the Nazis. They talked fast and often - and sold Morgenthau the bill of goods. He agreed to talk to the President.

The Roosevelts and the Morgenthaus have been friends for more than thirty years. In 1918 when Roosevelt was a New York State Senator, Morgenthau, Sr., whom Wilson later appointed U. S. Ambassador to Turkey, was chairman of the finance committee of the Democratic National Committee. It was a Democratic headquarters in Manhattan, then, that the two men met, and they began to see a good deal of one another a few years later when both were country squires in Dutchess country. All during Roosevelt's serious illness the Morgenthaus were around. Then, in 1928, Morgenthau participated in gubernatorial campaign tours, and went to Albany with Roosevelt, first to head his Agricultural Advisory Committee, which drafted farm-relief measures, and later to act as Conservation commissioner. He followed Roosevelt to Washington in 1933 as chairman of the Federal Farm Board. He quickly consolidated all government farm lending agencies into the Farm Credit Administration, which soon was lending millions to farmers.

He became Roosevelt's Secretary of the Treasury in January, 1934, when Secretary Woodin resigned because of ill-health just three months after Morgenthau had been appointed Under-Secretary of the Treasury. His relations with his boss have continued to be intimate, despite the "models of formality" by which he communicates with the White House. Both families visit one another and make merry together.

Just how Morgenthau convinced his old friend is something that he has not revealed. But on January, 23, 1944, the President set up by Executive Order a War Refugee Board consisting of the Secretary of State, the Secretary of the Treasury and

160
11/5/44

the Secretary of War, to rescue from the Nazis as many as possible of the persecuted minorities of Europe. He stressed that "it was urgent that action be taken at once to forestall the plan of the Nazis to exterminate all the Jews and other persecuted minorities in Europe."

Appointed acting executive director was one of the young Treasury Department aides, John W. Fehle, whom Morgenthau granted leave of absence from his regular post. The WRB office was set up in the Treasury Department building, and drew much of its personnel and equipment from that Department.

Whether or not Morgenthau directly dictates the day-to-day policy is a moot question, but the Secretary is kept fully informed of what is going on at every moment. There is little doubt that he of the three Board members plugs, backs, fights for the WRB. When the President's policy on immigration to the United States appeared a little hazy, Morgenthau and Fehle were seen crossing the street from the Treasury Department to the side entrance of the White House. Next press conference, the President's policy on immigration to the United States appeared a good deal less hazy, and in the not too distant future he announced the establishment of Port Ontario as an "emergency refugee shelter." One thousand refugees were to be admitted to the United States as a talking point before the rest of the world, for the WRB had been severely hampered by having our country's failures thrown in its face.

When it appeared that something might be done for the Hungarian Jews through Admiral Horthy's offer to the International Red Cross to release those with entrance visas to Palestine and elsewhere, the British provided bottlenecks. Morgenthau, on a tour of war theaters to investigate currency matters, hid himself to the top man in England and talked turkey. In short order, the United States and Great Britain issued a statement accepting Horthy's offer. Unfortunately, mass deportations were resumed after a shake-up in the Hungarian cabinet, and so his efforts appear to have been of little avail.

Meanwhile, the progress of the war in Europe has been solving many of the War Refugee Board's problems. Employees are optimistically pacing bets that they will be out of jobs within a few months, for the fall of Hitler means finis for the War Refugee Board.

But it looks very much as though Morgenthau may remain in Washington for another four years. Anyway, the odds are with him.

CABLE TO WINANT, LONDON, FOR MANN FROM WAR REFUGEE BOARD

Assume you are forwarding material mentioned in second paragraph of your No. 8123 of September 29. Please advise at once.

THIS IS WRB LONDON CABLE NO. 20.

11:15 a.m.
November 3, 1944

Miss Chauncey (for the Sec'y) Abrahamson, Ackermann, Cohn, DuBois, Friedman, Hodel, Lesser, Mannon, McCormack, Files

FB:hd 11/2/44

November 3, 1944

10 p.m.

AMEMBASSY

LONDON

9218

The following for Mann is WRB 20.

Assume you are forwarding material mentioned in second paragraph of your No. 8133 of September 29. Please advise at once.

STETTINIUS
ACTING
(GLW)

WRB:MMV:KG
11/3/44

Miss Chauncey (for the Sec'y) Abrahamson, Ackermann, Alwin, Cohn, Drury, DuBois, Friedman, Gaston, Hodel, Lesser, Marks, Mannon, McCormack, Pehle, Files.

November 3, 1944

Midnight

AMEMBASSY

LONDON

9220

The cable below for Mann is WRB 19

The following message under date of October 30 has been received from Katski.

QUOTE The Jewish Agency Istanbul is in receipt of a telegram via Geneva dated October 25 from the Jewish Agency representative Krauss in Budapest stating that exit permits for the first group of 2,000 Palestine certificate holders in Hungary will be secured. Krauss states that the projected route of travel is through Switzerland and Portugal. He requests the aid of the WRB in obtaining the necessary transit visas. We suggest that you verify Krauss's report with McClelland in Switzerland. Information received in Istanbul concerning the Jews in Hungary is meager and general, but unconfirmed. Turkish newspaper reports that evacuation of Hungary may be in contemplation. Future developments may make advisable renewed inquiry at this time regarding possibilities for emigration from Hungary.

According to Jewish Agency the 2,000 certificate holders are still in Budapest and they are in possession of passports. UNQUOTE

The substance of the message has been cabled to Harrison and McClelland with the following instructions:

QUOTE Please verify above information and, if correct, please take all necessary steps to ensure speedy Swiss action to enable the certificate holders from Hungary to reach Switzerland without delay. You may assure Swiss authorities that this Government will use its best efforts to secure the unimpeded progress of the certificate holders to Palestine. UNQUOTE

Please represent to British authorities the Board's view that this unexpected chance to rescue some of the doomed Jews in Budapest, if verified, confronts Great Britain and United States with an opportunity that may not be allowed to end in failure by reason of any hesitation or delay on the part of either of our two governments. This Government is determined to spare no effort in interceding with Swiss, French, Spanish, and Portuguese officials in the interest of securing speedy transportation of the certificate holders in accordance with the suggested routing and is prepared to recommend to the Allied military and shipping authorities to make possible their speedy transportation by rail and by boat.

Miss Chauncey (for the Sec'y) Abrahamson, Ackermann, Akxian, Cohn, Drury, DuBois, Friedman, Gaston, Hodel, Lesser, Marks, Mannon, McCormack, Pehle, Pills.

- 2 -

It is earnestly hoped that British authorities will view the situation in an identical light and will take similar steps to make possible the early departure of the certificate holders for Palestine.

Please advise Department and Board of British reaction.

STETTINIUS
(ACTING)
(GLW)

WRB:MMV:KG
11/2/44

EC

WE

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SE

CABLE TO AMERICAN DELEGATE, ROME, FROM WAR REFUGEE BOARD.

PLEASE deliver the following message to Arthur Greenleigh from
Joseph Schwartz of the American Jewish Joint Distribution Committee:

QUOTE YOUR OCTOBER 29 FULL NAME IS ISRAEL GAYNOR JACOBSON
NOT JACOBS. PLEASE MAKE NECESSARY CORRECTION YOUR END ORDER
AVOID COMPLICATIONS HERE. HOPE BE IN FRANCE ENROUTE SWITZERLAND
IN TEN DAYS TO TWO WEEKS THEREFORE SUGGEST YOU MAKE EVERY EFFORT
MEET ME THERE OUR PARIS ADDRESS 19 RUE DE TEHERAN. WE HAVE NOW
FRENCH PERSONNEL THERE WHO WILL BE ABLE ASSIST YOU UNTIL ADDITIONAL
AMERICAN PERSONNEL AVAILABLE. PARIS OFFICE IN CHARGE NOW MAURICE
BRENNER FRENCH NATIONAL AND JULES JEFROYKIN EXPECTED ARRIVE THERE
SHORTLY. HARRY BIELE NOT AVAILABLE AND THUS FAR FRENCH GOVERNMENT
HAS RESTRICTED ENTRY TO YOU AND ME. FOR YOUR INFORMATION PALESTINE
CERTIFICATES AUTHORIZED FOR ITALY TOTAL 900 FOR NEXT SIX MONTHS
AND NOT 900 MONTHLY WHICH SEEMED YOUR IMPRESSION. UNQUOTE

11:15 a.m.
November 3, 1944

Miss Chauncey (for the Sec'y) Abrahamsen, Ackermann, Cohn, DuBois, Friedman,
Hedel, Lesser, Mannon, McCormack, Files

RDgry 11/2/44

CABLE TO NORWEB, LISBON, FROM WAR REFUGEE BOARD.

Please deliver the following message to Robert Pilpel from
Joseph Schwartz of the American Jewish Joint Distribution Committee:

QUOTE ARTHUR GREENLEIGH ROME ADVISES HE HAS ARRANGED
MILITARY CLEARANCE FOR RESNIK ENTER ITALY VIA LONDON. EXPECT
SEE YOU BRIEFLY LISBON ENROUTE LONDON AND IF RESNIK HAS NOT
YET DEPARTED PLEASE ASK HIM AWAIT MY ARRIVAL. UNQUOTE

THIS IS WAR REFUGEE BOARD LISBON CABLE NO. 111.

11:15 a.m.
November 3, 1944

Miss Chauncey (for the Sec'y) Abrahamson, Ackermann, Cohn, DuBois, Friedman,
Hedel, Lesser, Mannon, McCormack, Files

RDrry 11/2/44

Regraded Unclassified

JMM-976

PLAIN

Lisbon

Dated November 3, 1944

Rec'd 6:19 a.m., 4th.

Secretary of State

Washington

3852, Third, 6 p.m.

FOR LEAVITT FROM PILPEL JDC 111 WRB 245.

Further our 106 steamship SELAHATTIN carried approximately 275 Hungarians including 24 recently released from prison camp Bor Yugoslavia approximately 212 Rumanians and 60 Czechoslovakians. Group had 5 children 133 women 409 men and entrained for Palestine October 31.

NORWEB

WMB

RB-211
Distribution of true
reading only by special
arrangement. (SECRET W)

Madrid

Dated November 3, 1944

Rec'd 6:30 p.m. 4th

Secretary of State,

Washington.

3640, November 3, 9 a.m.

Department will see from my despatch 3169
October 2 that Embassy on its own initiative
suggested to Spanish Government on September 25
desirability of latter's endeavoring to arrange
for temporary entry into Switzerland of 155
Sephardic Jews mentioned in Department's 2904
October 28. Foreign Office official states
that instructions in pursuance of Embassy's
suggestion have already been sent to Berlin
and are being sent also to Spanish Minister
in Bern.

HAYES

WMB

CABLE TO MINISTER JOHNSON, STOCKHOLM, FOR OLSEN, FROM WAR REFUGEE BOARD

Reference your 4432, October 31 and terminology "unassimilated persons in concentration camps." The Geneva Convention on Prisoners of War has, by agreements between certain powers, been applied to civilian nationals detained by the enemy and who are said to be thereby assimilated to the status of prisoners of war thereby obtaining the same rights and privileges as military prisoners of war. Such civilians so held in special civilian internment camps are reported through Intercross to countries of their nationality and are accorded rights and privileges described in the convention such as despatch and receipt of mail, receipt of food parcels and clothing and visits by Intercross delegates. Persons detained by enemy governments in concentration camps such as Belsenbergen, Westerbruck and Krakow are not covered by these agreements and therefore are commonly referred to as "unassimilated persons." It is to this category of detained persons that the Board's parcel program, 93 ton program from Sweden and similar undertakings are directed in keeping with Berle-Foot agreement authorizing programs of this nature.

Please convey Board's appreciation to Whisler for his work in restoring our parcels for forwarding.

THIS IS WRB STOCKHOLM CABLE NO. 233.

11:15 a.m.
November 3, 1944

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Stockholm
 TO: Secretary of State, Washington
 DATED: November 3, 1944
 NUMBER: 4506

CONFIDENTIAL

Please see the last sentence of my 4395 dated October 28; also please see my message dated November 1, No. 4455.

With regard to investigation as to which Latvians the transfer of money would benefit, this investigation indicates that in seven work centers in Sweden there are 2800 Latvian refugees and that the funds proposed would be used for practically all of them, for food and clothing in particular. Also for medicine for those who need it the funds would be used. Practically all Latvian refugees are in real need of support it is reported. The chairman of the Latvian committee through which the Swedish Red Cross would dispense the money is the former Latvian Minister to Sweden, who as a refugee remained here. Only those who are already in Sweden would benefit and there would be no use of these funds for the further escape of Latvians to Sweden from Latvia, the Swedish Red Cross states.

There exist varying gradations of political opinion among the Latvian refugees but it is true of course that they have a common antipathy for the USSR which is strong enough to have been their primary motive for leaving Latvia, in most cases. The Russians look upon practically all of them as being people who are Latvian Soviet citizens and for this reason it is inevitable that there is political complication over the issue.

JOHNSON

DCR:LCW:MLM 11-7-44

Miss Chauncey (for the Sec'y) Abrahamson, Ackermann, Alkin, Cohn, Drury, DuBois, Friedman, Gaston, Hodel, Lesser, Marks, Mannon, McCormack, Pehle, Files.

CABLE TO MINISTER HARRISON, BERN, FOR MCCLELLAND, FROM WAR REFUGEE BOARD.

Please deliver the following message to Mrs. Regina Kaegi, 81
Wibrichstrasse, Zurich, from Frank Kingdon and Sheba Strunsky of the
International Rescue and Relief Committee:

QUOTE NO REPLY FROM RENE MANY WEEKS STOP ESSENTIAL WE
HEAR FROM YOU OR RENE SOONEST ON COMPOSITION AND LOCATION
FRENCH COMMITTEES STOP FUNDS FOR FRANCE MUST NOW BE TRANSMITTED
DIRECTLY STOP NEED IMMEDIATELY NAME AND ADDRESS OF FRENCH
CITIZEN MEMBER OF COMMITTEE STOP RECEIVED EXCELLENT REPORT
YOUR ACTIVITIES DATED MARCH AND SEPTEMBER MUST MAKE CLEAR ALL
FUNDS WE SEND ARE FROM NATIONAL WAR FUND CONTRIBUTED TO THEM
BY THE PUBLIC AND TRADE UNION FEDERATIONS STOP OUR PORTION
DESIGNATED FOR PRODEMOCRATIC POLITICAL LABOR AND INTELLECTUAL
REFUGEES WE RECEIVE NO PRIVATE FUNDS STOP OGILIATI CAN EXPLAIN
FULLY STOP ESSENTIAL WE RECEIVE MORE FREQUENT CABLES UNQUOTE

THIS IS WRB BERN CABLE NO. 260.

2:15 p.m.
November 3, 1944

RDrury 11/3/44

DOO

This telegram must be
paraphrased before being
communicated to anyone
other than a Government
Agency. (RESTRICTED)

November 3, 1944

10 p.m.

AMLEGATION

BERN
3760

The cable below for Harrison and McClelland is WRB 255.

On October 30 the Board's representative in Ankara reported substantially as follows:

QUOTE A telegram dated October 25 from Jewish Agency's Budapest representative Krauss received by Jewish Agency Istanbul stated that exit permits will be procured for the first group of 2,000 Palestine certificate holders in Hungary. The projected route of travel would be through Switzerland and Portugal, according to Krauss, who requests aid of WRB in procuring the necessary transit visas. Verification of Krauss's report with McClelland in Switzerland is suggested. Only meager and general information concerning Jews in Hungary obtainable in Istanbul, but unconfirmed reports that evacuation of Hungary may be in contemplation contained in Turkish newspapers. Future developments may make renewed inquiry advisable at present concerning emigration from Hungary possibilities. Jewish agency states the 2,000 certificate holders possess passports and are still in Budapest. UNQUOTE

Kindly verify above information. If correct please take all steps necessary to ensure swift Swiss action to enable arrival Switzerland without delay of certificate holders from Hungary. Swiss authorities may be assured that this Government will use its best efforts to procure unimpeded progress to Palestine of these certificate holders.

Kindly inform Department and Board whether Ankara report is correct and of steps in this matter that you may undertake.

Stettinius
(ACTING)
OSW

WRB:MMV:ND
11/2/44

WE

ME

SE

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern
TO: Secretary of State, Washington
DATED: November 3, 1944
NUMBER: 7304

CONFIDENTIAL

We are informed by Swiss note dated October 31 that message contained in Department's cable of October 6, No. 3435 (WRB) 198 was transmitted by Swiss Legation, Budapest to Hungarian Foreign Office on October 28. You are referred to my cable of October 12, No. 6793. The failure of initial message to reach Budapest (which necessitated repetition recently) caused the tardy delivery of notification, according to the Swiss.

HARRISON

DGR:GFW

ll-~~del~~4

Miss Chauncey (for the Sec'y) Abrahamson, Ackermann, Akzin, Cohn, DuBois, Brury, Friedman, Gaston, Hodel, Lesser, Marks, Mannon, McCormack, Pehle, Files.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern
TO: Secretary of State, Washington
DATED: November 3, 1944
NUMBER: 7313

SECRET

McClelland sends the following for WRB.

The following is from Riegner for Kubowitzki and Goldman of World Jewish Congress.

We are confidentially advised by Carl Burckhardt (following our repeated intercessions with ICRC concerning handling of Jewish deportees as civil internees under terms of Tokyo project and Geneva Convention), that ICRC directed an official note on October 2 to German Ministry of Foreign Affairs asking that all foreigners held in Germany and German-occupied areas (in fact, designated as "schutzhaeftling" of foreign citizenship and deprived of freedom of movement), be given identical guarantees to those provided by Tokyo project and Geneva Convention. This designation applies to all foreign Jews held or deported in Germany or German-occupied territories, as well as all political prisoners and foreign workers, according to Burckhardt. The answer of the Government of Germany is being awaited by ICRC now.

Through WRB, documentation covering our dealings with ICRC in this connection have been forwarded to you.

HARRISON

DCR:GPW
11-7-44

LFG-799

This telegram must be paraphrased before being communicated to anyone other than a Government Agency. (RESTRICTED)

Damascus

Dated November 3, 1944

Rec'd 6:50 p.m.

Secretary of State,

Washington.

31, November 3, 4 p.m.

Demonstrations protesting against a Zionist state in Palestine were held in Damascus yesterday the 27th anniversary of Balfour declaration as feretold in my 30, October 26. They were, however, very orderly and the Government, apparently fearing that demonstrations might get out of hand and be used for political purposes did not permit any portion of the city to be closed as originally planned.

The demonstrators were mostly composed of students and were addressed by the Prime Minister. One group of about 100 Moslem students marched to the Legation but caused no disturbance. Their representatives and those of the university students called on me, however, to protest against the statements of American politicians advocating a Jewish commonwealth. Two committees representing the association organized former students of the American University at Beirut mentioned in my telegram No. 30 and another association of leading deputies and journalists also called and left notes of protest. A number of telegrams of protest were also received from various associations.

While earnestly defending their cause and expressing disappointment in the attitude toward Palestine of President Roosevelt, Dewey and others the visitors took pains to express their admiration and friendliness otherwise for the United States.

SATTERTHWAITE

EMB
WMB

CORRECTION

176

November 3, 1944

Re 2079 from Ankara dated October 30, 2 p.m.

On page one line eleven please delete "fourth" and
insert "forced" making line read "who were liberated
~~from the~~
from the forced labor mine at Bor."

Correction from Embassy, Ankara.

DIVISION OF COMMUNICATIONS AND RECORDS

MJF

Miss Chauncey (for the Sec'y) Abrahamson, Ackermann, Alkin, Cohn, Drury,
DuBois, Friedman, Gaston, Hodel, Lesser, Marks, Mannon, McCormack, Pehle,
Files.

NOT TO BE RE-TRANSMITTEDOPTEL No. 357

Information received up to 10 A.M. 3rd November 1944.

1. NAVAL

Amphibious Operations. Casualties in landing craft during operations 31st/1st nine sunk and eight damaged.

Home Waters. 1st/2nd. MTB's torpedoed a 3,000 ton cargo ship and damaged escorting vessels off HOOK OF HOLLAND; also engaged minesweepers off IJMUUDEN.

2nd. Two of H.M. Monitor's resumed bombardment gun positions on WALCHEREN hitting one battery repeatedly. Off SCHELDT two minesweepers hit by heavy fire from enemy shore batteries. German hospital carrier with armed crew intercepted between North and South BEVELAND.

Southern France 30th/31st. A French Cruiser and Destroyer as well as a U.S. Destroyer bombarded enemy positions and M.T.

2. MILITARY

Western Europe To 12 noon, 2nd. on WALCHEREN ISLAND progress made from WESTCAPELLE bridgehead. U.K. Troops captured DOEBURG and passed through ZOUTELAND. Fierce fighting in FLUSHING where U.K. troops hold most of town with still some resistance in Western outskirts.

During night 1st/2nd Canadian troops pushed back from bridgehead on East of WALCHEREN, but regained foothold on the Island after intense fighting during 2nd. Canadian troops have captured KNOCKE and WESTCAPELLE. Enemy strong point still holding out north of CADZAND. In South substantial gains made in VOSGES foothills. BACCARAT and several villages captured.

Burma In CHIN HILLS, British troops have reached positions 7 miles NE and 4 miles S. of FORT WHITE. Advancing down KABAW Valley our troops have captured several enemy positions and now within 10 miles KALEMYO.

Northern Burma Allies troops have captured MAWLU, 18 miles N. of INDAW.

3. AIR OPERATIONS

Western Front 1st/2nd. 1,191 tons dropped on OBERHAUSEN and 63 on BERLIN. 2nd. 181 escorted Lancasters (4 missing) dropped 940 tons on HOMBERG Synthetic Oil Plant; bombing accurate, no fighters encountered. 1,168 U.S. Heavies (40 missing) escorted by 934 fighters (28 missing) attacked synthetic oil plants, dropping 223 tons on STERKRADE, 1223 tons MERSEBURG (LEUNA) and 360 tons CASTROPRAUXEL; also 348 tons on railway viaduct BIELEFELD. Results BIELEFELD fair to good, remainder unobserved. Enemy opposition strong, 3/400 fighters.

Bombers claim 36:35:27 and fighters 132:5:25 in combat besides 25 on the ground. A number of our missing fighters believed landed on continent. 147 U.S. bombers of A.E.F. dropped 233 tons on five railway bridges in Western GERMANY with good results. 918 fighters and fighter bombers attacked strong points WALCHEREN ISLAND, communications in HOLLAND and WESTERN GERMANY and provided cover for naval forces.

2nd/3rd. Aircraft despatched: DUSSELDORF 991 (21 missing), ONASBRUCK 42, Other missions 86.

Mediterranean 1st. 237 fighters and fighter bombers attacked communications in PO Valley and YUGOSLAVIA. 77 locomotives and 108 railway wagons destroyed or damaged.

LATE NEWS. NAVAL 1st/2nd. Two British Destroyers operating West of PAC ISLAND (N.E. ADRIATIC) sank two enemy Destroyers. A third enemy Destroyer later engaged and believed sunk. Three officers and 68 ratings prisoners.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Nov. 4, 1944

TO: Miss Chauncey

FROM: Ted R. Gamble

We have received several messages on our teletype regarding the Secretary's visit to Chicago and he asked that a copy be sent to him.

Upon hearing that the Secretary was going to appear at the Navy Show on Saturday night, we received the following from F. M. Knight, Chairman of the Cook County War Finance Committee:

"EVERYONE DELIGHTED THAT SECRETARY MORGENTHAU WILL BE WITH US SATURDAY NIGHT. THIS ASSURES THE SUCCESS OF THE PARTY AND THE BROADCAST."

Another message to the effect that:

"MR. WALTER CUMMINGS WILL BE VERY HAPPY TO HAVE THE SECRETARY AT AN INFORMAL LUNCHEON WITH HIM AT THE BANK THAT SATURDAY WITH A SMALL GUEST LIST TO INCLUDE HAP YOUNG, FEDERAL RESERVE BANK, SHERER, WAR FINANCE COMMITTEE FOR ILLINOIS AND SEVERAL SIXTH WAR LOAN COMMITTEE MEMBERS. F. M. KNIGHT."

In addition, we have a teletype from Mr. Knight, Chairman of the Cook County Committee saying:

"AS LONG AS THE SECRETARY IS GOING TO BE HERE FOR THE SHOW WE WOULD LIKE VERY MUCH TO HAVE HIM APPEAR ON THE 9:45 PM BOB HOPE BROADCAST. HIS APPEARANCE WOULD GIVE US THE PROPER TIE-IN FOR THE LAUNCHING OF THE SIXTH WAR LOAN AND WOULD HELP US MATERIALLY LOCALLY AS WE WILL HAVE 1500 ILLINOIS LEADING INDUSTRIALISTS AND KEY WAR BOND WORKERS AS AN AUDIENCE. PLEASE TRY TO GET HIM TO ACCEPT THIS INVITATION. SHERER, KNIGHT AND COMMITTEE."

We have had two phone calls from Chicago relative to the Secretary appearing on the Bob Hope program which is being produced by Mr. Charles Luckman, President of the Pepsodent Company.



THE SECRETARY OF THE TREASURY
WASHINGTON

NOV. 4 1944

TO HEADS OF BUREAUS AND OFFICES,
TREASURY DEPARTMENT.

The Sixth War Loan will open on November 20, 1944,
and will continue through December 16.

Quotas for the various departments and agencies of
the Federal Government have been established at 35 per
cent of the gross pay roll (including overtime) for
September. Credit against quotas will be given for all
pay-roll deductions and extra cash purchases of bonds
from November 1 to December 31.

Attached is a statement setting forth the quotas for
the various bureaus and offices of the Treasury Depart-
ment. It is my earnest hope that each bureau and office
will meet or exceed the quota which has been established
for it.

The success of the Treasury Department in meeting
its quotas in previous War Loan Drives is due in large
measure to the personal interest and support of the heads
of the various bureaus and offices, as well as section
heads, supervisors, and others in key positions.

I am confident that, as in the past, your whole-
hearted cooperation and support will make the Sixth War
Loan an outstanding success.

W. M. C. M. C. M.
Secretary of the Treasury



WAR BOND QUOTAS
SIXTH WAR LOAN

FOR EMPLOYEES OF THE
TREASURY DEPARTMENT

<u>Bureau or Office</u>	<u>Gross Quota</u>	<u>Est. Pay-roll Allotments (Nov. & Dec.)</u>	<u>Net Quota *</u>	<u>Number of Employees</u>
Office of the Secretary	\$24,400	\$16,015	\$8,385	256
Division of Research and Statistics	11,400	7,425	3,975	123
Office of General Counsel ...	13,800	10,300	3,500	127
Division of Personnel	6,150	4,175	1,975	82
Office of the Chief Clerk ...	10,420	6,750	3,670	169
Office of Superintendent of Treasury Buildings	12,600	9,800	2,800	301
Bureau of Accounts	162,670	112,075	50,595	2,677
Bureau of Public Debt	486,750	330,830	155,920	8,599
Treasurer of the U. S.	142,400	77,800	64,600	2,714
Bureau of Customs	717,895	477,175	240,720	8,387
Comptroller of the Currency..	94,300	66,280	28,020	887
Bureau of Internal Revenue ..	3,563,090	2,303,925	1,259,165	46,105
Bureau of Narcotics	29,135	18,255	10,880	295
Bureau of Engraving and Printing	485,880	251,330	234,550	6,435
Secret Service	70,300	40,165	30,135	892
Bureau of the Mint	177,200	119,430	57,770	2,778
Procurement Division	398,335	232,745	165,590	5,571
Division of Monetary Research	7,430	4,700	2,730	66
Division of Tax Research	5,025	3,070	1,955	51
War Finance Division	162,900	96,790	66,110	1,822
Foreign Funds Control	40,800	27,525	13,275	525
Total	\$6,622,880	\$4,216,560	\$2,406,320	88,862

* Extra cash sales (or additional allotments) over and above existing pay-roll allotments.

November 3, 1944

NOV 4 1944

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TO ALL EMPLOYEES OF THE TREASURY DEPARTMENT

The Sixth War Loan opens on November 20, and will run to December 16. However, all bond allotments and all extra cash purchases from November 1 to December 31 will be credited against quotas.

The quota for our department is \$6,622,875. This is equivalent to 35 per cent of a month's pay, including overtime.

I want you to know how greatly I appreciate your support of the War Loans in the past. War bonds are not only a good investment for you, but you are investing in the future of your country. Not only are you buying a share in America but you are helping your country at a time when it needs your help most.

Those who think this war is nearly over are day-dreaming. The road to Berlin is a great deal tougher than we are sometimes inclined to think after reading or hearing accounts of individual victories.

And when the war in Europe is over we still have a tremendous job in the Pacific. The European war is expensive, but almost everything in the Pacific war will cost more. Take transport costs, for instance. Because of the longer distances, the same amount of freight costs 25 per cent more when shipped to the South Pacific than to Europe. And it takes twice as many cargo ships in the Pacific to support a task force of a given size since turnaround time is twice as great!

In addition, we will need more of everything. More B-29 Superfortresses that cost \$600,000 each. More P-47 Thunderbolts that cost \$50,000 each. More M-4 Tanks, with bulldozer blades, that cost \$67,417 each. More amphibious tanks - more aircraft carriers - more supply ships - more gasoline and oil than it took for the invasion of Europe!

And lest anyone forget, we will need more battalion aid stations - more clearing stations - more evacuation hospitals - more convalescent hospitals - more hospital ships.

For many, many years the sick, wounded, and otherwise disabled veterans will require medical attention and care. That's the least Uncle Sam can do in appreciation of what they've done for us.

- 2 -

We still have an Army and Navy of 11 to 12 million men and women to maintain. Whether the men are actually fighting or not, they must be fed, housed, transported from one training center of battle area to another, cared for in a hundred and one different ways. That all costs money and will continue to until the last man demobilized is back in civilian clothes.

In addition, millions of dollars will be required for mustering out pay, for various benefits and services voted by Congress to help the boys get started in civilian life.

These are some of the reasons why the Government will continue to need so much money even after the collapse of Germany. They are also the reasons why patriotic Americans will want to buy heavily during the Sixth War Loan.

Let's all of us in the Treasury Department do our share!

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

EVBartelt:hbv 11/3/44

- 2 -

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(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

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H MORGENTHAU JR

SEC OF TREAS

THE BOSTON SYMPHONY ORCHESTRA AND I WILL WITH GREAT
PLEASURE COOPERATE WITH THE TREASURY DEPARTMENT IN A
SPECIAL CONCERT FOR THE SIXTH WAR LOAN CAMPAIGN AM
COMMUNICATING YOUR LETTER TO BOSTON SYMPHONY TRUSTEES AND
MANAGER TRUSTING A DATE CAN BE SECURED FOR THAT PURPOSE.
REGARDS

SERGE KOUSSEVITZKY.

138P.

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November 4, 1944.

Dear Mr. Minckley:

In the absence of the Secretary, I am acknowledging your note of October 31, which transmitted a copy of the first quarterly report to Congress on War Contract Terminations and Settlements. I shall bring your letter and the report to Mr. Morgenthau's attention as soon as he is again in the office, and meanwhile, I know he would wish me to thank you for seeing that he received a copy.

Sincerely yours,

(Signed) H.S. Klotz

H. S. Klotz,
Private Secretary.

Honorable Robert H. Minckley,
Director, Office of Contract Settlement,
Federal Reserve Building,
Washington 25, D. C.

GEF/dbs

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OFFICE OF CONTRACT SETTLEMENT
FEDERAL RESERVE BUILDING
WASHINGTON 25, D. C.

DIRECTOR

October 31, 1944

The Honorable
Henry Morgenthau, Jr.
Secretary of the Treasury
Washington 25, D. C.

Dear Mr. Morgenthau:

Enclosed is a copy of the first
quarterly report to Congress, which was made today.

Sincerely yours,

Robert H. Hinckley
Robert H. Hinckley

Enc.

WAR CONTRACT TERMINATIONS AND SETTLEMENTS

REPORT OF THE DIRECTOR OF CONTRACT SETTLEMENT TO THE CONGRESS

**PURSUANT TO
THE CONTRACT SETTLEMENT ACT OF 1944
(PUBLIC LAW 395 - 78th CONGRESS)**

OCTOBER 1944

WAR CONTRACT TERMINATIONS

and

SETTLEMENTS

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I. SUMMARY

1. To date, items valued at 21 billion dollars and involving 37,000 prime contracts have been canceled by the War and Navy Departments and the Maritime Commission. These cancellations have occurred while production was being brought to a peak and maintained. Therefore, they represent a transfer of manpower and facilities from one type of war production to another. The value of terminations for all agencies is only 7% of the overall war program commitments of 325 billion dollars, 240 billion dollars of which have already been produced.

2. V-E Day will bring terminations exceeding 20 billion dollars, most of which will come within three months, according to the best available estimates. This represents at least one third of the outstanding war production program and equals approximately all terminations to date. V-E Day cutbacks will release manpower and productive facilities from war production for other uses. Prompt settlement of terminated contracts will speed the shift to civilian production.

3. Experience with contract settlement shows that the challenge of mass terminations can be met. The War and Navy Departments and the Maritime Commission have already settled 28,000 terminations; these involved items valued at 9 billion dollars and were settled by payment of 340 million dollars. Recently, the average time required for settlement has been reduced considerably and some operating units are now able to settle all but a few large claims well within six months after termination. It is clear, therefore, that conversion from war to peacetime production need not be delayed by contract settlement, particularly when adequate financing and prompt plant clearance is provided pending settlements of claims.

4. Many steps to meet the need for speedy and fair settlement have already been taken. Since terminations began, the contracting agencies have established and improved organizations, procedures and policies for carrying on their contract settlement activities. The Joint Contract Termination Board developed uniform termination articles and a 60-day plant clearance policy. After months of deliberation and consideration by Congress, the Contract Settlement Act of 1944 was passed, providing a comprehensive statutory basis for the solution of contract settlement problems. The Office of Contract Settlement has issued regulations covering interim financing, pre-termination settlement agreements, removal of government owned plant equipment, fair compensation, delegation of authority to contractors to settle certain small net claims, and uniform settlement proposal forms. The work to date has provided policies, procedures and operating organizations by which terminated war contracts can be settled, but much still remains to be done.

5. The immediate tasks ahead are to expand and improve the operating units and to perfect present policies and procedures. Additional agency and contractor personnel must be trained by the contracting agencies. Contractors, especially the large prime contractors, must assume a larger share of the responsibility for getting the necessary information to their subcontractors. Special problems such as cost-plus-a-fixed-fee contracts, company-wide settlement, direct settlement, and speedier settlement of the claims of subcontractors demand immediate attention. To meet the situation, cooperative efforts of the Office of Contract Settlement, the contracting agencies and the contractors will be required.

II. CONTRACT SETTLEMENTS TO DATE

In the period July 1940 to date, this country entered upon a war program which required the commitment of more than 325 billion dollars and resulted in the production of war goods and services totaling 240 billion dollars.

During this same period the War and Navy Departments and the Maritime Commission terminated 37,000 contracts. The value of items canceled by these terminations was 21 billion dollars. Of the 37,000 contract terminations, 28,000 have already been settled covering 9 billion dollars of the 21 billion dollars canceled. The terminations settled required payments of 340 million dollars. Currently, the two military services and the Maritime Commission have 9,000 terminations pending settlement. The contract price of the items canceled in these pending cases totals 12 billion dollars.

Information from other contracting agencies (Treasury Department and the Reconstruction Finance Corporation) shows a large number of terminations but for relatively small amounts. These terminations aggregate some 79,000 and involve canceled commitments of 570 million dollars. Over 98 percent of them in number, involving canceled commitments of 448 million dollars, have already been settled by payments totaling 7 million dollars.

The terminations effected to date have been made while war production has been increasing or maintained at its maximum level. These terminations adjusted the war production program to changing needs but did not decrease it. While terminations of all agencies totaling over 22 billion dollars are large in absolute amounts, they represent an adjustment of only 7% in the total war program. Furthermore, these cancellations made possible the placing of other orders for types of munitions

and equipment better suited to the military job. To date, these adjustments have involved payments of slightly less than 4% of the contract price of the items canceled.

The size of the terminations and the progress made in settlement vary considerably among the three principal contracting agencies -- War, Navy, and Maritime Commission. Terminations, as a result of the progress of the war, became a major problem for the War Department at an earlier date than for the Navy Department and the Maritime Commission. Of the 37,000 terminations by the three agencies, approximately 30,000 are War Department terminations. Similarly, of the 21 billion dollars canceled, 17 billion dollars are War Department cancellations. Since the War Department's terminations came earlier, it has had longer experience in meeting the problems of settlement. Currently, the War Department has settled 86% of the total number of its terminations, the Navy Department 47%, and the Maritime Commission 19%. The disparity in performance is somewhat less than these percentages indicate since the Navy Department and Maritime Commission have had no volume of terminations until recently. But this in no way detracts from the accomplishments of the War Department.

One of the most difficult problems in settlement arises from the structure of the contracting relationship. In the vast majority of cases, the contracting agencies settle only with their prime contractors. These prime contractors in turn must settle with those with whom they have subcontracts and so on down the line. To achieve speed and equity in the settlement of subcontractors' claims is a major task of the Office of Contract Settlement and the contracting agencies. There are considerable difficulties in passing policy and information down the contractual chain

and in securing the speedy transmission of subcontractors' claims as they move up the chain to the contracting agency. The development of proper policies and methods to facilitate the settlement of subcontractors' claims is difficult because of the intervening contractual relationships.

III. CONTRACT SETTLEMENTS AHEAD

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The effect of the termination and settlement problem upon the total economy in the year 1945 will be extremely important and will require quick and effective action. The preparation for this task must be undertaken on the basis of the best available information.

Currently, the War Production Board estimates that there are outstanding contracts for 65 billion dollars of goods yet to be delivered. More than 99% of this 65 billion dollars is contained in 45,000 outstanding contracts having a value of \$10,000 or over. The War Production Board further estimates that should hostilities continue on the present scale throughout the year the number and value of outstanding contracts as of December 31, 1944 should show no substantial change from present levels.

If V-E Day comes before the end of the year, the War Production Board believes that the average rate of munitions production, in the next 12 months, will be about 32% below the rate of production during the third quarter of 1944, and that the greater part of the total V-E Day cutbacks will be taken in the first three months following. The War Production Board estimates that these cutbacks would reduce, in three months, the number of outstanding contracts of \$10,000 and over from 45,000 to 30,000, and the undelivered value of such contracts from 65 billion dollars to 45 billion dollars. About 100,000 companies are involved in the production of the 65 billion dollars worth of undelivered items. About 15,000 of these companies hold prime contracts of \$50,000 and over; an additional 5,000 hold prime contracts from \$10,000 to \$50,000; and 80,000 hold contracts of less than \$10,000 or subcontracts only. Approximately 85 percent of the 65 billion dollars in outstanding prime contracts is held by 100

corporations and their subsidiaries. Ten corporations and their subsidiaries hold 45 percent of the 65 billion dollars of undelivered value of outstanding prime contracts.

In the year 1944 to date, with war production being maintained, terminations were taking place at about 1 billion dollars per month, with some 2,500 prime contracts being terminated per month by the military agencies and the Maritime Commission collectively. Some such rate will probably prevail (independent of V-E Day cutbacks) during the months following V-E Day. The burden of major cutbacks will, in this way, be added to by program adjustments which are ^{an} inevitable part of any continuing war program, even though the general level of that program remains constant.

If V-E Day does not arrive before the end of 1944, but should come in the early part of 1945, the general magnitude of V-E Day cutbacks would probably be the same. However, they would be more gradually introduced and less concentrated in the first quarter following V-E Day.

The speedy settlement of terminations is clearly a big job. Policies and regulations must be established and issued. The internal organizations of both Government and business must be adjusted and personnel trained to do the job.

Speedy and equitable settlement of war contract terminations is a critically important step in starting industry toward reconversion for full employment in peace. The prompt settling of war contracts will allow private industry to devote its full energy and initiative to the rebuilding of peacetime production. The settling of terminations does not, of course, provide the complete solution to the adjustment of production to the lessened war requirements, but it is one of the first essentials to

the solution of that problem. Other agencies of the Government working cooperatively with labor and industry must take many other steps to adjust war controls. These will make possible the speedy resumption of civilian production, not in conflict with the continuing war effort.

IV. THE OFFICE OF CONTRACT SETTLEMENT

A. Predecessor Staff Organization: Joint Contract Termination Board

The Office of Contract Settlement is a continuation, on a statutory basis, of the Joint Contract Termination Board which had previously been set up in the Office of War Mobilization. This Board was formed on November 12, 1943 as the result of a growing conviction on the part of the contracting agencies and the Office of War Mobilization that a means had to be found for developing uniformity in termination settlement procedures. The Board originally included the six major procuring agencies (War Department, Navy Department, Maritime Commission, Treasury Department, Reconstruction Finance Corporation, and Foreign Economic Administration) and was later expanded by the addition of representatives of the War Production Board, Smaller War Plants Corporation, and the Department of Justice. It acted under the chairmanship of Mr. John M. Hancock and the agreements which it reached on policies were effectuated by directives of the Office of War Mobilization.

The Board functioned through subcommittees representative of the member agencies, which developed drafts of policies and laid them before the Board for approval. In this way, important steps in the direction of uniform procedures were taken. A uniform termination article for fixed-price prime supply contracts and an accompanying statement of principles for determining costs were developed and announced. A termination article for use in subcontracts was recommended to contractors. The policy was developed of clearing contractors' plants of termination inventory within sixty days after a request. Policies were also established governing the types of organization which should be maintained by the contracting

agencies to make termination settlements and governing the extent to which such settlements should be reviewed within the agencies.

The Board was also the means of coordinating the views of the contracting agencies on the many policy questions regarding the Contract Settlement Act which arose while it was being debated in Congress. In addition, it initiated consideration of a number of other matters, on which action is being taken by the Office of Contract Settlement. A fuller review of the activities of the Board, prepared by its Chairman, appears as Appendix A, Exhibit III.

B. Organization of the Office of Contract Settlement

The Contract Settlement Act of 1944 became effective on July 21, 1944, and on October 3, 1944 the Office of Contract Settlement was made a part of the Office of War Mobilization and Reconversion by Public Law 458. On July 28 the Director of Contract Settlement was appointed and assumed his duties under the Act.

A first step of the Director was to provide for the continuance of the work which the Joint Contract Termination Board had under way. A second step was to establish an organization adequate to perform the tasks prescribed by the Act.

The organization adopted was based on the direction of the Act to utilize "the personnel and facilities of the contracting agencies and other established Government agencies" to the maximum extent feasible. Thus only a small organization, easily expansible if necessary, was planned. This made it essential to have a staff consisting of persons of maturity and experience. Only in this way could the facilities of other agencies be used effectively and the knowledge and experience of those agencies be brought to bear upon the problems of this office.

The office was organized into nine major units in addition to the Contract Settlement Advisory Board and the Appeal Board. For the most part, responsibilities assigned to these units represent those imposed upon the Director by specific sections of the Act itself, as follows:

Terminations	- Sections 6, 7, 11, 17
Plant Clearance	- Section 12
Interim Financing	- Sections 8, 9, 10
Training	- Section 21(a)
Progress & Statistics	- Sections 18(b), 2(b) (in part)
Public Information	- Section 2(b) (in part)
Accounting	- Staff
Organization and Procedures	- Staff
General Counsel	- Staff

An organization chart is shown in Appendix A, Exhibit I.

For successful operation the office required a mechanism for effectively cooperating with the contracting agencies. This was done through a system of advisory committees of the Contract Settlement Advisory Board, similar to that of the Joint Contract Termination Board. These standing committees generally parallel organizational units of the Office of Contract Settlement. Special committees may be established for particular problems. Each committee is established by the Director who names a chairman from his own staff and asks each agency on the Advisory Board to designate a member. In some instances agencies not on the Advisory Board are asked to designate representatives or consultants when this will facilitate coordination between the Office of Contract Settlement and other agencies or bring special knowledge to the committee. The committees already established are:

Committee on Termination Accounting; Committee on Financing;
~~Committee on Terminations~~; Committee on Property and Plant Clearance;
~~Committee on Legal Questions~~; Committee on Progress Reporting and
 Statistics; ~~Committee on Organization and Procedures~~; Committee on

Special
Training; Committee on Public Information and Committee on Preservation
of Records.

Among the first problems considered was the appointment of an Appeal Board as required by Section 13(d)(1) of the Act. Under the Act there are two primary sources of appeals to this Board; settlements by determination, the so called formula settlements, under Section 13, and disputes between contractors and contracting agencies under Section 17.

No cases under Section 17 have so far been brought. A survey was made of the number of formula settlements in process. It was found that only three such cases were now pending in the War and Navy Departments and the Maritime Commission. From such information it will be possible to estimate the future maximum case load of the Board and thus to staff it in advance in ample time to meet its responsibilities.

In view of the minimum size of the present case load, it has been determined to appoint immediately to the Board one man of national stature, to devote full time to its work; and to appoint to it temporarily two members of the staff of this Office, who will be supplanted, as soon as the work load justifies, by other full time members. Thus the plan is to create an Appeal Board wholly independent of the staff of this Office as soon as there is enough work for it.

The agencies on the Advisory Board, as well as others, but particularly the major procurement agencies, have been extremely generous in the assistance given this office since its inception. Both personnel and services requested by this office have been promptly provided. Staff members of the Bureau of the Budget have been very helpful to this office in gathering information as to the organization and operation of contracting agencies.

Without the help of all of these agencies, the accomplishments of the office would certainly have been much less. It will be necessary to continue to call on these agencies for assistance. The staff is not yet complete. Recruitment to date has been difficult and there is every reason to expect it will continue to be so.

C. Relations With Contracting Agencies

There are 28 contracting agencies which may have war contracts potentially subject to the Contract Settlement Act of 1944. However, five of these have almost all of the job of terminating and settling war contracts. These are the War Department, Navy Department, Maritime Commission, Treasury Department, and Reconstruction Finance Corporation with its subsidiary corporations. A full list of the contracting agencies is shown in Appendix A, Exhibit II and a brief description of the organization of the major contracting agencies is provided in Appendix A, Exhibit ^{IV} ~~III~~.

The task of the Director is to achieve the objectives of the Act by controlling and supervising the contract settlement work of the contracting agencies. The principal means of doing this is the Director's authority to prescribe the policies, principles, methods, procedures and standards for contracting agencies and to require or restrict the use by such agencies of authority and discretion under the Act.

Subject to the supervision and control of this Office, the contracting agencies likewise are responsible for carrying out the Act's objectives. Contracting agencies do the Government's actual work of terminating contracts and settling claims. It is the contracting agency which

issues the termination notice. It is the contracting agency to which claims are presented. It is the contracting agency which arranges for the storage and removal of inventories and equipment. It is the contracting agency which makes final settlement of claims. Except for the delegation of work to contractors and the carrying of appeals beyond the contracting agencies, all contract settlement operations are carried out by the contracting agencies.

Action by the Director on matters of major policy has been taken only after full discussion among the agencies. This is done mainly through the Contract Settlement Advisory Board and its system of committees mentioned earlier and through close day-to-day working arrangements. Thus, this Office obtains a thorough knowledge and understanding of problems before taking action. The result is speed and uniformity in effectuating decisions once made.

An example of how this works is the development of uniform forms for the presentation of settlement proposals for terminated fixed price war supply contracts. Prior to the appointment of the Director, a subcommittee of the Joint Contract Termination Board composed of representatives from the War Department, Navy Department, Maritime Commission, Foreign Economic Administration and Reconstruction Finance Corporation, had been working cooperatively with a subcommittee of businessmen of the Advisory Committee to the Bureau of the Budget on Government questionnaires. This arrangement was continued but with the additional participation of the Office of Contract Settlement in the discussions and development of the forms. The committee was unanimous in its recommendations to the Director that they be approved. The Director accepted the recommendations and issued the forms as Regulation 8.

Working arrangements with the agencies, however, go beyond joint consideration of proposed actions of the Director. Important actions which the agencies proposed to take on their own responsibility have been referred to the Director for his views and comments. In this way the Director has been able to achieve results without delaying action. An outstanding example is the new joint Army-Navy regulation for contract settlement. This regulation--which had been in the process of discussion and preparation by the Army and Navy for some time--was submitted to the Director for comment. As a result, changes were made on a number of points.

Successful supervision and control requires more than cooperative joint deliberation and action. Accurate and prompt knowledge of operations and results is also essential. This is recognized by the Act which provides for flexibility in the manner in which information can be obtained.

More than one procedure will have to be used to provide the information required by the Director. Plans of the Office call for a three-fold program of reports, studies and investigations of operations and results.

First, there are to be statistical reports and studies. The basic recurrent reports--three of which already are in effect--will cover the status of terminations, claims, settlements, interim financing, plant clearance, and other subjects. These recurrent reports will be supplemented by special statistical studies, two of which are now in progress. It is planned to use the facilities of the existing agencies to do most of the work involved in the statistical reports and studies.

Second, steps will be taken to make sure that adequate organization and procedures for handling, reviewing and checking settlements,

interim financing and plant clearance are in effect. Conferences are now being held with representatives of the contracting agencies for this purpose and to determine what further measures need to be taken.

Third, from time to time, as information from contractors, the agencies, or other sources indicate a need for them, special studies will be made or special reports developed on particular phases of contract settlement.

The information from and about the contracting agencies developed under this program, together with the information from other sources, will provide the basis for decision and action by the Director. It is believed that most of this information is required in any case by the various agencies for their own effective administration. Hence, to give the information necessary for the satisfactory discharge of the Director's responsibilities will place little, if any, additional burden upon the agencies.

D. Relations with War Contractors

With regard to the actual termination and settlement of individual contracts, the relation of the Office of Contract Settlement to the contractor, other than through the Appeal Board, is indirect. The Office settles no contracts; it takes no action on individual terminations and claims. To obtain settlement of a terminated contract, the war contractor deals with the contracting agency.

But, even though the office does not deal with contractors in the settlement of individual claims, contractors have felt entirely free to discuss their problems with representatives of this office and to invite them to participate in discussions in committees of trade groups.

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The problems and views of war contractors have been and must continue to be available to the Office of Contract Settlement. It is constantly securing invaluable advice from qualified representatives of industry and of professional groups on particular questions as they arise. This Office is also exploring the desirability of creating a formal advisory committee to assist in maintaining intimate contact with all aspects of settlement problems. In addition, it is planning to use other means of obtaining the views of those interested in contract settlement.

A. Interim Financing - Regulations 1 and 2.

The Director has prescribed two alternative plans of interim financing pursuant to Sections 8, 9, and 10 of the Contract Settlement Act. They are the guaranteed termination loan plan and the partial payment plan.

1. Termination Loans. On August 18, 1944, the Director of Contract Settlement issued Regulation 1, (Appendix B, Exhibit V), authorizing the War Department, the Navy Department, and the Maritime Commission to guarantee loans made to finance termination claims. These T-Loans are made by private banks and guaranteed by the Federal Reserve Banks as fiscal agents for the contracting agency having the preponderant interest in the contractor's war production. They are available to all types of contractors and are especially appropriate (a) for prime contractors who have a large number of terminations, and (b) for lower tier subcontractors. Commitments for such loans may be obtained in advance of termination, thus facilitating prompt and speedy financing immediately upon cancellation of a war contract.

A standard form of loan agreement has been issued in order to discourage the imposition of burdensome conditions and restrictions. The lending bank may add conditions, but only if they are "not unreasonable and not inconsistent with the standard loan agreement." Any such added conditions must be set forth in a separate schedule for the examination of the Federal Reserve Bank and the contracting agency. If examination shows them to be inappropriate, their elimination may be requested as a condition of the guarantee.

The basic principle of T-Loan financing is certificate borrowing. Loans are based on the contractor's certification as to his investment in canceled contracts. Through this medium, the contractor is enabled to convert to cash a high percentage of his over-all termination claims pending final settlement. Under this type of loan, the borrower agrees to assign to the lending bank moneys due and to become due on his war contracts. The borrowing base is an agreed percentage of the contractor's terminated contracts including accounts receivable, reimbursable inventory costs, and reimbursable subcontract settlements which have been paid or are simultaneously to be paid. T-Loans are available in connection with partial as well as complete terminations. In virtually every case, the borrower must maintain customary insurance coverage on his property. If his credit rating is weak, the lending bank may require a mortgage of the inventory attributable to the assigned contract.

The Board of Governors of the Federal Reserve Bank has formally inaugurated the T-Loan program. The schedules of guarantee and commitment fees have been announced. Where 80% or less of the T-Loan is guaranteed, the bank pays the Government 10% of the interest payable by the borrower on the guaranteed portion of the loan. If over 95% of the loan is guaranteed, the bank must pay the Government 50% of the interest on the guaranteed portion. Banks cannot charge the borrower interest at a rate higher than $4\frac{1}{2}\%$ per annum. The maximum commitment fee is $\frac{1}{4}$ of 1% per annum or in the alternative, a flat fee of not more than \$50.

2. Partial Payments. General Regulation No. 2, (Appendix B, Exhibit VI) issued by the Office of Contract Settlement on September 8, 1944, sets up two principal types of partial payments: (a) partial

payments based on estimates submitted by the contractor; and (b) partial payments based upon accounting data showing the contractor's costs. When the situation requires, either type may be channeled through a controlled account. A single standard application form has been approved by the Director.

Subcontractors, as well as prime contractors, are eligible for these payments. As a general rule, subcontractors must apply through their customers, who may be prime contractors or higher tier subcontractors. The customer checks the application to determine whether it is reasonable and allocable to government work and transmits it up the contract chain. After approval, the contracting agency draws a check to the prime contractor who passes the payment on down the contract chain. The Office of Contract Settlement and the contracting agencies are working on procedural modifications which will cut to a minimum the complications of this process.

Particular provision was made for the possibility that the prime contractor or some intervening subcontractor may be unable to pass the money on to the applicant for some reason such as insolvency. In this situation, the contracting agency may utilize the controlled account procedure, or in special cases, may make partial payments directly to the subcontractor. Direct application for partial payments may be made by subcontractors where the usual procedure would result in unwarranted delay.

Any war contractor in sound business condition may obtain immediate partial payment of at least 75% of the contract price of undelivered completed articles, plus 75% of his estimated costs of raw materials, purchased parts, supplies, direct labor and overhead allocable to

the terminated portion of his contract. Larger sums not in excess of 90% of the cost certified to be due in the application may be advanced if the contracting agency believes the request to be reasonable. Furthermore, as a general rule the contracting agency will look entirely to the information contained in the contractor's application in determining the amount of the advance. To discourage contractors from over-estimating claims, the amount of any overpayment is subject to a 6% penalty; and in addition, any overpayment is treated as a loan carrying a penalty of 6% per annum.

Contractors are encouraged to estimate in advance of actual termination what partial payments they will require.

Cost-supported partial payments may also be made. Items completed prior to termination, or completed thereafter with approval, are paid for at the full contract price as soon as they are inspected and accepted. In addition, the contractor is paid 90% of the cost of raw materials, purchased parts, supplies, direct labor, and manufacturing overhead allocable to the terminated portion of the contract as soon as he supports them by substantial accounting data. These cost-supported advances may also include a reasonable percentage of other allocable costs, such as administrative overhead. Additional amounts may be paid if necessary, but total payments may not exceed the amount which the contracting agency believes to be due by reason of the termination.

Controlled partial payments will be made if a contractor is insolvent or in imminent danger of insolvency. The immediate or cost-supported partial payment will be deposited in a special account, and released under the supervision of a representative of the contracting agency.

B. Pretermination Settlement Agreements - Regulation 3.

Regulation No. 3 (Appendix B, Exhibit VII) of the Office of Contract Settlement authorized the contracting agencies to make pretermination settlement agreements. These agreements, made before termination, may cover one or more of the elements in the claim that would otherwise have to be settled after termination. They must be based on data which permit reasonable forecasts, consistent with sound commercial standards, of the factors involved.

Pretermination agreements provide a means for shortening the time between termination and settlement. They may cover such items as unit costs of termination inventories at various stages, unit prices at which the contractor is to retain selected inventories, inventory items to be scrapped, and overhead rates. By agreeing, when possible, upon such items prior to termination, settlement plant clearance, and financing is expedited. For example, it may permit immediate use or disposition of inventories by the contractor rather than delay in the use or disposition pending agreement after termination.

Similar principles can be applied in agreements between prime contractors and subcontractors, or between subcontractors, which will be binding on the contracting agency when it approves them.

C. Plant Clearance - Regulation 4.

The policies of the Joint Contract Termination Board and later the provisions of the Contract Settlement Act deal specifically with most of the problems of plant clearance. Removal of government owned plant equipment, however, is not covered by the Act in this way. In many cases this equipment is covered by contracts which require its maintenance in standby condition after the contract is terminated. Regulation 4

(Appendix B, Exhibit VIII) directs that unless the national defense requires otherwise, these standby provisions will be waived.

The regulation gives contractors the right to bid first on equipment in their plants and directs that the government act promptly on these bids. It gives both prime contractors and subcontractors the first call on equipment they may need for their peacetime production. To alleviate the tremendous storage problem facing the contracting agencies after V-E Day, the regulation urges contractors wherever possible to store unwanted equipment under agreement with the contracting agency. But a contractor neither wants to purchase^{has} the equipment nor is able to store it, the regulation requires its removal by the contracting agency within 60 days.

A further regulation is in preparation, covering aspects of plant clearance that are not specifically dealt with by the Act. Among these, is the right of subcontractors to make their request for plant clearance directly to the contracting agency.

D. Fair Compensation - Regulations 5, 6, and 7.

Prior to the passage of the Contract Settlement Act, the Office of War Mobilization had issued a uniform termination article for use in prime contracts accompanied by a statement of principles for determination of costs. It had also recommended a substantially similar but briefer termination article for use in subcontracts.

Experience with the statement of cost principles disclosed the necessity for two amendments. These are made by Regulation 5 of the Office of Contract Settlement which appears as Appendix B, Exhibit IX. The effect of the first of these amendments is to eliminate a provision which had the effect of tying together renegotiation and contract

settlement. Similarly, the effect of the second is to eliminate from contract settlement any consideration of the tax base of special facilities owned by the contractor.

Regulation 6 (Appendix B, Exhibit X) makes certain amendments in the recommended subcontract article and in the accompanying statement of policy regarding the settlement of subcontracts. It makes clear that the profit provisions of the subcontract article are the same as those of the prime contract article. It also announces that pretermination settlement agreements are applicable to subcontracts to the same extent as to prime contracts. Finally it makes certain changes so that the subcontracts in which the subcontract article may be used will be those specified by the Act.

Regulation 7 (Appendix B, Exhibit XI) embodies a determination by the Director that the provisions of the prime contract termination article, as amended, and the subcontract termination article, as amended, covering formula settlements afford fair compensation within the meaning of the Act. This regulation also establishes the standards to guide the negotiation of settlements by agreement, both under these articles and under contracts not containing them. These standards permit flexible negotiations on the basis of sound business principles. Under the regulation, negotiations may take into account the elements recognized in a formula settlement, ^{but} they need not do so. Operations under this regulation will be reviewed from time to time, and any changes will be made which experience shows to be necessary.

E. Delegation - Regulation 6.

In regulation 6, paragraph 3, the Director acted to simplify and speed up payment for a vast number of small subcontractors. It

delegates to all war contractors authority to settle finally termination claims for less than \$1,000, where the subcontractor retains or disposes of all termination inventory, except in cases where the authority is specifically withdrawn. Contracting agencies are directed to recognize these subcontract settlements as final and conclusive for the purpose of settling the terminated prime contracts to the extent allocable. The public interest is protected by a provision that the settlement must be made in good faith.

This in no way affects the contracting agencies' existing practice of delegating to prime and intermediate subcontractors authority to settle claims of \$10,000 or less where review procedures have been examined and approved.

F. Standard Settlement Proposal Forms - Regulation 8.

The Office of Contract Settlement has provided uniform settlement proposal forms for use in settling claims connected with terminated fixed price supply contracts and subcontracts, and has issued detailed instructions for their use. Regulation 8, (Appendix B, Exhibit XII) issued on October 18, makes these forms mandatory for all contracting agencies. The forms do not apply to cost-plus-a-fixed-fee prime contracts or subcontracts, but they must be used in preparing claims on terminated fixed-price subcontracts underlying such agreements.

War contractors at any level in the contract chain will now use this single set of standard forms. Previously a number of forms were in use. It is to be expected that issuance of the new forms will result in a more uniform and efficient presentation of claims. This should be reflected in a reduction of the average time necessary to file and process a claim.

Proposals prepared on the inventory basis are submitted on Form 1. If the inventory basis cannot be used, Form 1b is available for the presentation of proposals on the total cost basis. These two forms are for general use, unrestricted by the amount of the settlement. Form 1a may be used for proposals involving less than \$1000 in which the contractor is willing to retain or dispose of all inventory. The importance of this form cannot be overemphasized. By its use, many small prime contractors and subcontractors will receive payment of their termination claims more quickly and with a minimum of clerical work.

The inventory schedules give a contractor an option of simply listing his inventory for settlement purposes or of classifying it and describing it in detail if he calls upon the government to remove it. Thus contractors can submit their inventory disposal schedules before, with or after their settlement proposals.

A. Progress Reporting and Statistical Studies

One of the first steps of the Office of Contract Settlement was to arrange with the contracting agencies for the development of reporting systems which would provide adequate and comparable information. While considerable data were available on contract terminations and settlements, particularly in the War Department, no method of collecting the information so that it could be assembled on a comparable basis for all the important contracting agencies had been developed. In specifying uniform reports for all contracting agencies every attempt was made to utilize existing reports, particularly those used by agencies with well-developed reporting systems. The information requested was the type that would be helpful not only to the Office of Contract Settlement in analyzing the progress of settlements, but also to the contracting agencies themselves.

The first uniform system of reporting which was developed covered information on contract terminations and settlements. The reporting forms being used are presented in Appendix B, Exhibit XIII. Tables 1 through 6, Appendix C, are based upon the first reporting form OCS-R1. The other reporting forms, OCS-R2 and OCS-R3 (Appendix B, Exhibit XIII) will provide information, beginning with the month of October, on the speed of settlements.

Currently, arrangements are being made for the establishment of comparable reports on interim financing and plant clearance. These reports will show the extent of interim financing and the promptness of plant clearances.

In addition to the regular reports such as those above, the Office of Contract Settlement will make special studies. Presently, studies *are being* formulated to determine the speed with which subcontractors are being paid and also the speed with which they are being financed prior to final payment.

B. Dissemination of Information

Success in meeting the problems of contract settlement depends not only on the government's ability to do its share but also on the ability of war contractors to do their part of the task. The important job is getting information to contractors through the contracting agencies, established channels of communication, organized groups and direct contacts.

To meet this need the Office of Contract Settlement is distributing copies of its regulations to contracting agencies, contractors, national trade associations and interested individuals. The main part of the distribution of the Standard Forms has been assumed by the War and Navy Departments, Smaller War Plants Corporation and other contracting agencies so that these forms are now reaching contractors through the local offices of contracting agencies.

The American Bankers Association in collaboration with the Office of Contract Settlement has launched an extensive educational program involving nation-wide regional meetings of bankers. The Credit Policy Commission of the Association has printed and distributed a booklet on T-loans which includes Regulation 1 and complete explanations designed to assist bankers in handling such loans. The program is reaching most of the 15,000 bankers of the country. A companion booklet designed for war contractors, giving complete details on how to obtain partial payments or T-loans on terminated war contracts, is now in the Government Printing Office. This will be distributed to contractors by the War and Navy Departments, Smaller War Plants Corporation, Maritime Commission and other contracting agencies in cooperation with this office.

Because of the existing contractual relationships, it is becoming evident that further cooperation on the part of industry is necessary to get information to contractors, especially the smaller subcontractors. This office, in cooperation with the contracting agencies, is taking steps to encourage cooperation in these efforts on the part of larger prime contractors and through industry and trade groups. A number of large corporations have on their own initiative undertaken action in this direction and every effort is being made to have others follow their example.

Section 20(g) of the Contract Settlement Act of 1944 directs the Smaller War Plants Corporation to disseminate information and to assist small business concerns with their problems on terminated war contracts. To render every possible assistance to the Smaller War Plants Corporation in carrying out the provisions of the Act, the Office of Contract Settlement has maintained close contact with Smaller War Plants Corporation's personnel charged with contract settlement and information. Smaller War Plants Corporation will distribute the major portion of the initial printing of the interim financing booklet.

C. Training

The War and Navy Departments have set up training schools for their employees which have been functioning for varying lengths of time. The largest and oldest is the Army Industrial College in Washington which is training not only Army personnel but people from other contracting agencies. There are also special schools in other places such as Fort Benjamin Harrison, Ann Arbor, Vandalia, and Harvard.

Contracting agencies are cooperating in the establishment of special courses for contractors at a number of colleges. Courses are already being given at Philadelphia, Cincinnati, Cleveland, Toledo, Detroit, Buffalo, New York City, Dallas, Fort Worth, St. Louis, and Champaign; and others are being started.

This office is now working with the contracting agencies to develop simplified and standardized training materials and methods with particular attention to the training of subcontractors.

D. Cost-plus-a-fixed-fee Contracts.

Approximately 6 billion dollars of cost-plus-a-fixed-fee contracts have been canceled but little progress has been made in finally settling them. This is due largely to several uncertainties concerning the extent to which terminated cost-plus-a-fixed-fee contracts can and should be finally settled by the contracting agencies. This Office is working to clear up these uncertainties and to develop procedures which will permit termination settlements of contracts of this type to be kept abreast of settlements of fixed price contracts. The volume of cost-plus-a-fixed-fee contracts now outstanding is such a substantial pro-

portion of the total that delay in settling them finally would seriously impede speedy reconversion. 207

During performance and before termination, vouchers representing expenditures under such contracts are transmitted to the representatives of the contracting agencies, who audit them and pay them if found to be proper. They are subsequently audited by the General Accounting Office, which makes inquiries about items which it questions. These in some cases result in disallowances, which are charged back against the disbursing officer and in turn against the contractor. In many cases, therefore, when a cost-plus-a-fixed-fee contract is terminated, there are pending many matters which are in dispute between the contractor and the government or which have not been completely processed by either the contracting agencies or the General Accounting Office. Contractors have generally been reluctant to make final settlement of their termination claims unless the settlement can also finally establish their right to retain payments made on the performed part of the contract. In the absence of such assurance, moreover, cost-plus-a-fixed-fee contractors have little incentive to settle with their subcontractors or dispose of the termination inventories resulting from cancellation.

A legal question has been raised concerning the extent of the power of the contracting agencies, under regulations established either by them or by this Office, to agree finally in a termination settlement on matters relating to the performed part of a terminated contract. The opinion of the Attorney General on this question has been requested. This opinion will establish the extent to which this office can go, in cooperation with the contracting agencies, to develop procedures to attain the degree of finality in termination settlements of

settlement and to protect the interests of the Government.

E. Company-wide Settlements

Experiments are actively under way on company-wide settlements.

In several cases a large company with many contracts from more than one service has been assigned to one of them with authority to make settlements for all other services and departments. There are many obvious administrative and legal difficulties. Companies may be prime contractors on some contracts and subcontractors on others. There are even cases where through intervening tiers of contractors they may find themselves sub-subcontractors on their own prime contracts. To overcome these various difficulties is not simple, but the gain from company-wide settlements in the kind of case to which they are adapted would be so great that the experiments are being watched with close attention.

1. Direct Determination of Claims and Property Disposition - In a number of cases, particular companies have been assigned to one of the several contracting agencies with which they deal. This agency has installed accounting and material disposal personnel, whose decisions may be relied on by any other agency. This means a great saving in personnel and does not subject the contractor to reviews by all the different contracting agencies and customers with which he deals.

2. Local Coordinating Committees - These committees will promote uniformity in termination procedure, as well as delegation of authority from one agency to another.

F. Preservation of Records

Section 19(a) of the Contract Settlement Act of 1944 requires the preservation for specified periods of time of records relating to

war contracts. It also provides that the Director by regulation may authorize the destruction of records upon such terms and conditions as he deems appropriate. To facilitate carrying out the provisions of this section of the Act, a Special Committee of the Advisory Board on Preservation of Records has been formed, comprising representatives of the various contracting agencies and headed by a representative of the Office of Contract Settlement. This Committee will recommend regulations covering the records which must be preserved by war contractors for the statutory period; the form in which such records must be maintained; and the records which need not be preserved.

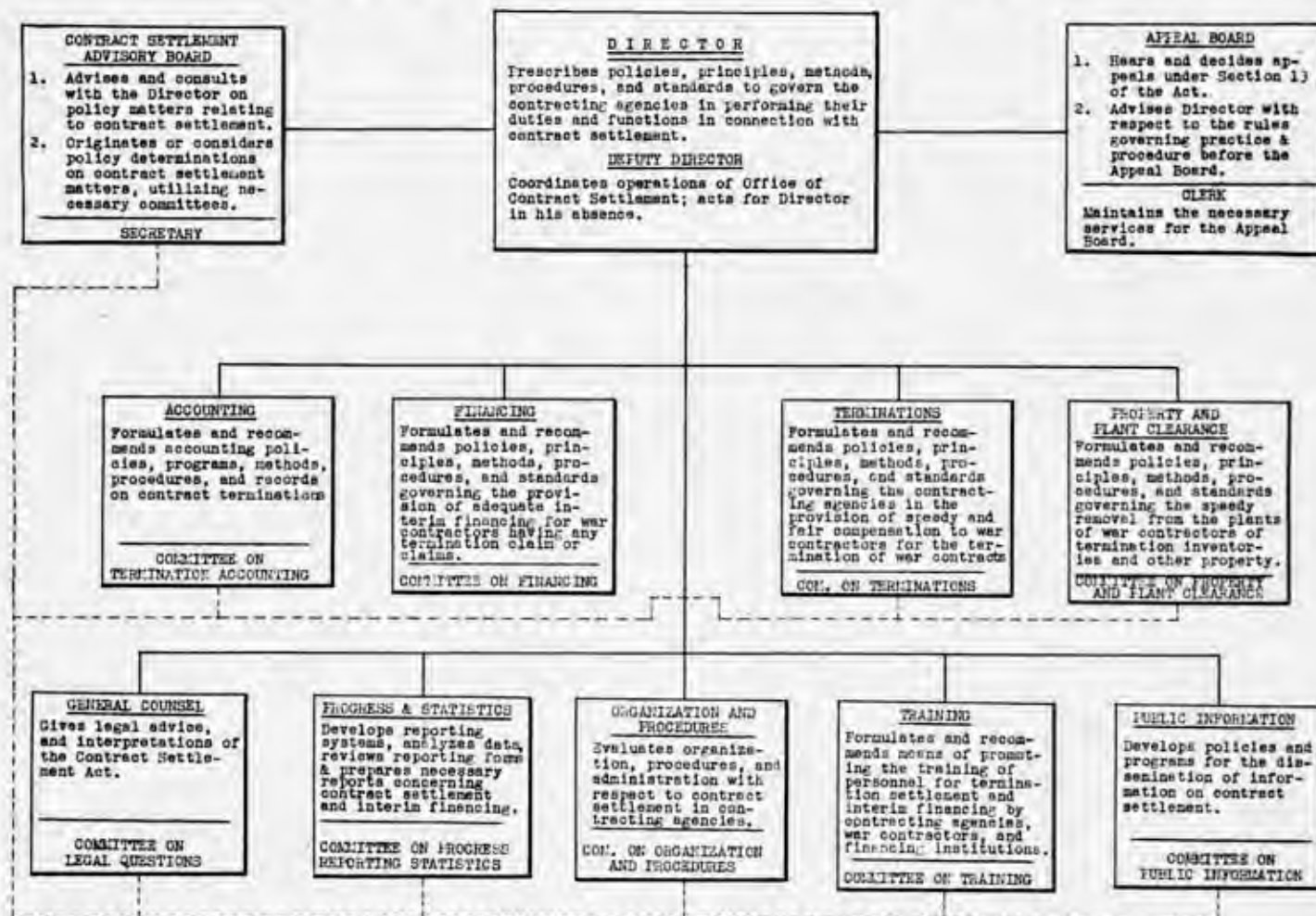
G. Exemption of Foreign Contracts.

Section 25 of the Act permits any contracting agency, subject to policies prescribed by the Director, to exempt from the Act its contracts made or to be performed, and any termination inventory situated outside the United States or in Alaska. Of the three agencies having the largest volume of foreign contracts, the War Department and Foreign Economic Administration have already acted, and the Navy Department is now acting, to exempt such contracts and inventories from the Act. A determination of the proper scope, if any, for the Act in connection with foreign contracts is dependent on more detailed knowledge of conditions surrounding foreign procurement than is yet available to this office.

A P P E N D I X AORGANIZATION

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OFFICE OF CONTRACT SETTLEMENT



Note: Subcommittees will be composed of representatives of the interested members of the Contract Settlement Advisory Board, will normally act under the chairmanship of members of the Director's staff, will advise such staff members, and will originate and consider recommendations to the Board on policies on contract termination matters.

CONTRACTING AGENCIES

(Section 3(g) of the Contract Settlement Act of 1944 defines contracting agencies as follows: "—any Government agency which has been or hereafter may be authorized to make contracts pursuant to section 201 of the First War Powers Act, 1941, and includes the Reconstruction Finance Corporation and any corporation organized pursuant to the Reconstruction Finance Corporation Act (47 Stat. 5), as amended, the Smaller War Plants Corporation, and the War Production Board.")

<u>AGENCY</u>	<u>AUTHORITY</u>
Reconstruction Finance Corporation and any Corporation organized pursuant to the Reconstruction Finance Corporation Act.	Contract Settlement Act of 1944
Smaller War Plants Corporation	Contract Settlement Act of 1944
War Production Board	Contract Settlement Act of 1944
War Department	E.O. 9001
Navy Department	E.O. 9001
United States Maritime Commission and War Shipping Administration	E.O. 9001 E.O. 9054 E.O. 9244
Treasury Department	E.O. 9023
Department of Agriculture	E.O. 9023
Governor of the Panama Canal	E.O. 9023
Federal Works Agency	E.O. 9023
Government Printing Office	E.O. 9023
National Advisory Committee for Aeronautics	E.O. 9023
Department of Interior	E.O. 9055
Tennessee Valley Authority	E.O. 9058
Coordinator of Inter-American Affairs	E.O. 9116
Civil Aeronautics Administration	E.O. 9116

CONTRACTING AGENCIES (CONTINUED)

<u>AGENCY</u>	<u>AUTHORITY</u>
National Housing Agency	E.O. 9116
Veterans Administration	E.O. 9116
Federal Communications Commission	E.O. 9116
Division of Central Administrative Services of the Office for Emergency Management	E.O. 9211 E.O. 9471
Office of Scientific Research and Development	E.O. 9219
Federal Prison Industries, Inc.	E.O. 9221
Foreign Economic Administration	E.O. 9233 E.O. 9361 E.O. 9380
Office of Strategic Services, United States Joint Chiefs of Staff	E.O. 9241
Immigration and Naturalization Service of Department of Justice	E.O. 9253
Department of Commerce	E.O. 9264
War Food Administration	E.O. 9334

APPENDIX A - EXHIBIT III

Mr. Robert H. Hinckley
Director of Contract Settlement
Federal Reserve Building
Washington, D. C.

Dear Mr. Hinckley:

At your request, I have prepared a summary of the more important actions taken by the Joint Contract Termination Board, for use in your first report to Congress. I enclose it herewith in the hope that it will serve the purpose which you have in mind.

Sincerely yours,

John M. Hancock

Enclosure

APPENDIX A - EXHIBIT III

ACTIVITIES OF THE JOINT CONTRACT TERMINATION BOARD

The Joint Contract Termination Board was organized on November 12, 1943, by a Memorandum of Agreement signed by the heads of the six major war procurement agencies (War, Navy and Treasury Departments, Maritime Commission, Reconstruction Finance Corporation, and Foreign Economic Administration) and approved by the Director of War Mobilization. It was the outgrowth of a conviction, on the part of the contracting agencies and the Office of War Mobilization alike, that a means had to be created for unifying principles and procedures governing the termination of contracts and related problems. The Board was vested with the following authority and discretion, subject to over-all policies formulated by the Director of War Mobilization:

"(a) To establish general principles and procedures governing contract terminations and settlements which shall be binding on the Departments. Each Department may establish principles and procedures not inconsistent with those established by the Board.

"(b) To require from each Department such reports relating to contract termination settlements as it deems necessary.

"(c) To develop to the extent practicable uniform contract provisions relating to the termination of contracts and subcontracts, and to make interpretations of such provisions which shall be binding on the Departments."

The members of the Board were Mr. Jesse Jones, Secretary of Commerce; Mr. Robert P. Patterson, Under Secretary of War; Mr. James V. Forrestal, Under Secretary of Navy; Mr. Robert E. McConnell, Consultant to the Secretary of the Treasury; Admiral Emory S. Land, Chairman of the Maritime Commission; and Mr. Leo Crowley, Administrator of the Foreign Economic Administration. Mr. John M. Hancock of the War and Post-War Advisory Unit of the Office of War Mobilization, at the request of the Director of War Mobilization, acted as Chairman of the Board, and Lt. Col. H. C. Rose and Major Cary M. Euwer acted as Secretary and Assistant Secretary.

The Board met for the first time on the date of its formation and, from that time until it was superseded by the passage of the Contract Settlement Act of 1944, held a total of twelve meetings at intervals of two to three weeks, to consider and act on recommendations made to it by its subcommittees. Pursuant to the recommendations made by the Baruch-Hancock Report on February 15, 1944, the Director of War Mobilization, on February 21, 1944, issued an order adding to the membership of the Board the Attorney General, the Chairman of the War Production Board, the Chairman of the Board of the Smaller War Plants Corporation, and the Comptroller General of the United States. The Comptroller General, however, advised the Director of War Mobilization that, for the reasons stated in his letter, he had concluded that it would be inappropriate for him to serve as a member Board.

At its first and second meetings the Board considered the problems of organization and procedure. It was agreed that it could function most effectively through the creation of a number of subcommittees, corresponding to the several groups of problems that were apparent; that these subcommittees should be composed of the representatives of the six (later nine) member agencies most familiar with the particular problems involved; that these subcommittees should formulate and draft policies to be brought before the full Board for its consideration when agreement had been reached or when points of disagreement had been established. Nine such subcommittees were ultimately formed to deal with the following subjects: Contract Clauses; Property Removal; Facilities Removal; Termination Accounting; Organization, Procedures and Appeals; Legislation; Reconversion Costs; Company-wide Settlements; and Interim Financing.

To insure that the activities of the various subcommittees should form part of a consistent program, liaison among them was maintained through the Chairman and the Secretary of the Board. The chairmen of the individual subcommittees were in most cases appointed by the Chairman of the Board from among the representatives of the member agencies, and consisted of the following:

Contract Clauses, Mr. John Kenney, of the Navy Department.

Property Removal, Mr. William L. Marbury, of the War Department.

Facilities Removal, Col. Homer Jones, of the War Department.

Termination Accounting, Comdr. J. Harold Stewart, of the Navy Department.

Organization, Procedures & Appeals, Col. Miles Reber, later Col. William H. Draper, Jr., of the War Department.

Legislation, Mr. John M. Hancock, of the Office of War Mobilization.

Reconversion Costs, Mr. Carman Blough, of the War Production Board.

Company-wide Settlements, Mr. Robert E. McConnell, of the Treasury Department.

Interim Financing, Col. Paul Cleveland, of the War Department.

In ordinary course, particular subjects were referred by the full Board for the consideration of the appropriate subcommittee. When that subcommittee reached a conclusion, it referred to the Chairman of the Board a draft of proposed policy or alternative drafts on disputed points. The Chairman then laid the matter before the Board with his recommendation. After the Board had voted on the proposal, the Chairman recommended it for the approval of the Director of War Mobilization; and formal action was taken by means of a Directive from that office. The six Directives discussed below were issued, each pursuant to the unanimous recommendation of the Board.

Directives 1, 2 and 4, dated respectively January 8, February 24 and May 2, 1944, (See Appendix B) made effective and interpreted the Uniform Termination Article for Government Fixed Price Supply Contracts and the Statement of Principles for Determination of Costs upon Termination of Government Fixed Price Supply Contracts.

For a number of months prior to the organization of the Joint Contract Termination Board, representatives of the War and Navy Departments and of the War Production Board had been at work on a uniform provision covering the termination of contracts for the convenience of the Government. This work had involved extensive consultation with industry and had gone far to develop the principles which should govern methods of, and compensation for, termination of contracts at the option of the Government. At the first meeting of the Joint Contract Termination Board, it was agreed that discussions on this subject must be brought to a quick conclusion; and the matter was accordingly referred to the Subcommittee on Contract Clauses. This Committee, which included much of the personnel that had participated in the prior studies, recommended to the Board on December 31, 1943, a uniform termination article for use in fixed price contracts for the manufacture of war supplies in the United States, and a statement of principles for determination of costs, which was incorporated by reference in the Termination Article.

The Article permitted termination of work whenever the contracting officer determined it to be in the best interests of the Government, and described in some detail the actions to be taken by the contractor in stopping work, terminating subcontracts, and taking other necessary steps for this purpose. It then provided that the contractor and the contracting officer might agree upon the whole or any part of the amount to be paid to the contractor by reason of the termination. In the event of the failure of the contractor and the contracting officer to reach such an agreement, the Article included a formula pursuant to which the contractor's compensation was to be determined. This formula provided for the payment to the contractor of the contract price for completed articles accepted by the Government or sold or retained by the contractor; his costs of other work in process at the time of termination; a profit on these costs in an amount not in excess of 6 percent, with a lower rate of profit on the cost of materials not processed by him; his costs of settling claims under terminated subcontracts; and his reasonable expenses in making settlement and caring for Government property.

The Termination Article also included a provision that determinations of cost under the formula should be governed by the Statement of Principles for Determination of Costs upon Termination of Government Fixed Price Supply Contracts. This Statement declared that such costs were intended to be those sanctioned by recognized commercial accounting practices, including direct and indirect manufacturing, selling and distribution, administrative and other costs incurred which were reasonably necessary for the performance of the contract and which were properly allocable to it. The Statement indicated in addition the treatment to be given to certain particularly significant items of cost, including common inventory, depreciation, loss on special facilities, initial costs attributable to the entire contract, and other specified items.

Pursuant to the unanimous approval of the Board, the Uniform Termination Article and the accompanying Statement of Cost Principles were made effective by Directive 1 of the Office of War Mobilization, dated January 8, 1944. It was agreed by the Board, however, that, for various reasons, certain types of contracts were unsuited to the inclusion of the Uniform Termination Article. Accordingly, on February 24, 1944, the Director of War Mobilization issued Directive 2 (See Appendix B, Exhibit I), exempting from mandatory use of the Article contracts in the following categories: Contracts for less than \$50,000, and those for less than \$500,000 providing for delivery within six months; letters of intent and other preliminary arrangements which contemplated the subsequent execution of formal contracts; contracts between Governmental bodies; contracts for the purchase of by-products or co-products whose cost could not be separately ascertained; arrangements which, although made in the name of the Government, are in effect subcontracts rather than prime contracts; contracts intended to exclude profit; and requirement or open-end contracts. The terms of the Directive made the use of the Article mandatory in all other fixed price contracts entered into by the member contracting agencies for the manufacture in continental United States of war supplies and equipment unless the particular contract was exempted by the Office of War Mobilization prior to its execution. The Order also required all other Governmental agencies to use the Article in their war contracts of the types above described whenever it deemed such use to be feasible.

In the period immediately following the promulgation of the Uniform Article, certain questions were raised regarding the proper interpretation of some of its provisions. On May 2, 1944, pursuant to prior action by the Board, the Director of War Mobilization issued Directive Order 4 (Appendix B, Exhibit III) for the purpose of clarifying these questions, that dealt with four technical points: the extent to which the Article required prime contractors to transfer to the Government rights under terminated subcontracts; the extent of the Government's obligation, in the case of a formula settlement, to accept delivery of and pay at the contract price for articles completed but not delivered at the date of termination; the extent to which judgments against the prime contractor on terminated subcontracts would be regarded as fixing the liability of the Government to reimburse the prime contractor; and the scope of the provision permitting the Government to withhold from the prime contractor amounts corresponding to the unpaid claims of subcontractors or suppliers.

Directive Order 3 (Appendix B Exhibit II) of the Office of War Mobilization was also issued on May 2, 1944, and dealt with the jurisdiction of the Joint Contract Termination Board and the Surplus War Property Administration over policies governing the price at which contractors' inventories allocable to terminated contracts might be sold. Pursuant to the recommendations of the Baruch-Hancock Report, the Surplus War Property Administration had been created on February 21, 1944, by Executive Order 9425 to coordinate and unify Governmental policy in the disposition of various types of war surpluses. The Executive Order creating this Administration did not expressly confer upon it jurisdiction over the price at which contractors' inventories involved in termination settlements should be sold. The disposition of such inventories was, however, so closely related to the disposition

of other identical or similar surplus property, that the price policies in the two fields needed to be coordinated by a single agency. Accordingly, the Joint Contract Termination Board unanimously resolved to delegate its authority over such pricing policies to the Surplus War Property Administration.

Directive 5 (Appendix B, Exhibit IV) was likewise issued on May 2, 1944. It dealt with two subjects: the general principles governing the organization which should be maintained by the contracting agencies to settle terminated war contracts; and the extent to which contractors' termination settlements should be reviewed within the agencies.

The statement regarding organization emphasized the necessity for providing adequate numbers of trained personnel and for the efficient use of available personnel by cross-delegations and exchange of information. As to headquarters organization, it dealt with the necessity for adequate control by means of statistics and adequate supervision to maintain uniformity. As to organization at the negotiating level, the statement pointed out that contracting officers negotiating termination settlements must be properly supported by qualified technical personnel; that in some cases the most effective use of such technical personnel could be achieved by assigning it to the plants of particular contractors to act on behalf of all agencies; that personnel engaged in procurement should be utilized to the extent feasible; that the related function of the disposition of property arising out of contract terminations might be performed either by personnel under the supervision of the negotiating officer, or by a separate organization, according to the needs of the particular contracting agency; and that the extent to which operations should be decentralized should take into account the needs of contractors as well as the necessity for a judicious use of contracting agency personnel.

The statement covering review of contract termination settlements advocated the fullest practicable use of negotiation to arrive at speedy, final determinations. It recognized the need, consistently with the foregoing, to maintain proper control over such settlements by adequate reviews. To this end it required each procuring agency to establish one or more settlement review boards, decentralized to the maximum practicable extent, and provided that no negotiated settlement of any prime contract or subcontract should become final without review by such a board, if it involved a gross amount of \$50,000 or more, exclusive of payment for completed articles at the contract price and exclusive of settlements with subcontractors.

Directive Order 6 dated May 29, 1944, made effective an approved termination provision for use in fixed price orders or subcontracts for the manufacture of supplies given to subcontractors by holders of Government war contracts, as well as a statement of policy concerning the settlement of claims under such orders and subcontracts.

Discussions had taken place among the contracting agencies for a number of months about the desirability of establishing a uniform basis for the settlement of subcontracts under Government prime contracts. It had been concluded that it was impossible to prescribe a mandatory clause for use in subcontracts without seriously interfering with procurement. It was the general belief, however, that uniformity and speed in the settlement of subcontracts

would be materially promoted by the promulgation of a recommended subcontract termination clause, embodying in abbreviated form the principles of the Uniform Termination Article for use in prime contracts. Accordingly, such a termination clause was unanimously proposed to the Director of War Mobilization, accompanied by a statement of principles governing the approval and reimbursement of subcontract settlements.

This statement declared it to be the policy of the Government to favor the settlement of subcontracts on the basis of the recommended subcontract termination article, whether or not the particular subcontract contained the article. The statement further recognized the fact that it would be impracticable for Government personnel to review all contract settlements in all tiers in view of their enormous number; and that great reliance must therefore be placed on the reviews made by contractors in higher tiers. For the same reason, it authorized the contracting agencies to delegate to prime contractors and subcontractors, whose methods of making settlements had been reviewed and found adequate, the authority to make final settlements of the claims on their subcontractors.

In addition to the above-described actions of the Joint Contract Termination Board which were formalized by directive of the Office of War Mobilization, two other statements of policy received the unanimous approval of the Board: one dealing with the removal from contractors' plants of inventory attributable to terminated war contracts; and the second dealing with the means of providing war contractors with adequate interim financing between termination and final settlement.

The statement of policy as to removal and disposition of property in connection with contract termination approved by the Board on December 31, 1943, was published as an appendix to the Baruch-Hancock report. It recognized the necessity of prompt clearance from contractors' plants of completed articles, component parts, work-in-process, raw materials and equipment, to facilitate continued war production as well as speedy reconversion to peace-time manufacture. For this purpose it recommended that broad powers of disposition of such property be vested in the procuring agencies, and that a central agency be designated to which might be transferred property not disposed of by the procuring agencies and no longer required by them. The statement likewise provided for the submission to the government by the contractor of lists of such property in his possession upon the termination of a war contract. It also imposed upon the contracting agency the obligation to remove from the contract's plant, at the expiration of a sixty-day period, all listed property which the contractor had not either previously disposed of with the approval of the contracting agency or elected to retain. In the event that the Government failed to remove the property within this period, the contractor was to be allowed either to store it on his own premises, or to remove it and store it, at the expense of the Government in either event. The statement also included general principles to govern the price at which the contractor was to be permitted to retain such property or sell it to others.

The above-described statement covered only the disposition of termination inventory, and excluded from its scope government-owned facilities or production equipment in contractors' plants. A subcommittee of the Joint Contract Termination Board was formed to consider the latter subject. It had not concluded its work at the time when the Contract Settlement Act of 1944 became effective, but, at the request of the Director, continued its deliberations, which culminated in Regulation No. 4 of the Office of Contract Settlement (Appendix B, Exhibit VIII).

On February 4, 1944, the Joint Contract Termination Board unanimously adopted the statement of policy on termination financing, which likewise appeared as an appendix to the Baruch-Hancock report. This statement recognized the necessity of legislation before it could be made fully effective. The necessary legislative authority was not secured until the passage of the Contract Settlement Act of 1944, and the statement of policy was never, therefore, promulgated by directive of the Office of War Mobilization.

The statement paralleled closely the provisions for interim financing subsequently included in the Act, both as to partial payment and as to guaranteed loans. It recommended that prompt payment be made for completed articles undelivered at the time of termination; and that, within thirty days after the receipt of the contractor's certificate setting out his estimated costs, the contracting agency should advance 100 percent of the estimated factory cost of his inventory, 100 percent of his advances to subcontractors, and reasonable percentages of his other costs, but not in excess of 90 percent of the contracting agency's estimate of his entire claim. The statement also recommended the establishment of a system of guaranteed loans to finance termination claims, similar to the V-Loans used to finance production. In aid of the entire interim financing program, it recommended also the allowance of interest on unpaid balances of contractors' claims.

An account of the activities of the Joint Contract Termination Board would not be complete without a reference to its participation in the hearings and discussions leading up to the enactment of the Contract Settlement Act of 1944. A subcommittee on legislation was created for the purpose of quickly coordinating the opinions of contracting agencies on the numerous questions of policy concerning the proposed legislation which were raised at various stages of its consideration by the Senate Committee on Post-War Planning, the Senate Military Affairs Committee, the House Committee on Post-War Planning, the House Judiciary Committee, and the Conference Committee. This work involved numerous sessions of the subcommittee, and consideration of major policy issues at several meetings of the Board itself.

In addition to the foregoing matters, which resulted in final action during the period of the existence of the Joint Contract Termination Board, reference should also be made to five other subjects which received extended consideration by subcommittees of the Board or by the Board itself. These are the adequacy of existing provisions covering contractors' costs of reconverting their plant to peace-time production; the feasibility and desirability of direct settlement by the Government of all or a substantial part of the contracts and subcontracts of a particular contractor with various procurement agencies and customers; the development of uniform forms for use by contractors and subcontractors in the settlement of their termination claims

the development of cost memoranda elaborating the Statement of Cost Principles; and the development of standards to guide the negotiation of settlements.

A subcommittee of the Board was formed to consider the question of reconversion costs. After extended deliberation, it recommended to the Chairman of the Board that, in view of other governmental policies, primarily those applied in renegotiation and those of the tax laws permitting the carry-back or carry-forward of losses for a period of two years, additional provision should be made for reconversion costs only in hardship cases.

Another subcommittee was formed for the purpose of considering the possibility of providing for the settlement of some or all of the claims of a particular company under prime contracts and subcontracts with different procurement agencies or customers. A difference of opinion among the agencies developed as to the practicability and desirability of this means of settling claims. The subcommittee submitted to the Chairman a report advocating the adoption of this method of settlement but reflecting also the views of the agencies which doubted its practicability. To resolve the conflict of opinion thus presented, the War and Navy Departments initiated certain experiments with a limited number of companies to test the workability of grouping prime contracts and subcontracts for the purpose of settlement. These experiments were incomplete at the time when the Joint Contract Termination Board ceased to function.

The subcommittee formed to consider questions relating to organization, procedures and appeals took under consideration the advisability of developing forms, which would be uniform for all contracting agencies, for all prime contractors and subcontractors in submitting their claims. Two sets of such forms were developed, which were put into experimental use by the War and Navy Departments, to obtain the data necessary to establish the most appropriate forms for general use. This experimental period had not ended when the Contract Settlement Act became effective.

The subcommittee on termination accounting held a number of meetings to consider and formulate a series of cost memoranda interpreting and clarifying various provisions of the statement of cost principles announced in connection with the uniform termination article. These costs memoranda were likewise in tentative form at the effective date of the Contract Settlement Act.

The subcommittee on contract clauses devoted several meetings to the problem of the standards that should be applied in the negotiation of settlements, a matter left open by the provisions of the uniform termination article. Differing opinions developed as to the degree to which the provisions covering formula settlement should control the negotiation. These were reflected in alternative drafts submitted by the subcommittee to the Chairman of the Board. This problem required reconsideration in view of the terms of the Contract Settlement Act before the standards governing negotiated settlements could be announced in Regulation No. 7 of the Office of Contract Settlement (Appendix B, Exhibit XI).

The records of the Joint Contract Termination Board and the matters in process in the Board and its subcommittees were made available to the Office of Contract Settlement upon its organization.

ORGANIZATION OF MAJOR CONTRACTING AGENCIES

The "doing of the job" of contract termination and settlement falls upon the contracting agencies. However firm and sensible the policy decisions may be at staff levels, the test comes in the performance of actual terminations and settlements. The quality of the program is ultimately governed by the adequacy, in quality as well as quantity, of the personnel and management of the operating units of the contracting agencies. The huge and complex tasks of developing organization, devising procedure, recruiting and training staff, and formulating detailed policy for the settlement of claims under terminated contracts fall upon the procurement agencies. The efficacy and speed with which the various phases of settlement are carried on depend in large measure upon the manner in which the individual contracting agencies cope with these problems of administration.

In dealing with these matters the individual agencies of practical necessity must be permitted broad discretion within the general standards fixed by the Contract Settlement Act and the regulations of the Office of Contract Settlement. Administrative arrangements for contract settlement were in process of development long before the passage of the Contract Settlement Act. Almost from the beginning of war production the procurement agencies had to handle at least a small load of settlement work. Mechanisms for dealing with this flow of claims were developed. As the time for large-scale terminations approached, emphasis in organizational planning came to be placed upon preparations for large-scale operations.

A. War Department

Among the major contracting agencies, the settlement problem first became of significance in the War Department. Consequently it was the first agency to give systematic attention to policy, organization, the procedure for contract settlement. In the summer of 1941 the War Department, in the course of a revision of its contract forms, adopted a new termination article reflecting departmental policies on the settlement of fixed-price supply contracts canceled for the convenience of the government. This termination article was revised from time to time. In October, 1942 the principle of negotiated settlement was introduced into the termination article. Experience with the War Department termination article contributed to the formulation of the uniform termination article for fixed-price contracts, later made mandatory for all agencies by the Office of War Mobilization. Settlement under the termination clause was first handled as an incident to procurement; but as the volume of terminations grew, it became necessary to develop more elaborate organization,

procedures and instructions regarding settlement. This trend was reflected in the comprehensive statement of termination policy and procedure issued by the Department in August 1943 with subsequent revisions.

Department-wide policy on contract settlement matters flows from the Readjustment Division. The formulation of policy regarding settlements within the War Department is a responsibility of the Director, Readjustment Division, Headquarters, Army Service Forces, "acting under the supervision of the Director of Materiel in matters relating to the Army Service Forces, and as the Special Representative of the Under Secretary of War in matters relating to the Army Air Forces."* Centralization of policy formulating responsibility in the Readjustment Division is accompanied by a high degree of decentralization of actual administration of contract settlement to the chiefs of the technical services, i.e., the Ordnance Department, the Signal Corps, the Corps of Engineers, the Chemical Warfare Service, the Medical Department, the Quartermaster Corps, and the Transportation Corps.

The Readjustment Division settles no contracts; it formulates policy in accordance with which the operating units make settlements. In general, the functions of the Readjustment Division are those suggested by the Joint Contract Termination Board in May, 1943 for "control organizations" to be established in each agency to supervise termination activities and to see that government-wide policies were carried out within the agency. The functions of the Readjustment Division are performed through several branches. The Contract Settlement Branch formulates policies and procedures for the settlement of terminated contracts. In developing policies, the Branch works with agencies outside the Department, such as the Office of Contract Settlement, and with other units of Headquarters, Army Service Forces. Its relations are particularly close with the Office of the Fiscal Director which has overall responsibility for accounting in the Army Service Forces and also is concerned with interim financing. The Property Disposal Branch develops policies governing the disposal of property surplus to War Department needs including that which results from the termination of contracts. War Department policies on this subject are stated in its Procurement Regulation No. 7. The Control Branch develops forms. It receives reports from the technical services on progress in the termination and settlement of contracts and consolidates and analyzes these data to aid the Division in evaluating the work of the technical services. A Training Branch is responsible for the supervision and coordination of methods used by the centralized schools of the Department and by the technical services in the training of government and contractor personnel in the problems of contract settlement.

Responsibility for settlement of claims, within the limits of the general principles prescribed by Procurement Regulation No. 15, is delegated to the chiefs of the technical services of the Army Service Forces and to the Commanding General, Army Air Forces, who are empowered

*Procurement Regulation No. 15.

further to delegate settlement authority to their subordinates. In the assignment of duties within the technical services, the chiefs possess sufficient discretion to adapt their organizational arrangements to the peculiar requirements of each service. Certain department-wide requirements, however, must be met by each technical service. Each technical service, for example, must establish one or more settlement review boards for the purpose of reviewing settlements proposed by negotiating officers. Department policy requires that proposed settlements providing for the payment to any prime contractor or to any subcontractor of an amount in excess of \$25,000 be examined by such a review board prior to approval. Additional types of review are provided for settlements in excess of \$500,000. These review practices are in accord with general standards set by the Joint Contract Termination Board in May 1943, and subsequently by Congress in the Contract Settlement Act.

Although the organization for settlement work varies in detail among the technical services, each has at its headquarters a staff unit with responsibility for developing such supplementary instructions to those contained in Procurement Regulation 15 as may be necessary, for developing organization and procedures for settlement within the service, for collecting and analyzing data on progress in settlements by the subdivisions of the service, for staff assistance in the supervision of settlement operations, and related matters. These staff units aid the chief of the technical services in the supervision of settlement work which is ordinarily decentralized, either geographically or functionally, to subordinate divisions of the service.

In the Office of the Quartermaster General, for example, there is a Contract Termination Branch of the Procurement Division which is responsible for the supervision of settlement work. This is handled in the main by the five Depots in Philadelphia, Jersey City, Jeffersonville, Chicago, and Boston. The Contract Termination Branch issues instructions to the Depots regarding organization and procedures for termination, receives and analyzes reports on progress by the Depots, makes checks of progress by the Depots in settlement, interim financing and property disposal, and assists in arranging training programs for Depot and contractor personnel. The Legal Branch and the Cost and Price Analysis Branch of the Office of the Quartermaster General also have certain responsibilities in the review and supervision of the work of the Depots. Another feature of the OQMC headquarters organization is a Settlement Review Board which reviews proposed settlements involving in excess of \$100,000 forwarded to it from the Depots. About 99 percent of all claims are settled finally at the Depots. However, the Board does examine on its own initiative sample settlement agreements involving less than \$100,000, not with the object of revision but as a means of supervising Depot operations and of determining the need for changes in policy and procedure.

In the Ordnance Department the organization in the Office of the Chief of Ordnance is broadly similar to that described in the preceding paragraph. The Contract Termination Branch of the Legal Division is charged with staff responsibility for contract settlement. The rules of Procurement Regulation 15 are interpreted and supplemented by this Branch and issued for the guidance of the Ordnance Districts as Ordnance Procurement Instructions. The Branch examines problems brought to its attention by the Ordnance Districts and makes suggestions to the Districts for improvements in organization and procedure.

Although there are variations in detail, each of the other technical services has at its headquarters an organizational unit with responsibility for assuring administration of settlement within the service in accordance with departmental policy. Below the Washington headquarters of the technical services, organization for settlement work varies with the structure of each service. A description of the chief general types of administrative arrangements of the technical services' organizations for settlement may be useful. One type of organization is exemplified by that of the Ordnance Department which has divided the country into thirteen Procurement Districts, each of which has final responsibility for the settlement of terminated ordnance contracts held by contractors located within the District. Among the districts there is further diversity in organization. In most Ordnance Districts there are certain commodity branches -- small arms, artillery, tank-automotive, and ammunition -- with responsibility for procurement, inspection, and production engineering. In some districts each of these commodity branches has a termination section with responsibility for settling canceled contracts over which the branch has jurisdiction. In other districts a single termination branch settles all contracts canceled within the District regardless of the product involved. Each District has, in keeping with departmental policy, a settlement review board which examines proposed settlements and recommends action to the District chief.

Another type of organization below the technical service headquarters level is illustrated by the Signal Corps, the principal operating units of which are three districts -- Dayton, Monmouth, and Philadelphia. Unlike the Ordnance Districts, the Signal Corps Districts are specialized by commodity rather than by area. The Dayton district, for example, procures airborne radio equipment from plants all over the country while the Philadelphia office buys all ground radio equipment except radar. In a sense, then, Signal Corps procurement is centralized in a number of places outside Washington. Subject to supervision from the Office of the Chief Signal Officer in Washington, the district offices terminate and settle contracts. In each district a review board examines proposed settlements involving more than \$25,000 while proposals of over \$500,000 are transmitted to Washington for review by the Settlement Review Committee in the Office of the Chief Signal Officer. Under the type of organization prevailing in the Signal Corps a situation can arise in

plant. Procedures exist for the assignment to such plants of a single team to act for all district offices in the settlement of canceled contracts for signal equipment. The technical services of the Department in their form of organization for procurement and contract settlement fall broadly into the two classes typified by the Ordnance Department and the Signal Corps.

Through the evolution of organization since the settlement problem became of importance, there has evolved an elaborate machinery within the Department to formulate at top levels policy on settlement, to transmit instructions to the technical services, and to supervise and review the work of settlement at the operating levels in the services. All this has resulted in substantial accomplishment by way of preparation for coping with larger settlement loads.

The War Department organization for settlement, as in the case of all the contracting agencies, is constructed on the principle that the unit which placed a contract should settle it. To a small degree modifications of the vertical system have occurred within the War Department to minimize the duplication of effort and confusion that may occur when several subdivisions of a department have contracts with a single plant. The arrangements within the Signal Corps to assign plants to a single district office for settlement of all claims under contracts for signal equipment have been noted. In addition, procedures exist and have been used to some extent to assign a plant to a single technical service for accounting review and disposal recommendations under all War Department contracts regardless of the technical service of origin. The War Department and the Navy Department are setting up joint Termination Coordination Committees in appropriate regions of the country to cooperate and to insure uniformity of procedure. These committees can in special cases allocate a contractor to a particular service or department and the other services or departments may recognize the audits and the disposal recommendations of the service assigned. This new development shows promise of simplifying many otherwise complicated cases. If it proves as successful as hoped, it may eliminate a great deal of duplication.

B. Navy Department

The broad structure of the Navy Department for the settlement of contracts consists of a policy formulating and supervisory unit at a high level with the actual settlement of contracts vested in the various procuring subdivisions of the Department. Procedures and machinery for settlement have, as is general, been grafted onto the procuring organization. The characteristics of the settlement organization are, therefore, derived from the procurement machinery. The fairly high degree of centralization in Navy Department procurement practices are thus reflected in the settlement machinery. In general, the Navy Department has not found it necessary to install very elaborate administrative machinery or to train a very large staff. Its settlement load is comparatively small and the expectation is that a sharp upturn in terminations will occur, if at all, much later than in the War Department procurement program.

The Industrial Readjustment Branch of the Office of Procurement and Material is vested with general responsibility for the establishment, supervision, and coordination of policies and procedures in the Navy Department relating to contract settlement, property disposition, and related matters. This Branch, which is under the direction of the Assistant Chief of Procurement and Material for Industrial Readjustment, was established in November 1943, and superseded earlier assignments of responsibility for policy supervision of contract settlement which is carried on by the Bureaus of the Navy Department, the Coast Guard, and the Marine Corps. The Branch issues departmental policy instructions, receives reports from the Bureaus on progress in settlement, and all Bureaus have been instructed to submit to it for approval, before issuance, directives of general application on contract settlement and property disposition.

Responsibility for the application of settlement policies in particular cases rests in the procuring Bureaus. Subject to certain broad policies of department-wide application, the chiefs of the Bureaus have discretion in making internal organizational arrangements for settlement. Among the more important of these general requirements is that each Bureau have one or more review boards to examine proposed settlements if the aggregate amount to be paid exceeds \$50,000. However, settlements involving \$500,000 or more must receive the approval of the chief of the Bureau before payment is made. In addition, each Bureau chief must establish procedures by which contractors may appeal the determinations of contracting officers.

The degree to which settlement authority is decentralized differs among the Bureaus of the Department. The settlement officials of the Bureau of Ships and the Bureau of Ordnance are located at headquarters. The Bureau of Aeronautics, however, has decentralized settlement authority to its three district offices at New York, Dayton, and Los Angeles. In each district there is a board of review with authority to approve settlements up to \$500,000; proposed settlements involving sums in excess of that amount are transmitted to Washington for review. The Bureau of Supplies and Accounts has distributed its responsibilities for settlement in accordance with the assignments of procurement cognizance. The Bureau in Washington settles contracts made in Washington while nineteen offices outside Washington settle claims arising under contracts which they placed. At these offices there are review boards to examine proposed settlements. Similarly, the Bureau of Yards and Docks has delegated settlement responsibility to its Advance Base Department in Chicago, which handles procurement for this aspect of the Bureau's program.

The Navy Department organization is identical in principle with that of the War Department in making the subdivisions of the department charged with procurement responsible also for settlement. However,

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the Navy Department organization includes certain additional features for which there is no parallel in the War Department. The Cost Inspection Service, a part of the headquarters organization of the Bureau of Supplies and Accounts, has a Navy-wide role in contract settlement. The Service advises all the Bureaus with respect to accounting problems arising in contract terminations and it may be relied on by the cognizant Bureau to make an accounting review of contractors' claims. Similarly, the inspectors of naval material who perform in the field services for all the procuring Bureaus likewise assist in the settlement process. The material inspector with cognizance over a particular plant reviews all claims submitted by the plant and furnishes information to the contracting officer regarding materials on hand and work in process covered by the claim. The Naval Material Redistribution and Disposal Agency, generally referred to as the NMR&DA, has charge of all disposal of termination inventories and surplus material, regardless of the Bureau originating the procurement contract. The headquarters of this administration is in New York City, but its disposal offices are located through the country.

C. Maritime Commission

Arrangements for the settlement of contracts within the Maritime Commission differ considerably from those existing in either of the two agencies already described. The principal characteristics of the Commission's organization for settlement, as in the case of other agencies, are fixed by the structure of the machinery for procurement. Probably the most noticeable difference between the Maritime Commission and the War and Navy Departments is the high degree of centralization of the power of decision in settlement matters in the organization of the Maritime Commission.

General responsibility for coordinating and supervising activities of the Commission in the settlement of termination claims and the disposition of property is vested in an assistant to the Vice Chairman of the Commission. In the formulation of policy this assistant is advised and aided by the Procedure Committee for Contract Terminations and Cancellations and Surplus Property Disposal, of which he serves as chairman. The committee consists of the directors of the Commission divisions most concerned with settlement matters and other high-ranking administrative officials. It may, within the general sphere of its responsibility, make such recommendations as it deems advisable to the Commission and it may also amend or supplement the Commission's regulations governing settlement to the extent necessary to adjust Commission practice to the requirements of the Office of Contract Settlement. The Commission reserves to itself the power to make other types of amendments. In general, the assistant to the Vice Chairman and the Procedure Committee in combination perform the functions of policy formulation and supervision which are carried on in the War Department by the Readjustment Division and in the Navy Department by the Readjustment Branch of the Office of Procurement and Material.

The negotiation of settlements is conducted principally by the Commission's Procurement Division and by its Regional Directors of Construction. Each of the Regional Directors (East Coast, Philadelphia; Gulf Coast, New Orleans; Great Lakes, Chicago; West Coast, San Francisco) has established within his office a Termination Section which carries out the functions of the regional office in the settlement of terminated contracts. Those functions are limited to the negotiation and determination of settlements on claims arising under contracts for the construction of vessels or the construction of shipyard facilities but no such action by the Regional Director becomes effective until after review by the Settlement Review Board in Washington. The Regional Director may, however, approve conclusively subcontract claims not in excess of \$5,000. He is also charged with the duty of reviewing termination claims arising under contracts placed by individuals, firms, or corporations acting as agents for the Commission. Such claims in excess of \$5,000 must, however, be presented to the Settlement Review Board for approval.

The responsibilities of the Procurement Division in Washington for the settlement of claims relate to contracts placed by it for materials, equipment and supplies to be furnished to shipyards for incorporation into vessels. The Commission through the purchases of the Division furnishes large quantities of equipment and materials to be incorporated into standardized vessels built by different yards. To carry out the tasks associated with settlement of its contracts, the Division has established a Contract Termination Section which receives claims and negotiates settlements. The Section may utilize the Finance Division to make such audits as are necessary and it may call on Regional Directors to make examinations of plants when necessary in connection with settlement. The final authority of the Procurement Division to settle extends only to settlements not in excess of \$5,000; proposals in larger amounts must go before the Settlement Review Board.

The Settlement Review Board consists of three members of the Commission and four subordinate officials of the Commission. All proposed settlements in excess of \$5,000 are reviewed by the Board which in the case of proposals not in excess of \$100,000, acts through a panel of three or more members designated by the Chairman of the Commission. When claims in excess of \$100,000 are under consideration, a quorum of the Board consists of five members including two members of the Commission. Thus the process of review in the Maritime Commission occurs at a higher level in the organization than in the other major procurement agencies. The Settlement Review Board also possesses certain powers not commonly exercised by such boards. It, for example, is empowered to authorize contractors to settle termination claims not in excess of \$5,000 arising under subcontracts.

D. Procurement Division-Treasury Department

The Procurement Division of the Treasury Department presents yet another type of settlement organization. With a comparatively small load of settlement work the Division has not found it necessary to develop a large and specialized organization to direct and carry on the negotiation of settlements. This activity tends, rather, to be incidental to the purchasing activities of the Division which chiefly consist of procurement of non-military items for the Foreign Economic Administration.

In the development of settlement policy, the Director of Procurement is advised by a Consultant to the Director on Contract Settlement. In addition on settlement policy matters, the Secretary of the Treasury has a special consultant. The small-scale operations of Treasury Procurement makes it possible to handle policy formulation with a small organization.

The actual negotiation of settlements is handled by either one of two designated officials of the Division, the Deputy Director for Operations and the Chief of the Contract and Purchase Branch, each of whom has been authorized to act as a "contracting officer" in the negotiation of settlements. After advising the contractor of steps to be taken in submitting a claim, the contracting officer directs an inspector from the nearest Division Regional Office to inspect articles completed but not delivered and to check the inventory. The contracting officer also has the assistance of property disposal staff (usually from the Division's Regional offices), attorneys from the Office of the Chief Counsel of the Treasury, and accountants from the Procurement Division Price Adjustment Board staff.

All proposed settlements are submitted by the contracting officer to the Contract Termination Settlement Review Board which consists of five members and was set up in May 1944 in conformity with policies developed by the Joint Contract Termination Board.

E. Contractor Organization

In any consideration of organization for contract settlement some mention must be made of prime contractors who perform an important role in the preparation of claims. In the review of claims under subcontracts the termination personnel of those prime contractors authorized to settle such claims become virtually an extension of the government's settlement organization.

Extensive data on contractor organization are not readily available but it is well known that some contractors have made great progress in staffing termination units and in developing their internal procedures for the preparation of claims. Contracting agencies have, with varying degrees of intensity, stimulated and promoted such action by the contractors. The Army Air Forces, for example, has carried on an energetic campaign to induce contractors to develop termination machinery and has rated contractors according to their degree of preparedness to carry settlement loads.

The effectiveness with which a troublesome part of the settlement problem is dealt with will depend to a high degree upon the extent to which the contracting agencies can delegate authority to the prime contractors to settle claims under subcontracts. At the present time, practice varies among the contracting agencies. The Maritime Commission, on application to its Settlement Review Board, may authorize contractors to settle claims under subcontracts, if the claim does not exceed \$5,000. War and Navy Department contracting officers are permitted to authorize prime contractors to settle terminated subcontracts when payments of not more than \$10,000 (without deducting disposal credits) are to be made. Such authorizations are dependent on a finding that the prime contractor will give adequate review to subcontractors' claims. With respect to net claims of under \$1,000 when the subcontractor retains or disposes of all inventory, the provisions of Regulation 6 of the Office of Contract Settlement apply to all contractors.

REGULATIONS AND FORMS

<u>Exhibit</u>		<u>Page</u>
I	Office of War Mobilization Directive ^{ive} Order 2 and Uniform Termination Article for Fixed-Price Supply Contracts. Subject: Uniform Termination Article	-1b-
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Office of War Mobilization Directive Orders 1 and 6, issued respectively January 8, 1944 and May 29, 1944, are not reproduced in this Appendix as directives of the Office of War Mobilization since they are contained in Directive Order 2 of the Office of War Mobilization and Regulations 5 and 6 of the Office of Contract Settlement.

OFFICE OF WAR MOBILIZATION

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DIRECTIVE ORDER 2

February 24, 1944

At the time of the issuance by this Office of the Directive Order to all Procurement Agencies dated January 8, 1944, which made effective a Uniform Termination Article for Government Fixed Price war supply contracts, it was stated that certain exceptions thereto were under consideration. The Directive Order accordingly required that situations in which it was deemed impracticable to use the Article should be reported to this Office for further instructions. Such reports having been made, that Order is hereby amended to include the following provisions in order to make effective certain exceptions recommended by the Joint Contract Termination Board:

1. The Uniform Termination Article for Fixed Price Supply Contracts, providing for termination at the option of the Government, (which was promulgated by the Office of War Mobilization in its Directive Order of January 8, 1944, and which incorporates by reference the Statement of Principles for Determination of Costs Upon Termination of Government Fixed Price Supply Contracts) will be used, from the dates fixed as provided in paragraph 2 below, by the War, Navy and Treasury Departments, the Maritime Commission, Defense Plant Corporation, Defense Supplies Corporation, Metals Reserve Company, Rubber Reserve Company and Foreign Economic Administration, in all fixed price contracts made by them for the manufacture in continental United States of War supplies and equipment, unless exempted by the Office of War Mobilization prior to the execution of the contract; provided that any such department or agency may elect not to use the Article in any of the following classes of contracts:

a. Contracts for an amount of less than \$50,000 regardless of the date of delivery;

b. Contracts for an amount of less than \$500,000 providing for delivery within six months;

c. Letters of intent and other preliminary contractual arrangements which contemplate the subsequent execution of formal contracts;

d. Contracts of Governmental departments, agencies and instrumentalities with instrumentalities of the Government or with States or subdivisions or instrumentalities thereof;

e. Contracts for the purchase of a material which is manufactured either as a by-product or a co-product in an integrated operation from a common raw material source in such manner that the cost of its manufacture is not susceptible of separate determination;

f. Contracts or purchase orders made in the name of and on behalf of the Government, by a contractor under a cost or cost plus contract with the Government, for the purchase of materials, supplies and equipment required for or in connection with the construction of Government owned plants and facilities;

g. Contracts, including so-called pool orders and commitment contracts, for the production of materials, supplies, and equipment which provide that completed items produced under the contract and furnished to the Government shall be paid for at a price intended to exclude profit;

h. Requirement or open end contracts.

2. The article will be used by the above mentioned agencies and departments in all contracts executed more than thirty days after the publication of the Article and Statement by the particular department or agency, which publication shall take place as soon as practicable. The earlier use of the Article is optional with the department or agency.

3. Each of the above mentioned departments or agencies will give to holders of existing contracts (exclusive of those within any classes excepted under paragraph 1a to h) the earliest practicable opportunity, by regulation or otherwise, to amend their contracts to include the Article, in substitution for any existing provision for termination thereof without regard to default and for the convenience or at the option of the Government.

4. Any other department or agency of the Government contracting for the manufacture of war supplies and equipment in continental United States under fixed price contracts will use the Article in such contracts wherever it deems such use to be feasible.

JAMES F. BYRNES
Director, Office of War Mobilization

THE WHITE HOUSE,

February 24, 1944.

NOTE: Directive No. 2 of the Office of War Mobilization in effect superseded Directive Order No. 1 which is therefore not reproduced. Directive Order No. 2 was in turn amended by Regulation No. 5 of the Office of Contract Settlement. The Uniform Termination Article referred to in paragraph 1 of Directive Order No. 2 is as follows:

UNIFORM TERMINATION ARTICLE FOR FIXED PRICE SUPPLY CONTRACTS

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"Article termination at the option of the Government: (a) The performance of work under this contract may be terminated by the Government in accordance with this article in whole, or from time to time in part, whenever the contracting officer shall determine any such termination is for the best interests of the Government. Termination of work hereunder shall be effected by delivery to the contractor of a notice of termination specifying the extent to which performance of work under the contract shall be terminated, and the date upon which such termination shall become effective. If termination of work under this contract is simultaneous with, a part of, or in connection with, a general termination (1) of all or substantially all of a group or class of contracts made by the Department for the same product or for closely related products, or (2) of war contracts at, about the time of, or following, the cessation of the present hostilities, or any major part thereof, such termination shall only be made in accordance with the provisions of this article, unless the contracting officer finds that the contractor is then in gross or wilful default under this contract.

"(b) After receipt of a notice of termination and except as otherwise directed by the contracting officer, the contractor shall (1) terminate work under the contract on the date and to the extent specified in the notice of termination; (2) place no further orders or subcontracts for materials, services or facilities except as may be necessary for completion of such portions of the work under the contract as may not be terminated; (3) terminate all orders and subcontracts to the extent that they relate to the performance of any work terminated by the notice of termination; (4) assign to the Government, in the manner and to the extent directed by the contracting officer, all of the right, title, and interest of the contractor under the orders or subcontracts so terminated; (5) settle all claims arising out of such termination of orders and subcontracts with the approval or ratification of the contracting officer to the extent that he may require, which approval or ratification shall be final for all the purposes of this article; (6) transfer title and deliver to the Government in the manner, to the extent and at the times directed by the contracting officer (1) the fabricated or unfabricated parts, work in process, completed work, supplies, and other material produced as a part of, or acquired in respect of the performance of, the work terminated in the notice of termination, and (ii) the plans, drawings, information, and other property which, if the contract had been completed, would be required to be furnished to the Government; (7) use his best efforts to sell in the manner, to the extent, at the time, and at the price or prices directed or authorized by the contracting officer, any property of the types referred to in subdivision (6) of this paragraph; provided, however, that the contractor (i) shall not be required to extend credit to any purchaser and (ii) may retain any such property at a price or prices approved by the contracting officer; (8) complete performance of such part of the work as shall not have been terminated by the notice of termination; and (9) take such action as may be necessary or as the contracting officer may direct for protection and preservation of the property, which is in the possession of the contractor and in which the Government has or may acquire an interest.

"(c) The contractor and the contracting officer may agree upon the whole or any part of the amount or amounts to be paid to the contractor by reason of the total or partial termination of work pursuant to this article, which amount or amounts may include a reasonable allowance for profit, and the Government shall pay the agreed amount or amounts. Nothing in paragraph (d) of this article prescribing the amount to be paid to the contractor in the event of failure of the contractor and the contracting officer to agree upon the whole amount to be paid to the contractor by reason of the termination of work pursuant to this article shall be deemed to limit, restrict, or otherwise determine or affect the amount or amounts which may be agreed upon to be paid to the contractor pursuant to this paragraph (c).

"(d) In the event of the failure of the contractor and contracting officer to agree as provided in paragraph (c) upon the whole amount to be paid to the contractor by reason of the termination of work pursuant to this article, the Government, but without duplication of any amounts agreed upon in accordance with paragraph (c), shall pay to the contractor the following amounts:

"(1) For completed articles delivered to and accepted by the Government (or sold or retained as provided in paragraph (b) (7) above) and not theretofore paid for, forthwith a sum equivalent to the aggregate price for such articles computed in accordance with the price or prices specified in the contract;

"(2) In respect of the contract work terminated as permitted by this article, the total (without duplication of any items) of (i) the cost of such work exclusive of any cost attributable to articles paid or to be paid for under paragraph (d) (1) hereof; (ii) the cost of settling and paying claims arising out of the termination of work under subcontracts or orders as provided in paragraph (b) (5) above, exclusive of the amounts paid or payable on account of supplies or materials delivered or services furnished by the subcontractor prior to the effective date of the notice of termination of work under this contract, which amounts shall be included in the cost on account of which payment is made under subdivision (i) above; and (iii) a sum equal to --- percent $\frac{1}{100}$ of the part of the amount determined under subdivision (i) which represents the cost of articles or materials not processed by the contractor, plus a sum equal to ---- percent $\frac{2}{100}$ of the remainder of such amount, but the aggregate of such sums shall not exceed 6 percent of the whole of the amount determined under subdivision (i) which for the purpose of this subdivision (iii) shall exclude any charges for interest on borrowings;

"(3) The reasonable cost of the preservation and protection of property incurred pursuant to paragraph (b) (9) hereof; and any other reasonable cost incidental to termination or work under this contract, including expense incidental to the determination of the amount due to the contractor as the result of the termination of work under this contract.

1/ Not to exceed 2 percent.

2/ To be established at a figure which is fair and reasonable under the circumstances.

"The total sum to be paid to the contractor under subdivisions (1) and (2) of this paragraph (d) shall not exceed the total contract price reduced by the amount of payments otherwise made and by the contract price of work not terminated. Except for normal spoilage and to the extent that the Government shall have otherwise expressly assumed the risk of loss, there shall be excluded from the amounts payable to the contractor as provided in paragraph (d) (1) and paragraph (d) (2) (i), all amounts allocable to or payable in respect of property, which is destroyed, lost, stolen, or damaged so as to become undeliverable prior to the transfer of title to the Government or to a buyer pursuant to paragraph (b) (7) or prior to the 60th day after delivery to the Government of an inventory covering such property, whichever shall first occur.

"(e) The obligation of the Government to make any payments under this article: (1) shall be subject to deductions in respect of (i) all unliquidated partial or progress payments, payments on account theretofore made to the contractor and unliquidated advance payments, (ii) any claim which the Government may have against the contractor in connection with this contract, and (iii) the price agreed upon or the proceeds of sale of any materials, supplies, or other things retained by the contractor or sold, and not otherwise recovered by or credited to the Government, and (2) in the discretion of the contracting officer shall be subject to deduction in respect of the amount of any claim of any subcontractor or supplier whose subcontract or order shall have been terminated as provided in paragraph (b) (3) except to the extent that such claim covers (i) property or materials delivered to the contractor or (ii) services furnished to the contractor in connection with the production of completed articles under this contract.

"(f) In the event that, prior to the determination of the final amount to be paid to the contractor as in this article provided, the contractor shall file with the contracting officer a request in writing that an equitable adjustment should be made in the price or prices specified in the contract for the work not terminated by the notice of termination, the appropriate fair and reasonable adjustment shall be made in such price or prices.

"(g) The Government shall make partial payments and payments on account, from time to time, of the amounts to which the contractor shall be entitled under this article, whether determined by agreement or otherwise, whenever in the opinion of the contracting officer the aggregate of such payments shall be within the amount to which the contractor will be entitled hereunder.

"(h) For the purposes of paragraphs (d) (2) and (d) (3) hereof, the amounts of the payments to be made by the Government to the contractor shall be determined in accordance with the statement of principles for determination of costs upon termination of Government fixed-price supply contracts approved by the Joint Contract Termination Board, December 31, 1943. The contractor for a period of 3 years after final settlement under

the contract shall make available to the Government at all reasonable times at the office of the contractor all of its books, records, documents, and other evidence bearing on the costs and expenses of the contractor under the contract and in respect of the termination of work thereunder."

NOTE: The foregoing Article incorporates by reference in paragraph (h) a statement of principles for determination of costs upon termination of Government fixed-price supply contracts. This statement was amended by Regulation 5 of the Office of Contract Settlement and is reproduced as amended, with an explanation of the amendments, as part of Exhibit VIII.

OFFICE OF WAR MOBILIZATION

DIRECTIVE ORDER 3

The following resolution passed by the Joint Contract Termination Board is hereby made effective:

The Joint Contract Termination Board, acting by agreement among its members and pursuant to Executive Order 9347, dated May 27, 1943, is concerned with all aspects of the termination of war contracts and the subsequent settlement with war contractors, including the rapid disposition of property by or to contractors in connection therewith. It recognizes, however, that the price policies employed in the disposition of termination inventories by owning agencies or by contractors, prior to their declaration as surplus, bear an important relation to the price policies to be employed in the disposition of similar property which has been or may be declared surplus, and that a single agency should coordinate such price policies. Accordingly, the Joint Contract Termination Board hereby delegates to the Surplus War Property Administration all authority possessed by the former to determine, and to promulgate by regulation or otherwise, price policies to be followed by Government agencies or by contractors under their authority in the disposal of any article, commodity, machinery, equipment, accessory, part, component, assembly, work in process, or any product of any kind allocable to a terminated war contract and of any machinery or equipment owned by the Government becoming available for disposition in connection with contract terminations.

Director, Office of War Mobilization

May 2, 1944.

OFFICE OF WAR MOBILIZATION

DIRECTIVE ORDER 4

The Uniform Termination Article for Government Fixed Price war supply contracts was made effective by directive order from this office dated January 8, 1944. To the end of securing uniformity and certainty in the interpretation and operation of the Article, the following general policy determinations, with respect to it, which have been approved by the Joint Contract Termination Board, are hereby made effective:

1. Paragraph (b) (4) of the Article provides that the prime contractor shall assign to the Government, in the manner and to the extent directed by the contracting officer, all of the right, title and interest of the prime contractor under the orders or subcontracts terminated by reason of their relationship to the work terminated by the termination notice. This provision was designed to assure the Government's right to require the transfer to it of the property and rights under the subcontract or order acquired by the prime contractor from his subcontractors through payments for which the prime contractor is reimbursed by the Government. Accordingly, paragraph (b) (4) is not to be construed as requiring transfer to the Government of other rights of the prime contractor against the subcontractor (such as set-offs or counterclaims) for which no Government reimbursement is made to the prime contractor. In this connection it was recognized in the preparation of the Article that uniform provisions could not be drawn which would provide adequately in all cases for the disposition of patent rights involved in prime contracts or subcontracts, and the Article is not intended to forbid the inclusion in contracts of separate provisions covering the disposition of such rights on termination.

2. Paragraph (d) (1) of the Article provides that, in the case of a formula settlement, the contractor will be paid in accordance with the price or prices specified in the contract for completed articles delivered to and accepted by the Government (or sold or retained by the contractor under the provisions of the contract). Paragraph (b) (6) requires the contractor to transfer title and deliver to the Government, in the manner, to the extent and at the times directed by the contracting officer, completed work and other property; and paragraph (b) (7) requires the contractor to use his best efforts to sell any such property in the manner, to the extent, at the time and at the price or prices directed or authorized by the contracting officer.

It was the intent of these provisions, considered together, to require the Government, at times determined by the contracting officer in accordance with applicable regulations, to accept delivery of all articles (which do not represent unreasonable anticipation of production schedules) completed in accordance with the provisions of the contract

which the contractor had not previously sold or agreed to retain. In the case of a formula settlement, therefore, all such completed articles will be paid for at the contract price in accordance with the provisions of paragraph (d) (1), rather than at their cost in accordance with the provisions of paragraph (d) (2).

3. Paragraphs (b) (3) and (b) (5) of the Article require the contractor to terminate all orders or subcontracts to the extent that they relate to the performance of any work terminated by the notice of termination; and to settle all claims arising out of such termination of orders and subcontracts, with the approval or ratification of the contracting officer to the extent that he may require, which approval or ratification shall be final for all purposes of the Article. Paragraph (d) (2) (ii) then provides that the Government shall pay to the contractor, among other amounts, the cost of settling and paying claims arising out of the termination of work under subcontracts and orders as provided in paragraph (b) (5).

The Article does not include any provision (corresponding to those occasionally used by one or more of the contracting agencies prior to the effective date of the Article) that, under certain circumstances, final judgments secured by subcontractors against prime contractors in courts of competent jurisdiction were to be regarded as determinations, binding upon the Government, of the amount of the obligation owing by the prime contractor to the subcontractor. The omission of such a provision was not intended to detract from the binding effect of such judgments. In the case of any subcontract which does not contain unusual termination provisions unreasonably increasing the common law rights of the subcontractor, and in which the prime contractor, after making unsuccessful efforts to settle with his subcontractor, is sued in a court of competent jurisdiction, gives prompt notice to the contracting agency involved and offers to the agency control of the defense of the suit, the agency should accept any final judgment as determining the amount of the obligation between the parties to the suit, and as fixing the amount of the Government's obligation to reimburse the prime contractor, to the extent that the subcontract is properly allocable to the prime contract. The propriety of this allocation remains for the determination of the contracting agency.

4. Paragraph (e) (2) of the Article provides that the obligation of the Government to make payments under the Article shall, with certain exceptions, be subject, in the discretion of the contracting officer, to deduction in respect of the amount of any claim of any subcontractor or supplier whose subcontract or order shall have been terminated. The purpose of this provision was to permit the withholding of sums owing by the prime contractor to his subcontractors, in order to assure their receipt by the subcontractor. In any case in which use is made of this provision, the prime contractor is entitled to have the withheld sum applied for his benefit in such a way as to exonerate him, to that extent, from the claim of the subcontractor.

Director, Office of War Mobilization

May 2, 1944.

OFFICE OF WAR MOBILIZATION

DIRECTIVE ORDER 5

The statements of policy adopted by the Joint Contract Termination Board as to Government Organizations for Settlement of Terminated War Contracts, and as to Review of Contract Termination Settlements are hereby made effective for use by the War, Navy and Treasury Departments, the Maritime Commission, Smaller War Plants Corporation, Defense Plant Corporation, Defense Supplies Corporation, Metals Reserve Company, Rubber Reserve Company and Foreign Economic Administration. Other departments or agencies of the Government administering the settlement of terminated war contracts will follow the statements of policy to the extent they deem it practicable to do so.

/s/ James F. Byrnes
Director, Office of War Mobilization

May 2, 1944.

STATEMENT OF POLICY AS TO GOVERNMENT ORGANIZATIONS
FOR SETTLEMENT OF TERMINATED WAR CONTRACTS

Part I. General Principles

1. Simplification and perfection of procedures will not alone suffice to bring about speedy and fair settlements of terminated war contracts. The Government and industry must have organizations adequate, both quantitatively and qualitatively, to handle termination settlements, and the Government in particular must establish means for coordinating the activities of its various agency organizations.
2. Within the Government the principle must obtain that each settlement organization should freely utilize the services and facilities of other settlement organizations better situated to do particular jobs. Each organization should also have access to information obtained by other organizations in their settlement activities. Maximum and most effective utilization of the Government's settlement organizations as a whole requires a high degree of cooperation among the several agencies and of coordination within each agency.
3. There must be constant surveillance by each agency of the operations of its own organization. There must likewise be a continuing effort, through a central body, to maintain uniform policies and procedures of general application and to promote the joint utilization of personnel, information, and experience of all agency organizations. Only in these ways can satisfactory results be assured.

Part II. Procuring Agency Organization

4. Control Organizations. Each procuring agency should establish a supervisory organization within the agency, or should designate for the purpose responsible officials of the agency, to be charged in either case with the responsibility for seeing that the policies established for all procuring agencies are carried out. The functions of such organization or officials should be to supervise the termination activities within the agency to the extent necessary to insure prompt and equitable settlement of terminated contracts, to maintain close contact with the Joint Contract Termination Board, to submit to the Board problems of the agency which involve policies of major importance to the Government or as to which uniformity of action on the part of the several procuring agencies is desirable, and to implement the regulations of the Board by the issuance of detailed regulations governing the termination of contracts and their settlement within the agency.
5. Collection of Information. It should be the responsibility of the designated organization or officials to maintain current information as to the termination settlements in process within the agency, the personnel

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available for any work incident to such settlements, and the progress made from time to time in terms of settlements effected. Information as to available personnel should be maintained in such manner as to facilitate the temporary assignment of technical personnel to related work in connection with other settlements within the agency or by other agencies, and such information should be made available to other agencies upon request as needs arise.

Part III. Organization at the Negotiating Level

6. Contracting Officers and Technical Staffs. In all contract relations the Government must act through an agent, usually called the contracting officer, who signs settlement agreements and other documents on behalf of the Government. In Government corporations, which operate through officers and agents responsible to boards of directors, the formalities differ somewhat. In both types of organization, however, there is an individual or a group of individuals who must have the primary responsibility for the prompt and equitable settlement of terminated contracts. Such responsible officials must have assistance in all cases from technical staffs, consisting ordinarily of legal, accounting, property disposal, and other specialists. It is the responsibility of each procuring agency to see that adequate technical assistance of this kind is afforded to the responsible officials and is utilized by them.

7. Joint Utilization of Technical Staffs. In a number of instances it will be feasible to assign technical personnel directly to the plants or companies having major termination problems, to work with such plants or companies on a full-time basis and to report to responsible settlement officers. All agencies should utilize such assigned personnel to the greatest practicable extent to avoid duplication. There should be similar utilization of personnel not regularly assigned on a full-time basis but already engaged in making other settlements with the same plant or company, where common elements of claims or other factors offer advantages.

8. Use of Procurement Organizations. Full use of the personnel of procurement organizations, including that of procurement offices in the field, should be made to the greatest extent feasible without interference with procurement operations. Such use is especially important in cases where a new contract will take the place of one that has been terminated, so as to integrate the two transactions.

9. Property Disposal Organizations. The settlement of terminated contracts and the disposition of property allocable thereto are related but separate functions requiring operating personnel experienced in widely different fields. Whether property disposal specialists are to operate under the control of contracting officers or under separate organizations within the procuring agency is to be determined by the agency concerned and depends largely upon the volume of property involved, the magnitude of the problems presented, and the requirements of good administration.

10. Decentralization. Many of the operations preliminary to the negotiation of settlement agreements will necessarily be performed by field personnel. In deciding to what extent authority for termination settlements should be decentralized, each procuring agency must consider not only the convenience of contractors and the interests of speedy settlement but the judicious use of its qualified personnel.

Approved May 2, 1944.

Director, Office of War Mobilization

STATEMENT OF POLICY AS TO REVIEW OF
CONTRACT TERMINATION SETTLEMENTS

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General Principles

1. The policy of the Joint Contract Termination Board is to encourage the fullest practicable use of negotiation as the method of settling terminated contracts in the interest of speed in settlement and fairness to both parties. Each procuring agency shall make every reasonable effort to arrive at negotiated settlements and shall endeavor at all times to guard against the failure of negotiations because of arbitrary or erroneous decisions by individuals authorized to represent the agency in settlement negotiations. Settlement agreements once made should be final and not subject to reopening except for fraud.

2. A proper degree of control over such settlements must, however, be provided for the protection of the Government's interests. The review procedure set forth below is designed to provide the minimum standards to be observed by all procuring agencies. To the extent that it may be feasible to do so without materially slowing the settlement process, procuring agencies may extend the controls afforded by the review procedure beyond the requirements of these minimum standards. The primary objective of promptness in settlement must not be lost sight of, and review of smaller settlements must not be required at the expense of that objective.

Scope and Applicability

3. The terms "procuring agency" and "agency", as used in this statement of policy, refer specifically to the War, Navy and Treasury Departments, The Maritime Commission, Defense Plant Corporation, Defense Supplies Corporation, Metals Reserve Company, Rubber Reserve Company, and Foreign Economic Administration.

4. The policies and procedures set forth herein shall apply to war contracts terminated other than for default. Any agency, however, may exempt from such policies and procedures contracts in any of the following categories:

- (a) Contracts with instrumentalities of the Government or with States, Territories or possessions of the United States or instrumentalities thereof;
- (b) Contracts with a foreign government;
- (c) Contracts to be substantially performed outside the territorial limits of the continental United States.

Administrative Review

5. Each procuring agency shall establish one or more settlement review boards, which shall be decentralized to the maximum practicable

extent. No negotiated settlement agreement providing for payment to any prime contractor, or to any subcontractor, of an amount in excess of \$50,000, as determined in paragraph 6 below, shall be permitted to become binding upon the Government until the proposed settlement has been reviewed and approved by such a board or, in the event of its disapproval, until approved by the head of the procuring agency or such representative as he may designate for that purpose. More than one such approval shall not be required generally with respect to any settlement agreement, but this shall not prevent any procuring agency from providing such headquarters review as it may deem desirable in the case of exceptionally large settlements. Contracting officers may be permitted to submit for such review and approval as the procuring agency may specify any proposed settlement agreements which they consider doubtful. Property disposal boards, if established within the agency, may be utilized in lieu of settlement review boards for the review of property disposal transactions involved in settlements.

6. In determining for review purposes whether any proposed settlement of a prime contract or of a subcontract exceeds \$50,000, any amounts credited on account of the disposition of property shall not be deducted from the amount of the settlement, but there shall be excluded (1) amounts payable for completed articles or work at the contract price, and (2) amounts payable for the discharge of all claims of subcontractors or suppliers under such prime contract or subcontract, as the case may be.

7. In the case of terminated cost plus fixed fee prime contracts and terminated cost plus subcontracts where reimbursement of the costs is made after appropriate audit, the foregoing rules will be inapplicable. Each procuring agency shall, however, prescribe such requirements in respect to the review of adjustments in fixed fees as it deems desirable.

8. It shall be the function of settlement review boards to determine the over-all reasonableness of proposed settlements from the standpoint of protecting the Government's interests. Such boards may act upon records submitted by contracting officers or may require the submission of additional information.

Approved May 2, 1944.

Director, Office of War Mobilization

OFFICE OF CONTRACT SETTLEMENT
WASHINGTON, D. C.

August 18, 1944

GENERAL REGULATION NO. 1

Pursuant to the authority conferred upon me by Sections 4(b) and 8(c) of the Contract Settlement Act of 1944, I hereby prescribe the procedure for the guaranteeing of termination loans by the War Department, the Navy Department and the Maritime Commission through the Federal Reserve Banks, outlined in the Guarantee Agreement, the Loan Agreement, and Explanatory Notes attached hereto as exhibits A, B, and C, respectively.

Technical amendments not affecting policy may be made in exhibits B and C by agreement among the War and Navy Departments, the Maritime Commission and the Federal Reserve Board.

In the execution of this procedure the following policies will be observed:

1. Termination loan (hereinafter called T-Loan) guarantees should not be refused by the contracting agency having the preponderant interest in the borrower's war contracts if the borrower is or has been engaged in performing an operation connected with or related to war production, except in such classes of cases as may be prescribed by the Director. The borrower's certification of his investment in termination inventories and receivables and of the amounts payable to subcontractors should not be questioned by the Federal Reserve Bank or the contracting agency unless there is reason to believe that it is substantially overstated in value. Financing institutions should be encouraged to make unguaranteed production and termination loans, and the fact that a financing institution has made such an unguaranteed loan shall not affect its right subsequently to apply for a T-Loan guarantee, even if the proceeds of the T-Loan are used to retire the existing loan.
2. If a contracting agency which utilizes the Federal Reserve Banks as fiscal agents for T-Loan guarantees has local representatives in connection therewith, it should delegate to such banks authority to approve, after consultation with and in the absence of objection by such representatives, all applications for guarantees of loans totaling (a) \$500,000 or less to any one borrower when the requested percentage of guarantee is not in excess of 90 per cent, and (b) \$100,000 or less to any one borrower when the requested percentage of guarantee is not in excess of 95 per cent. Any such contracting agency which does not have such local representatives will provide them in the localities where, and at the times when, it is determined that they are required, in the light of its prospective volume of contract terminations and after consultation with the Director, and in the absence of such representatives should delegate such authority to the Reserve Banks as is necessary to insure prompt processing of applications for and execution of such guarantees.
3. Conditions other than those required under the standard loan agreement should be prescribed by the contracting agencies or the Federal Reserve Banks only in exceptional circumstances and when they are clearly necessary to protect the Government's interest. Additional conditions agreed upon by the borrower and the financing institution, if not unreasonable and not inconsistent with the standard loan agreement, should not be objected to by the contracting agency or the Reserve Banks.
4. The requested percentage of guarantee should not ordinarily be questioned by the Federal Reserve Bank or the contracting agency if it does not exceed 90 per cent; and a contracting agency should not authorize a percentage of guarantee in excess of 90 per cent, or 95 per cent in the case of small loans, unless the circumstances clearly justify the financing institution in requesting it and other means of interim financing are not promptly available.
5. In general, the percentages in the loan formula certificate agreed upon by the financing institution and the borrower should not be questioned by the Federal Reserve Bank or the contracting agency. After consultation with the Board of Governors of the Federal Reserve System, the contracting agencies will, to the extent practicable, specify general criteria or standard maximums which may be employed in typical classes of cases.

(Signed) ROBERT H. HINCKLEY

Robert H. Hinckley
Director

Form of September 1, 1964

APPLICATION
By
FINANCING INSTITUTION
FOR T (TERMINATION) LOAN GUARANTEE
To Federal Reserve Bank of _____, Fiscal Agent of the United States

 (Date)

1. Name and location of financing institution:
2. Name and location of prospective borrower:
3. Maximum principal amount of loan:
4. Specify or describe war contracts excepted from initial assignment of collateral pursuant to Paragraph 5 of Loan Agreement: (See Explanatory Note No. 28.)
5. Present indebtedness of borrower to financing institution, if any, and statement as to whether it is proposed to refund such indebtedness:
6. If a substantial portion of the stock of borrower or of financing institution is controlled by the other, or a substantial portion of the stock of both is controlled by the same interests, or if there are any officers or directors common to both, describe such relationship briefly.
7. Each copy of application should be accompanied by:
 - (a) copy of the proposed guarantee agreement and loan agreement, including exhibits,
 - (b) copy of balance sheet and operating statement for latest fiscal period certified by borrower (audited statements to be furnished if available),
 - (c) copy of latest available balance sheet and operating statement since close of fiscal period.

O

O

9. Statement of financing institution's opinion or belief with respect to each of the following:

- (a) whether borrower's general war production record has been satisfactory with special reference to rejection experience,
- (b) borrower's general character and reputation,
- (c) adequacy of accounting records and inventory control,
- (d) unusual aspects of financial statements, and
- (e) other information which financing institution would ordinarily take into account in considering a loan to borrower, including respects, if any, in which borrower's financial background has been unsatisfactory.

(Attach rider, if space inadequate)

10. Borrower has been advised that financing institution is applying for this guarantee in the amount and subject to the terms indicated in the proposed loan agreement.

(Full name of financing institution)

By -----
(Signature) (Title)

Form of September 1, 1944

T-LOAN GUARANTEE AGREEMENT

No. _____

The _____ (herein called "Guarantor"),
 acting through the Federal Reserve Bank of _____
 as fiscal agent of the United States (herein called "Reserve Bank"), and the Financing Institution hereby agree as
 follows:

Section 1. Definitions.

(A) "Financing Institution" shall mean _____

(B) "Borrower" shall mean _____

(Name)

of _____
 (Address)

(C) "The loan" shall mean the financing arrangement between the Financing Institution and the Borrower which is described in Appendix I annexed hereto. In case of any conflict or inconsistency between the provisions of this agreement and the provisions of Appendix I or any other similar instrument, the provisions of this agreement shall control.

(D) "Obligation" shall mean the instrument or instruments evidencing the Borrower's indebtedness under the loan.

(E) "Guaranteed percentage" shall mean _____%.

Section 2. Guarantee as to Sharing of Losses and Expenses.

(A) All losses on the loan (i.e., all amounts of principal and interest which are due and unpaid), and all unreimbursed expenses as defined in Paragraph (B) of this section, shall be shared ratably, on the date of settlement, by the Guarantor and the Financing Institution in accordance with the guaranteed and unguaranteed percentages, respectively. All net recoveries after the date of settlement shall be shared on the same basis. The date of settlement shall be the thirtieth (30th) day after the date on which either party, after maturity of the loan, receives from the other party a written request for such settlement, or any other date agreed on by the parties.

(B) Expenses shall mean all reasonable out-of-pocket expenses (including reasonable counsel fees incurred by the Financing Institution or the Reserve Bank prior to but not after any purchase under this agreement) which relate to the enforcement of the loan or the preservation of the collateral and which are incurred during the period of any default in the payment of principal or interest.

Section 3. Agreement to Purchase.

The Guarantor will at any time and from time to time prior to the date of settlement purchase such portion of the obligation as may be demanded in writing by the Financing Institution, by paying to the Financing Institution, on the tenth (10th) day after the receipt by the Reserve Bank of such a demand, the unpaid principal amount of the portion of the obligation to be purchased, as of the date of the demand, plus all unpaid accrued interest on such amount, with appropriate adjustment for guarantee fees, computed as of the date of purchase; provided that in no event shall the total amount of the portion of the obligation owned by the Guarantor exceed the guaranteed percentage.

Section 4. Voluntary Purchase by Guarantor.

The Guarantor may, at any time upon its demand, purchase the guaranteed percentage of the obligation, less any amounts previously purchased under this agreement and not repaid, and shall pay therefor on the basis stated in section 3. In such event, at the option of the Financing Institution or the Guarantor, the Financing Institution shall forthwith transfer possession of the obligation and collateral in the manner provided in section 5.

Section 5. Administration of Loan and Possession of Obligation and Collateral.

(A) The Financing Institution shall administer the loan until it transfers possession of the obligation and collateral to the Reserve Bank as provided below, and thereafter the Guarantor shall administer the loan. Whenever the Guarantor purchases any part of the obligation, the Financing Institution shall forthwith deliver to the Reserve Bank a certificate evidencing the Guarantor's ownership interest in the obligation and collateral. In any such case, however, upon written demand by the Reserve Bank, the Financing Institution shall forthwith transfer to the Reserve Bank, without recourse or warranty except as to the genuineness of the Borrower's signature to any instrument, such possession of, title to, and rights to enforce the obligation and all collateral therefor as it may have. Thereupon the Reserve Bank shall issue to the Financing Institution a certificate evidencing the Financing Institution's ownership interest in the obligation and collateral. Either party administering the loan may (1) release and dispose of collateral and proceeds thereof, and permit substitution therefor, all in accordance with the terms of the loan, and (2) after five days' written notice to the other party, bring any action to enforce the loan.

(B) Nothing in this agreement shall prevent the Financing Institution from transferring the obligation as collateral for advances by a Federal Reserve Bank.

Section 6. Ratable Application of Collections.

All amounts at any time paid or credited on the obligation, from whatever sources realized, shall be applied ratably for the benefit of the Financing Institution and the Guarantor according to their respective ownership interests in the obligation. Except as may be provided in the loan, the Financing Institution shall not be required to credit on the obligation the proceeds of any banker's lien or right of set-off with respect to funds of the Borrower (exclusive of proceeds of contracts on Exhibit C to Appendix 1) or of other assets, to the extent that the Financing Institution has provided that such lien, right of set-off or other assets shall be security for other indebtedness of the Borrower to it.

Section 7. Fees Payable to Guarantor.

The Financing Institution shall pay to the Reserve Bank at the end of each monthly or quarterly period, as fixed by the Reserve Bank, an amount equal to _____ per cent of any interest payable by the Borrower on the average daily amounts of that part of the unpaid principal of the obligation which the Guarantor was obligated during such period to purchase upon demand of the Financing Institution.

Section 8. Effect of Violation of Agreement.

(A) If the Financing Institution shall violate, or fail to comply with, any of the terms of this agreement or any of the terms or conditions of the loan or shall through gross negligence make a material misrepresentation of fact in the application therefor, or in anything constituting a part of the application, it shall become liable to the Guarantor in an amount equal to the damages sustained by the latter by virtue of such violation, failure to comply, or misrepresentation; but the Guarantor shall not be relieved by such violation, failure to comply, or misrepresentation from any of its obligations to the Financing Institution under this agreement.

(B) In the absence of gross negligence on the part of the Financing Institution, (1) no invalidity or ineffectiveness of any collateral or of any assignment thereof accepted by the Financing Institution, and (2) no action or omission to act on the part of the Financing Institution in reliance on a statement or certificate signed by an appropriate officer or member of the Borrower with respect to the financial condition, business or operations of the Borrower, shall constitute a violation of, or failure to comply with, any of the terms of this agreement or any of the terms or conditions of the loan on the part of the Financing Institution. No invalidity of any provision of the loan arising from statute or decision of any court shall in any way relieve the Guarantor hereunder.

Section 9. Officials Not to Benefit.

No member of or delegate to Congress or resident commissioner shall be admitted to any share or part of this contract or to any benefit that may arise therefrom, but this provision shall not be construed to extend to this contract if made with a corporation for its general benefit.

IN WITNESS WHEREOF, the parties have caused this agreement to be executed on their behalf by their duly authorized agents this _____ day of _____, 194_____.

(Guarantor)

By Federal Reserve Bank of _____
as Fiscal Agent of the United States.

(SEAL)

By _____
(Name) (Title)

ATTEST:

(Financing Institution)

(Name)

(Title)

(Name)

(Title)

Form of September 1, 1944

APPENDIX I
TERMINATION LOAN AGREEMENT
 Under Guarantee Agreement No. _____

_____ (herein called "Financing Institution") will grant credit to _____

of _____ (herein called "Borrower"), up to a maximum principal amount of \$ _____ at any one time outstanding, by lending to the Borrower at any time and from time to time on promissory notes in the form annexed hereto as Exhibit A and in accordance with the terms and conditions of this agreement.

1. **Definitions.**—All terms defined in the Contract Settlement Act of 1944 and in the Guarantee Agreement shall have the same meaning when used in this agreement. "Terminated war contract" shall mean a war contract, in its entirety, which has been terminated in whole or in part. "The Contracts" shall mean such terminated war contracts, if any, as may now be listed on Exhibit C annexed, and as the Borrower may from time to time add thereto by supplement approved by the Financing Institution.

2. **Maturity.**—The loan shall mature thirty (30) days after final payment of the amounts due, upon final and conclusive settlement, on the war contracts of the Borrower or upon _____, 194____, whichever is earlier, and all notes issued hereunder shall thereupon become due and payable. If any note of shorter maturity is issued, the Borrower may from time to time until the maturity of the loan again borrow hereunder the unpaid amount of such note, subject to the provisions of Paragraph 6 hereof. The Borrower may at any time by written notice reduce the maximum principal amount of the loan in multiples of \$ _____.

3. **Interest.**—The Borrower shall pay interest as prescribed in Exhibit A.

4. **Commitment Fee and Expenses.**—The Borrower shall pay quarterly a commitment fee at the rate of _____ % per annum on the average daily unused balance of the maximum principal amount of the loan. The Borrower shall reimburse the Financing Institution for reasonable out-of-pocket expenses incurred in connection with the loan and the application therefor.

5. **Collateral.**—Prior to or contemporaneously with any borrowing hereunder, the Borrower, except and to the extent that the Financing Institution otherwise agrees in writing, will assign to the Financing Institution as security for the loan all moneys due and to become due on the Contracts. At any time upon request of the Financing Institution or the Guarantor, the Borrower will furnish additional security by assigning to the Financing Institution the moneys due and to become due on any or all of its terminated war contracts which by using its best efforts the Borrower can assign and which have not been previously assigned hereunder. All proceeds of assignments made hereunder and of any other collateral taken by the Financing Institution for the loan shall be applied to the indebtedness under the loan. Except to secure borrowings hereunder, except as provided in Exhibit D, and except to secure partial payments made to the Borrower by any contracting agency, the Borrower will not (a) assign, or suffer to remain assigned, moneys due or to become due on any of the Contracts, or (b) mortgage, pledge, or otherwise encumber, or suffer to remain encumbered for more than _____ days, any inventory allocable to the Contracts.

6. **Conditions of Borrowing.**—The Financing Institution shall not be required to make any advance hereunder (a) unless the Borrower furnishes to the Financing Institution a loan formula certificate in the form annexed hereto as Exhibit B, dated not more than _____ days before the date of the proposed borrowing, which shows a borrowing base, calculated in accordance with the percentages therein specified, of not less than the amount that will be outstanding after the proposed borrowing, or (b) if any event exists which constitutes or which, except for notice or lapse of time or both, would constitute a default specified in this agreement, or (c) to the extent that the Financing Institution has reason to believe that the borrowing base stated in the loan formula certificate is substantially overstated in value and has so notified the Borrower in writing, provided that the Financing Institution may rely upon the borrowing base shown in the loan formula certificate.

7. **Reports.**—The Borrower shall maintain proper records and accounts, permit such inspection thereof, and furnish such statements and reports, including audit reports, as the Financing Institution or the Guarantor may from time to time reasonably request. In any event, within three (3) months after the initial borrowing and not less than quarterly thereafter the Borrower shall furnish to the Financing Institution periodic reports in triplicate made up as follows:

(a) A balance sheet, certified by an appropriate officer or member of the Borrower, as of a date not more than _____ days prior to the date of furnishing the report.

(b) A loan formula certificate in the form of Exhibit B, dated not more than _____ days before the date of furnishing the report, unless such a certificate has been furnished within thirty (30) days before such date.

(c) A statement of the nature, amounts, and dates of all payments on any assigned terminated war contracts and on the Contracts, whether or not assigned, in cash or by offset or otherwise (except any offset theretofore deducted in any loan formula certificate) between the date of the initial borrowing or the last date covered by the last report, whichever is later, and a date not more than fifteen (15) days prior to the date of such a statement. Payments shall be deemed to include the proceeds of collateral taken for the loan, or proceeds of, or specific credit with respect to, any sale, retention or other disposition of inventory allocable to such contracts, approved or authorized by the proper authority, and the cost or proceeds, whichever is greater, of any such inventory which the Borrower has definitively elected to retain without specific credit therefor.

8. **Reduction of Notes.**—The Borrower shall pay down the unpaid principal amount of the notes by an amount equal to: (a) All payments, as described in Paragraph 7(c), within three (3) days from the date of any such payment or within such further time as the Financing Institution may prescribe; and (b) any excess of outstanding borrowings over the borrowing base shown in the most recent loan formula certificate, upon the date of furnishing such certificate, provided that, while the Financing Institution may rely upon the borrowing base shown in such certificate, such borrowing base shall be decreased to the extent that the Financing Institution or the Guarantor has reason to believe that it is substantially overstated in value and has so notified the Borrower in writing, in

which event the Borrower shall pay, in addition, an amount equal to any excess resulting from such decrease, within ten (10) days after the mailing of such notice.

9. **Maintenance of Working Capital.**—The Borrower shall maintain net current assets, as determined in accordance with generally accepted principles of accounting and including in current liabilities all borrowings outstanding hereunder, of not less than \$.....

10. **Insurance.**—The Borrower shall maintain insurance on its property in such amounts and against such risks as is customarily maintained by similar businesses operating in the same vicinity.

11. **Other Provisions.**—The parties hereto agree to any additional provisions appearing in Exhibit D annexed.

12. **Events of Default.**—The occurrence of any one of the following events shall constitute a default hereunder:

(a) Any statement, representation, warranty, certificate, schedule or report furnished by the Borrower in connection with the loan shall prove to have been materially false at the date thereof.

(b) Nonpayment of the principal of any of the notes outstanding hereunder when due; or nonpayment of interest or any commitment fee within ten (10) days after the due date thereof.

(c) Breach by the Borrower of any other provision of this agreement.

(d) The Borrower shall be adjudicated a bankrupt or a trustee or a receiver shall be appointed for the Borrower or of a substantial part of its property in any involuntary proceeding, or any court shall have taken jurisdiction of the property of the Borrower or of a substantial part thereof in any involuntary proceeding for the reorganization, dissolution, liquidation or winding up of the Borrower, and such trustee or receiver shall not be discharged or such jurisdiction relinquished or vacated or stayed on appeal, or otherwise stayed within thirty (30) days, or the Borrower shall file a petition or answer, not denying jurisdiction, in voluntary bankruptcy or under Chapter X or Chapter XI of the Federal Bankruptcy Act or any similar law, State or Federal, whether now or hereafter existing, or such a petition filed against the Borrower shall be approved and not vacated or stayed within thirty (30) days, or shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or shall consent to the appointment of a receiver or trustee or liquidator of all of its property or a substantial part thereof, or shall have failed within thirty (30) days to bond or otherwise discharge any attachment or to pay any judgment which is unstayed on appeal.

If there shall occur any default as defined in item (a) above or if there shall occur and be continuing any default as defined in items (b) or (c) above, then upon the election of the Financing Institution or the Guarantor, evidenced by written notice to the Borrower, or if there shall occur any default as defined in item (d) above, then forthwith and without any election, the obligation, if any, of the Financing Institution to extend further credit shall terminate and all notes outstanding hereunder shall become due and payable without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived.

IN WITNESS WHEREOF, the parties have caused this agreement to be executed on their behalf by their duly authorized agents, this day of, 194.....

(Borrower)

(Financing Institution)

By _____
(Name) (Title)

By _____
(Name) (Title)

EXHIBITS TO TERMINATION LOAN AGREEMENT DATED _____, 194____

(If additional provisions are to be included in the Loan Agreement in accordance with Paragraph 11 thereof, they should appear in an Exhibit D which should be attached hereto.)

EXHIBIT A

Form of Note

Place _____

Date _____, 194____

On or before _____, 194____, for value received, _____
hereby promises to pay to the order of _____

(Financing Institution)

at _____ the principal sum of _____
(Address)

DOLLARS (\$ _____) in lawful money of the United States, and to pay interest thereon from the date hereof at the rate of _____ per cent per annum, prior to maturity, payable on the _____ day of each _____ and after maturity by acceleration or otherwise at the rate of _____ per cent per annum.

This note evidences a borrowing made under and is subject to the terms of a Loan Agreement dated _____, 194____, between the undersigned and the payee hereof.

By _____
(Name) (Title)

EXHIBIT B

LOAN FORMULA CERTIFICATE

Pursuant to the Loan Agreement between the undersigned and _____ dated _____, 194____, the undersigned hereby certifies to the best of its knowledge and belief as follows:

1. (a) Principal amount of borrowings now outstanding \$ _____

(b) Principal amount of proposed borrowing, less outstanding borrowings to be refunded \$ _____

TOTAL \$ _____

2. The following amounts have been calculated as of _____, 194____ (not more than 30 days prior to the date of this certificate) with respect to terminated war contracts listed on or added to Exhibit C, in accordance with accepted principles of accounting and without duplications:

(a) _____% of accounts receivable from Governmental contracting agencies aggregating not less than \$ _____

(b) _____% of accounts receivable from others aggregating not less than \$ _____

(c) _____% of reimbursable expenditures for inventory, including only direct labor, cost of raw materials, purchased parts and supplies, and manufacturing and administrative overhead aggregating not less than \$ _____

(d) _____% of reimbursable amounts for subcontract settlements paid or to be paid concurrently from any new borrowing for which this certificate is furnished aggregating not less than \$ _____

TOTAL \$ _____

Less—

(aa) Unliquidated advance payments, progress and partial payments, and any other offsets, and any amounts included in (a), (b), (c), or (d) above which have been disallowed by the contracting agency \$ _____

BORROWING BASE \$ _____

3. No amount is included in (a), (b), (c), or (d) above with respect to any item on which a termination claim can be based which exceeds the amount of such item in the Borrower's most recent termination claim, if any has been filed. There has been no change in the amount stated in Paragraph 2 since the date therein specified which would materially decrease the borrowing base.

4. No event exists which constitutes, or which except for notice or lapse of time or both would constitute, a default specified in the Loan Agreement.

(Borrower)

Dated: _____, 194____

By _____
(Name) (Title)

EXHIBIT C
TERMINATED WAR CONTRACTS

The Borrower certifies that, to the best of its knowledge and belief, the following are terminated war contracts as defined in the Loan Agreement between _____
and _____
dated _____, 194_____:

Contract or Order Number	Date of Contract or Order	Name of Other Contracting Party	Date of Notice of Termination	Estimated Amount of Termination Claim	End Use of Product
-----------------------------	------------------------------	------------------------------------	----------------------------------	------------------------------------------	-----------------------

Dated: _____, 194_____

(Borrower)
By _____
(Name) (Title)

EXPLANATORY NOTES

APPROVED BY THE DIRECTOR OF CONTRACT SETTLEMENT WITH RESPECT TO STANDARD
FORMS OF T-LOAN GUARANTEE AGREEMENT AND TERMINATION LOAN AGREEMENT

GUARANTEE AGREEMENT

Opening Paragraph

(1) The guarantee agreement is issued pursuant to the authority contained in the Contract Settlement Act of 1944, the First War Powers Act, 1941, Executive Order 9112, the Act of June 11, 1942 (56 Stat. 351), and other pertinent provisions of law. No changes in the guarantee agreement will be permitted except in the most unusual cases and then only with the concurrence of the Board of Governors of the Federal Reserve System.

(2) Pursuant to section 10(a)(1) of the Contract Settlement Act of 1944, the Guarantor in its authorization or through its local representative will notify the Federal Reserve Bank in writing that the Borrower is or has been engaged in performing an operation deemed by the Guarantor to be connected with or related to war production.

Section 1(A)

(3) If one Financing Institution is authorized, as agent for a number of participants, to execute a guarantee agreement in their behalf, the participants should be referred to as "each bank, trust company or other financing institution which is or shall be a party to the loan described in Appendix I annexed hereto" or by some other appropriate reference showing the several nature of the agreement.

Section 1(C)

(4) Since the guarantee agreement covers only the loan described in Appendix I, any material alteration in the terms of the loan should be made only with the written consent of the Guarantor in order that the loan, as altered, will be covered by the guarantee.

Section 1(E)

(5) The requested percentage of guarantee will not ordinarily be questioned by the Federal Reserve Bank or the Guarantor if it does not exceed 90 per cent.

Section 2(B)

(6) Counsel fees incurred by the Financing Institution after a purchase cannot be shared by the Guarantor because of the provisions of 5 U.S.C. 314.

Section 3

(7) It is contemplated that a purchase made by the Guarantor under this section shall be for cash. However, if the Guarantor owns an interest in any obligation which has been issued under a revolving credit arrangement, and if, at or before the maturity of such obligation, the Reserve Bank receives written demand from the Financing Institution for the purchase of the same or a lesser amount of a new obligation to be issued in place of such maturing obligation, the payment for the portion of the new obligation purchased pursuant to such demand will be made by the Guarantor by surrendering, at or before maturity, its interest in the maturing obligation, in the amount of the demand by the Financing Institution and without regard to the ten-day period specified in this section.

Section 5(A)

(8) Under the first sentence the Guarantor may, after a purchase and transfer, administer the loan either directly or through the agency of the Reserve Bank. It is contemplated that such administration will usually be conducted by the Reserve Bank.

Section 6

(9) All amounts paid or credited on the obligation after the date of the demand by the Financing Institution or the Guarantor, as the case may be, for a purchase under this agreement and prior to the date of such purchase will be applied, as provided in this section, according to the respective interests of the Guarantor and the Financing Institution as such interests exist immediately after the purchase.

(10) Subject to any special provision which may be contained in Exhibit D, the Financing Institution may make other loans to the Borrower for the purpose of financing war production or reconversion to civilian business or for other purposes, provided the proceeds of the Contracts (as the term "the Contracts" is defined in Paragraph 1 of Appendix I) or inventory allocable to the Contracts are not pledged as security for such loan. The Financing Institution as security for the side loan may take other collateral and provide that the side loan shall not be required to share with the guaranteed loan any banker's lien or right of setoff with respect to funds of the Borrower, exclusive of proceeds of the Contracts, on general deposit with the Financing Institution or specifically pledged as security for such side loan.

Section 7

(11) A schedule of guarantee fees will be prescribed by the Board of Governors of the Federal Reserve System with the concurrence of the Director of Contract Settlement.

Section 8

(12) The word "certificate" in Paragraph (B)(2) includes any certificate furnished by the Borrower in connection with the loan formula.

General

(13) Whenever a number of days is specified in the Guarantee Agreement or in the Loan Agreement the word "days" shall be deemed to mean calendar days.

LOAN AGREEMENT

Opening Paragraph

(14) If the Borrower and the Financing Institution have agreed upon a non-firm commitment, the words "in its sole discretion" may be inserted before the word "grant". The second sentence of Paragraph 2 applies even in the case of a non-firm commitment and in such a case no figure should be inserted in Paragraph 4.

(15) In the case of a straight loan, the words "at any one time outstanding", should be stricken out.

(16) The note to be used should contain the provisions which appear in the form annexed as Exhibit A to the standard loan agreement, with the blanks appropriately filled in, and may contain such additional provisions, not inconsistent therewith or with the terms of the loan agreement, as the Financing Institution and the Borrower may agree. The note may, for example, contain provisions for sale of collateral in the event of default, allowance for attorneys' fees, etc.

Paragraph 1

(17) The following terms are defined in Section 3 of the Contract Settlement Act of 1944:

"(a) The term 'prime contract' means any contract, agreement, or purchase order heretofore or hereafter entered into by a contracting agency and connected with or related to the prosecution of the war; and the term 'prime contractor' means any holder of one or more prime contracts.

"(b) The term 'subcontract' means any contract, agreement, or purchase order heretofore or hereafter entered into to perform all or any part of the work, or to make or furnish any material to the extent that such material is required for the performance of any one or more prime contracts or of any one or more other subcontracts; and the term 'subcontractor' means any holder of one or more subcontracts.

"(c) The term 'war contract' means a prime contract or a subcontract; and the term 'war contractor' means any holder of one or more war contracts.

"(d) The terms 'termination', 'terminate', and 'terminated' refer to the termination or cancellation, in whole or in part, of work under a prime contract for the convenience or at the option of the Government (except for default of the prime contractor) or of work under a subcontract for any reason except the default of the subcontractor.

"(g) The term 'contracting agency' means any Government agency which has been or hereafter may be authorized to make contracts pursuant to section 201 of the First War Powers Act, 1941, and includes the Reconstruction Finance Corporation and any corporation organized pursuant to the Reconstruction Finance Corporation Act (47 Stat. 5), as amended, the Smaller War Plants Corporation, and the War Production Board.

"(h) The term 'termination claim' means any claim or demand by a war contractor for fair compensation for the termination of any war contract and any other claim under a terminated war contract, which regulations prescribed under this Act authorize to be asserted and settled in connection with any termination settlement.

"(m) The term 'final and conclusive,' as applied to any settlement, finding, or decision, means that such settlement, finding, or decision shall not be reopened, annulled, modified, set aside, or disregarded by any officer, employee, or agent of the United States or in any suit, action, or proceeding except as provided in this Act."

With respect to the definition contained in paragraph (g) above, the Director of Contract Settlement will from time to time issue a list of "contracting agencies" indicating those which are currently guaranteeing loans under this Act through the agency of the Federal Reserve Banks.

(18) It will be noted that the definition of "terminated war contract" contained in Paragraph 1 of the loan agreement is broad enough to permit borrowings against receivables and inventory under that part of a partially cancelled contract still remaining to be performed; that under Paragraph 5 assignment of all moneys due and to become due under the entire contract may be required; and that the provisions of Paragraphs 7(c) and 8 apply to all payments under the contract.

(19) Current Commitments on Uncancelled Contracts:

If the Financing Institution and the Borrower desire to enter into a firm commitment for the financing of nonterminated contracts existing on the date of execution of the loan agreement when and if such contracts become terminated, a provision may be added to Exhibit D listing such nonterminated war contracts with an agreement by the Financing Institution that such contracts may, upon termination, be added to Exhibit C without further approval. The addition of terminated war contracts to Exhibit C shall be made by serially numbered supplements filed in five copies with the Financing Institution. The supplements shall be in the same form as Exhibit C with the following added at the lower left hand corner thereof.

Approved: _____ 194

(Financing Institution)

By _____
(Name) (Title)

If the Financing Institution approves of a supplement, it shall sign all copies, retain one for its files, return one to the Borrower, and send the other three copies to the Reserve Bank.

(20) Since the termination loan agreement is designed to finance termination claims rather than production, the Financing Institution may find it advisable to decline to permit inclusion in Exhibit C of contracts which have been terminated only to a minor extent when the effect of their inclusion would probably be to make the proposed borrowing in substantial part a loan for production purposes. The Financing Institution may refuse to permit addition to the list of terminated war contracts contained in Exhibit C of such contracts as are by their terms not assignable, or may require as a condition of the addition of such contracts to the list that the Borrower obtain an appropriate amendment permitting such assignment. It should be noted that prime contracts providing for payments aggregating less than \$1,000 are not assignable under the Assignment of Claims Act of 1940.

Paragraph 2

(21) The notes may be made payable on demand, or may be 90-day notes, or may have such other maturity, not more than three years after the date of the agreement, as the Financing Institution and the Borrower may agree.

(22) Irrespective of whether or not the Financing Institution is under an obligation under the terms of the agreement to extend further credit, the second sentence of Paragraph 2 is intended to give the Borrower the right to borrow again, from time to time, up to the amount of the notes which have been given in consideration of the loan until the final maturity date inserted in Paragraph 2 or until the notes are finally paid pursuant to Paragraph 8 or otherwise, whichever first occurs.

Paragraph 3

(23) The maximum interest rate, as prescribed by the Board of Governors of the Federal Reserve System with the concurrence of the Director, is $4\frac{1}{2}$ per cent per annum simple interest, and interest may not be charged at a greater rate either before or after maturity.

Paragraph 4

(24) The maximum commitment fee, as prescribed by the Board of Governors of the Federal Reserve System with the concurrence of the Director, is $\frac{1}{4}$ of 1 per cent per annum based on the average daily unused balance of the maximum principal amount of the loan, or a flat fee of not to exceed \$50 without regard to the amount or maturity of the commitment. Accordingly, the commitment fee, if any is charged, may not exceed this maximum. If a flat fee is charged, the first sentence of the Paragraph should be changed to read: "The Borrower shall pay on _____ a commitment fee of \$_____."

(25) No termination fee, service fee, or other fee of a similar character, except charges covering out-of-pocket expenses of a financing institution, may be charged.

(26) Out-of-pocket expenses do not include any overhead expenses.

Paragraph 5

(27) The obligation imposed upon the Borrower to make assignments includes the obligation to execute such documents and take such action in connection therewith as the Financing Institution may reasonably require including, in the case of subcontracts, the giving of such notice to the purchasers as may be necessary to perfect the assignments.

(28) The extent to which assignments should be required prior to or contemporaneously with any borrowing under the first sentence of this Paragraph will depend upon the credit standing of the Borrower and upon the practical problems of assignment which may exist in a particular case. The Financing Institution may, by an appropriate writing, agree to except specific contracts from the requirement of assignment, in which case notice of the contracts so excepted should be given to the Reserve Bank. The Financing Institution may also provide in Exhibit D for a general exception. For example, Exhibit D may provide that contracts on Exhibit C as to which the "Estimated Amount of Termination Claim" is less than \$_____ need not be assigned unless subsequently requested by the Financing Institution or the Guarantor. If such a provision is included in Exhibit D, the dollar amount of contracts so excluded may, if the Borrower's credit is strong enough to warrant, be made sufficiently high so that Paragraph 5 will in effect merely constitute a covenant to assign upon request of the Financing Institution or the Guarantor.

(29) In the case of a weak credit, the Financing Institution should include, in Exhibit D, a covenant reading substantially as follows:

"At any time upon request of the Financing Institution or the Guarantor, the Borrower will pledge or mortgage as further security for the loan all or any inventory applicable to the Contracts."

Any pledge pursuant to such a covenant should contain a provision for release of inventory so pledged to the extent of payment to the Financing Institution of the cost or proceeds thereof, as the case may be, in accordance with the terms of Paragraph 8 of the loan agreement.

(30) Under the last sentence of this Paragraph, the Financing Institution and the Borrower in suitable cases may agree to a provision in Exhibit D permitting the existence of liens to secure advance payments.

(31) The number of days during which an encumbrance may be permitted to remain on inventory of the Borrower without creating a default, which is to be inserted in the last sentence of this Paragraph, will depend primarily upon the credit standing of the Borrower.

Paragraph 6

(32) The Financing Institution shall promptly submit to the Reserve Bank two copies of the loan formula certificate furnished by the Borrower at the time of the initial borrowing. In the event of a serious dispute between the Financing Institution and the Borrower as to whether the borrowing base is substantially overstated in value, for the purposes of this Paragraph or of Paragraph 8, the parties may, if they mutually desire, request the Guarantor to consider the matter. If at the time of any borrowing, or at any other time, additional security not referred to in the application or loan agreement and not previously reported is furnished, a report thereof should be promptly made by the Financing Institution to the Reserve Bank.

Paragraph 7

(33) The Financing Institution may, for example, deem it desirable to require under the first sentence of this Paragraph the furnishing of profit and loss statements, an analysis of surplus, data as to claims under the Borrower's terminated war contracts, and statements as to the insurance required to be maintained by the Borrower under Paragraph 10.

(34) One copy of each of the statements to be furnished under subparagraphs (a), (b) and (c) may be retained by the Financing Institution, and two copies should be forwarded to the Reserve Bank, which will retain one copy and forward the other to the Guarantor or such person as the Guarantor may designate.

(35) Under the definition of payments, a number of different situations are contemplated:

(a) There may be a sale of inventory specifically approved or authorized by the proper authority. In such case, the payment will be the amount of the proceeds; the date of payment will be the date of receipt of the proceeds by the Borrower.

(b) There may be a retention of inventory approved or authorized by the proper authority with a specific credit allowed on any claim filed. In such case, the payment will be the amount of the credit allowed; the date of payment will be the date of the allowance of the credit.

(c) There may be a sale of inventory approved or authorized by the proper authority under a blanket authority to dispose of inventory at not less than cost or at not less than a stated percentage of cost. In such case, the amount of the payment will be the amount of the proceeds; the date of payment will be the date the proceeds of the sale are received by the Borrower.

(d) There may be a definitive election to retain inventory not approved or authorized by the proper authority with a specific credit against the Borrower's claim where claim has been filed or against his potential claim where none has been filed. Such a definitive election to retain occurs when the Borrower relinquishes the right to include the cost of such inventory in his claim and may be evidenced by written notice to the proper authority, by sale of the inventory without specific credit, by incorporation of inventory in civilian products, or by other means. In such case, the amount of the payment will be the cost of the inventory or, if the act of election is a sale, the proceeds of the sale if that is greater than cost; the date of payment will be the date when the definitive act of election was made.

In the case of a prime contract the "proper authority" to approve or authorize dispositions or retentions of property is the contracting agency. In the case of subcontracts the "proper authority" may be the purchaser or the contracting agency or both depending on the circumstances and the applicable regulations. The word "cost" refers to the Borrower's costs or expenditures used in computing the borrowing base.

Paragraph 8

(36) The Government does not undertake responsibility for assisting in the financing of civilian inventory under the provisions of the Contract Settlement Act of 1944. Therefore, the Financing Institution, if it prescribes a period in excess of three days, should prescribe a reasonably short period within which the payments required by Paragraph 8 are to be made. The Financing Institution may prescribe different periods for payments arising out of the several classes of events upon the happening of which payments are required to be made, and may prescribe a period of grace for small payments. If the credit of the Borrower is not strong, prompt payment should be required, particularly in the event of inventory retention.

(37) If either the Financing Institution or the Guarantor notifies the Borrower of an overstatement pursuant to clause (b) of Paragraph 8, it should forthwith notify the other party to the Guarantee Agreement.

Paragraph 9

(38) If the Borrower has subsidiaries and if it is desired to use consolidated net current assets as a basis, this should be specified in Exhibit D. In this event, consideration should be given to whether or not any restrictions imposed upon the parent should also be applied to the subsidiaries.

Paragraph 11

(39) The standard form of loan agreement is designed for use in connection with a straight loan or a revolving credit, a firm commitment or a loan under which the Financing Institution is not obligated to extend further credit, a single bank credit arrangement or a multi-bank credit arrangement, and for a strong credit or a weak credit. It is recognized that the Financing Institution and the Borrower may wish to add in Exhibit D further provisions appropriate for the particular financing arrangement between them.

(40) Conditions other than those required under Appendix I will be prescribed by the Guarantor or the Federal Reserve Bank only in exceptional circumstances and when they are clearly necessary to protect the Government's interest; but it is expected that the Financing Institution, in the case of a weak credit, will ordinarily insist upon the inclusion of the provision quoted in Explanatory Note (29). Additional conditions for inclusion in Exhibit D may be agreed upon by the Borrower and the Financing Institution and, if not unreasonable or inconsistent with the standard termination loan agreement, such conditions will not be objected to by the Guarantor or the Reserve Bank.

(41) The Guarantor will have no objection to the insertion of a provision requiring the Borrower to apply first to the Financing Institution before obtaining any other loans. The Financing Institution may also insert an additional provision prohibiting other borrowings, without the consent of the Financing Institution, or placing a ceiling thereon.

(42) In order that additional terms may be clearly distinguished from the provisions of the standard form, all such additional terms should be set forth in Exhibit D or in a rider attached thereto.

(43) In any case where either the Financing Institution or the Guarantor exercises its option under the Loan Agreement to terminate the credit and accelerate the notes, it should forthwith notify the other party to the Guarantee Agreement.

Exhibit B—Paragraph 2

(44) In general, the percentages in the loan formula certificate agreed upon by the Financing Institution and the Borrower will not be questioned by the Federal Reserve Bank or the Guarantor.

(45) If a breakdown between manufacturing and administrative overhead is available, it should be furnished by the Borrower, and in this case the words "and administrative" may be omitted from item (c) and an additional item relating solely to administrative overhead may be added. Similarly, where circumstances warrant, there may also be added a separate item relating to other reimbursable expenditures, provided that a breakdown of such item is furnished and approved. In any of the above cases, the additional items will be lettered (e), (f), etc. If a further breakdown of expenditures is desired, as between fixed-price and cost-plus-a-fixed-fee contracts or as between prime contracts and subcontracts or as between approved and unapproved subcontract settlements, this may be accomplished by similar procedure.

(46) With reference to (aa), amounts "disallowed by the contracting agency" include any part of a termination claim disallowed pursuant to Section 13 of the Act regardless of whether the Borrower has taken an appeal, except to the extent that such appeal is sustained.

Exhibit B—Paragraph 3

(47) It is expected that in all cases the Borrower will exercise due diligence in filing termination claims as promptly as possible. Due to the widely varying factors involved, such as the number of Borrower's cancelled contracts and the relative simplicity or complexity of preparing his claims, it is not deemed feasible to prescribe any uniform time within which claims must be filed. However, where the Financing Institution and the Borrower can agree in advance upon a reasonable time for filing claims, they can of course provide for such a limitation in Exhibit D.

OFFICE OF CONTRACT SETTLEMENT

September 8, 1944

REGULATION NO.2

Pursuant to the authority conferred upon me by Section 4 (b) and Section 8 (c) of the Contract Settlement Act of 1944, the following policies, principles, methods, procedures, and standards relating to partial payments on account of termination claims of all war contractors, including cost-plus-a-fixed-fee contractors, are prescribed for all contracting agencies:

1. General Policies. The contracting agencies are hereby directed to provide war contractors having any termination claim or claims with adequate interim financing within 30 days after proper application therefor to such agencies. Upon request of war contractors, such interim financing shall be effected through partial payments to the greatest extent practicable. Contracting agencies and war contractors shall take adequate steps to assure that subcontractors receive partial payments when desired by them. Determination of the amount of partial payments to be made under this regulation shall be without prejudice in the negotiation of final settlement. Such payments shall be subject to Section 9 (b) of the Act, providing that any amount paid in excess of the amount finally determined to be due on the termination claim shall be treated as loan from the Government to the war contractor receiving it.

2. Type of Partial Payments. (a) The types of partial payments which shall be made are as follows:

- (i) Immediate partial payments, based on contractors' estimates;
- (ii) Cost-supported partial payments; and
- (iii) Controlled partial payments into special accounts.

(b) Partial payments shall, in general, be made to prime contractors on their own applications based on their own termination charges and on the applications of subcontractors transmitted through the prime contractor and any intervening subcontractors to the contracting agency. Such applications shall be made, by both prime contractors and subcontractors, in substantially the form of Application for Partial Payment provided. In appropriate cases, partial payments may be made to war contractors to enable them in advance of subcontractors' requests, to set up a fund from which prompt partial and final payments may be made to their subcontractors; in such cases, special requests will be made, which need not follow the application form. The contracting agencies may, in addition, vary the application form in such manner as they deem appropriate to the particular case to provide for the making of partial payments upon a group of war contracts.

3. Immediate Partial Payments Based on Contractors' Estimates.

(a) Contracting agencies shall make immediate partial payments for the benefit of any war contractor, whether prime contractor or subcontractor, promptly upon the filing of application therefor. Contracting agencies should promptly grant the request for partial payment in the largest amount believed reasonable under all the circumstances then known, but such amount shall not exceed 90% of the amount certified in the application as due on account of the contractor's own costs allocable to the terminated portion of the contract. In deciding the amount to be paid, the contractor's application should be considered in the light of the general reputation of the contractor and other relevant factors. Contracting agencies should authorize personnel making partial payments to base their determination of the amount to be paid solely on the contractor's application unless there is knowledge of other relevant factors militating against such payment.

(b) An immediate partial payment will be made in each case in an amount not less than 75% of the contract price of completed articles not delivered, plus 75% of the contractor's estimated costs of raw materials, purchased parts, supplies, direct labor and overhead allocable to the terminated portion of a contract (but not including the cost of special facilities or other items deemed likely to be of a controversial character, and not including profit), unless (1) the contracting agency has reason to believe that the application for immediate partial payment was not filed in good faith, or that the amount requested is excessive, or that protection of the Government's interests requires denial of the application or payment in a lesser amount, or (2) unless the contractor requests payment in a lesser amount. This provision for minimum partial payments shall not be construed to limit the responsibility of the contracting agencies to make partial payments in the largest amount believed reasonable under the provisions of subparagraph (a) of this paragraph 3.

4. Cost-Supported Partial Payments. When the contractor has submitted substantial accounting data, and a preliminary review thereof indicates that the application is proper and is supported by the data submitted, the contracting agency, to the extent requested, shall make an additional partial payment, or if none has previously been made, a partial payment, in an amount which, together with any other partial payments previously made on the same termination claim, equals:

(a) An amount equal to 100 percent of the amount payable, at the contract price, on account of acceptable items completed prior to the termination date under the terms of the contract, or completed thereafter with the approval of the contracting agency; plus

(b) An amount equal to 90% of the cost of raw materials, purchased parts, supplies, direct labor, and manufacturing overhead allocable to the terminated portion of the war contract; plus

(c) A reasonable percentage of other allowable costs, including administrative overhead, allocable to the terminated portion of the war contract not included in the foregoing; plus

(d) Such additional amounts, if any, as the contracting agency deems necessary to provide the war contractor with adequate interim financing.

The amount to be paid under subparagraphs (a)-(d) above should not be greater than the amount which, in the opinion of the contracting agency after such a preliminary review, is due to the contractor by reason of the termination.

5. Controlled Partial Payments. When a war contractor requesting or forwarding an application for a partial payment, is deemed to be insolvent or in imminent danger of insolvency, or when an application for immediate partial payment under the conditions set forth in paragraph 3 above has been in whole or in part denied, partial payments may be deposited in a special account. Partial payments deposited in special accounts will be released as particular items of cost or payments to subcontractors are approved. The interest of the Government in such controlled accounts shall be protected by such methods as the contracting agency considers advisable. Additional payments may be made, from time to time, into the controlled account by the contracting agency.

6. Partial Payments to Subcontractors. The application of a subcontractor for partial payment shall be filed with the war contractor in the tier immediately above him, and unless that war contractor makes the payment pursuant to authorization from the contracting agency, shall be transmitted through contractual channels to the contracting agency having jurisdiction over the prime contract. Each prime contractor and upper tier subcontractor transmitting the application shall subscribe thereon a statement substantially as set forth on the form of application; or, in any appropriate case, an explanation of its unwillingness to subscribe to such a statement. In the event that the contracting agency totally denies the application for partial payment it shall provide for the transmission of notice of the denial through contractual channels or otherwise, to the applicant. Partial payments to subcontractors are authorized to be made as follows:

(a) Such payments shall, so far as possible, be made to prime contractors in reliance on their agreement to pay over to their subcontractors or to credit against amounts owing from such subcontractors the amounts received by them for the benefit of such subcontractors.

(b) If a prime contractor or an intervening subcontractor is deemed to be insolvent or in imminent danger of insolvency, or for any other reason is unable or unwilling to pay over to his subcontractors any partial payment received for their benefit, the contracting agency may utilize the controlled account procedure set forth in paragraph 5 above.

(c) The contracting agencies may make partial payments directly to subcontractors, in accordance with such procedures as have been or may be authorized by such agencies; and should make such partial payments directly where there is evidence of unwarranted delay under the normal procedures.

In the cases provided for in subparagraphs (b) and (c) above, payments may be made without the certificates of intervening contractors, provided that sufficient other information justifying such partial payments is available.

Nothing in this regulation shall be construed to prevent any war contractor from making partial or other payments to its subcontractors pursuant to delegation from the contracting agency, or subject to subsequent approval by the contracting agency.

7. Estimates of Partial Payment Arrived at in Advance of Termination. Interim financing by means of partial payments will be facilitated if contractors estimate the amounts required where this is practicable, in advance of actual termination. Such prior estimates will be based upon the cost of the estimated inventory, including raw materials and work-in-process, allocable to the terminated portion of a contract at specified stages of completion, excluding those items which he intends to retain. Estimates arrived at between the contractor and a contracting agency in advance of termination will not constitute binding commitments upon a contracting agency but will be subject to confirmation and adjustment by the contracting agency on or after termination. They will, however, provide a realistic means for contractors to discuss their probable financing requirements with contracting agencies and with their immediate customers and will afford a basis on which, prior to termination, the reasonableness of contractors' estimates of costs on which the partial payments will be granted, may be checked, subject to any necessary adjustment after termination.

8. Assignments. Any interim financing by means of partial payments hereunder shall be made in such a manner as not to impair or modify any valid assignment of any claim under a war contract without the consent of the parties thereto. Contracting agencies in making partial payments, however, may rely on the statement in the application that no assignments are outstanding, in the absence of actual knowledge to the contrary by the contracting officer or notice given in accordance with the Assignment of Claims Act of 1940.

9. Deduction of Outstanding Advances, etc. In determining the amount of partial payments to be made, there shall be deducted from the amount otherwise payable under this regulation:

(a) Any unliquidated balances of advance and partial payments theretofore made to such war contractor, which are allocable to the terminated war contract or the terminated part of the war contract; and

(b) The amount of all credits for the disposal or retention of property as to which costs or estimated costs were included in any application for partial payment under the terminated contract.

10. Demands for Repayment. Under the terms of the application form, the contractor requesting a partial payment agrees to repay to the Government, upon demand, the whole or any part of the partial payment if the contractor fails to file the prescribed forms in support of its claim within the required time, and under other stated conditions. Contracting agencies are not required to demand repayment of any partial payment or portion thereof under these conditions, but may do so whenever in their opinion the interest of the Government so requires.

11. Overpayments. Any amount of a partial payment in excess of the amount finally determined to be due on account of the war contractor's own charges shall be treated as a loan from the Government to the war contractor receiving it, and shall be payable upon demand with a penalty of 6% per annum from the date such excess arises until the date such excess is repaid. The contracting agencies shall be charged with the responsibility for instituting procedures for determining the existence of any such excess.

12. Overstatements of Claims. If a war contractor overstates the amount due on account of his own termination charges in connection with any partial payment applicable to such charges, he shall pay to the United States a penalty of 6% of the amount of such overstatement; if not paid, this penalty may be deducted in the final settlement of his claim. The Director of Contract Settlement may suspend or modify any such penalty if in his opinion the imposition thereof would be inequitable.

13. This Regulation Not Exclusive. Nothing contained in this regulation shall restrict the authority and discretion of contracting agencies to provide other methods of interim financing in accordance with the Contract Settlement Act of 1944, or to make immediate partial payments on other bases or in amounts larger than those required to be made hereunder, or to take appropriate action to protect the interest of the United States under guaranteed loans previously made to war contractors receiving partial payments.

14. Speed in Final Settlement. The making of partial or advance payments shall not relieve contracting agencies of the responsibility for making final settlements with the utmost promptness. Interim financing shall not be refused, restricted, or unduly delayed in order to compel a contractor to accept a settlement.

The reporting requirements of this regulation have been approved by the Bureau of the Budget in accordance with the Federal Reports Act of 1942.

ROBERT H. HINCKLEY
Director

APPLICATION FOR PARTIAL PAYMENT

(For Use by Prime Contractor or Subcontractor Under Terminated War Supply Contract)

SECTION I. This application applies to (check one):

- ☐ A prime contract with the Government, or
☐ Subcontract or purchase order No(s).

with _____
(Name of contractor who sent Notice of Termination)

(Address)

(Applicant)

(Street address)

(City)

(State)

If contractor has V, VT, or T loans or has assigned moneys due under the contract, give name and address of:

Financing Institution _____

Guarantor _____

Assignee _____

Govt. Agency _____

Govt. Prime Contract No. _____

Contractor's Reference No. _____

Effective date of termination _____

Amount requested, \$ _____

This is application No. _____ under this termination.

SECTION II. Status of Contract or Order at Effective Date of Termination

Products covered by terminated contract or purchase order		Finished			Unfinished or not commenced		Total covered by contract or order
		Previously shipped and invoiced	On hand		To be completed	Not to be completed	
			Payment to be received through invoicing	Initiated in this application			
	Quan.						
	\$						
	Quan.						
	\$						
	Quan.						
	\$						

SECTION III. Applicant's Own Termination Charges (Exclusive of his Subcontractors' Charges)

ITEM	Date settlement proposal submitted	Date of this application
	Charges as listed in settlement proposal (A)	Best estimate of costs incurred in date of this application (Not included under (A)) (B)
1. Acceptable finished product (at contract price)	\$	\$
2. Work in process		
3. Raw materials, purchased parts, and supplies		
4. General and administrative expenses		
5. TOTAL (sum of lines 1, 2, 3, and 4)	\$	\$
6. Tools, dies, jigs, fixtures, etc.		
7. Other costs		
8. Settlement expenses		
9. TOTAL of lines 5, 6, 7, and 8	\$	\$

AMOUNTS RECEIVED

a. Unliquidated partial, progress, and advance payments received prior to termination	\$
b. Unliquidated partial, progress, and advance payments received after termination for own use	
c. Credits from disposal or retention of inventory included in above charges	
d. TOTAL (sum of lines a, b, and c)	\$
e. Amount of partial payment requested	
f. TOTAL (sum of lines d and e)	\$

SECTION IV. Agreement of Applicant

Under Section 9 (b) of the Contract Settlement Act of 1944, the amount of any partial payment made to the applicant in excess of the amount finally determined to be due on its termination claim shall be treated as a loan from the Government, payable upon demand with a penalty payable by the applicant at the rate of 6 percent per annum from the date of the excess payment to the date of repayment. Accordingly, in requesting a partial payment, the applicant recognizes its obligation to establish promptly the amount due and to protect the interest of the Government pending final settlement, and in consideration of any partial payment which may be made, agrees as follows:

- Prompt Preparation of Claim.**—The applicant will, with all reasonable dispatch, prepare and file its statement of costs and inventory lists on the prescribed forms, and will make every reasonable effort to expedite final settlement of the termination claim and the claims of its subcontractors.
- Disposal and Retention of Inventory.**—Whenever the amount of any proceeds hereafter received by the applicant on the disposal of termination inventory, plus the cost or agreed value, as the case may be, of any termination inventory which the applicant hereafter elects to retain, exceeds 10 percent of the amount stated by the applicant in this application as the amount of his charges (Section III, line 9) and the amount of such credits has not been included as a receipt (Section III, line c), the applicant within 10 days will notify the contracting agency of the amount of credits on account of such inventory disposal or retention.
- Repayment.**—The applicant will repay to the Government upon demand, together with interest from the date of such demand at the rate of 6 percent per annum, the whole or any part of the partial payment to be made hereunder, if:
 - A statement of costs and inventory lists on the prescribed forms, as provided in subparagraph 1 above, have not been filed within 3 months after the receipt of the partial payment for which request is herein made, or within such extended period as may be allowed by the Government;
 - The contracting agency shall find that the applicant's estimate under Section III above (own costs) is overstated by reason of the disposal or retention of termination inventory subsequent to the date of this application or for any other reason;
 - The applicant withdraws the whole or any part of its claim.

Demand for repayment may be made under subparagraphs (b) and (c) only as to that portion of the partial payment that, in the opinion of the contracting agency, has become excessive.

When the space provided for any information is insufficient, attach separate supporting schedules

SECTION V. Certificate of Applicant

The undersigned certifies that the amount of his own charges (exclusive of subcontractors' charges) due as of the date of this application and allocable to the terminated portion of his contract No. _____ dated _____ with _____ is not less than \$ _____ that, to the best of applicant's knowledge, the amounts received are as set forth above; and that the applicant has not assigned any moneys payable under this contract, except as set forth above.

Name of contractor _____

Date _____

Signer _____

Title _____

SECTION VI. Recommendation of First Reviewing Contractor

The undersigned states that it has examined this application and has considered the applicant's general reputation. It has no reason to doubt the accuracy of the information contained in this application or that the amount certified by the applicant as due will constitute a proper charge to be included in the undersigned's termination claim against _____ It recommends that the requested partial payment be made.

The undersigned agrees that it will promptly pay over to the applicant or credit against amounts owing from the applicant any amount received for the benefit of the applicant under this application, and that it will repay to the Government on demand any amount not so paid or credited.

Name of contractor _____

Date _____

Signer _____

Title _____

SECTION VII. Recommendations of Other Reviewing Contractors

Each of the undersigned states that it has no reason to doubt that the amount of the partial payment requested, and recommended above is due the applicant and will constitute a proper charge in the termination claim of the undersigned.

Each of the undersigned agrees that it will promptly pay over to its immediate subcontractor or credit against amounts owing from such subcontractor any amount received for the benefit of the applicant under this application, and that it will repay to the Government on demand any amount not so paid or credited.

Contractor	Signature of officer, partner, or owner	Date	Identification of your contract
1. _____	_____	_____	_____
2. _____	_____	_____	_____
3. _____	_____	_____	_____
4. _____	_____	_____	_____
5. _____	_____	_____	_____
6. _____	_____	_____	_____

INSTRUCTIONS

1. *Use of Form.*—This application form is for use by all war contractors, either prime contractors or subcontractors, under either fixed-price or cost-plus-a-fixed-fee contracts in obtaining partial payments on their termination claims. If applicant is a cost-plus-a-fixed-fee contractor, the form may be so modified as to conform to his accounting system but must furnish the required cost information.

2. *Immediate Partial Payments Based on Estimates.*—(a) Where a contractor has not had adequate time to prepare his settlement proposal, an "immediate partial payment" may be requested based on the contractor's estimate of his own charges. In applying for a payment of this type, the contractor should fill in the information required in column B of Section III. If his accounting system is not adaptable to the cost accounting system permits. Supporting data, including financial statements, may be submitted but are not required unless specifically requested by the contracting agency.

(b) The estimates need be no greater than the contractor believes adequate to support his request for partial payment. Low estimates furnished for the purpose of an immediate partial payment will in no way prejudice the contractor in the final settlement of his claim or in subsequent requests for additional partial payments. Successive applications for partial payments may be filed.

3. *Cost-Supported Partial Payments.*—Upon the submission of a settlement proposal, or at any time thereafter, a "cost-supported partial payment" may be requested based on the settlement proposal and accounting data supporting it. In applying for a payment of this type, the contractor should fill in the information required by column A of Section III. In addition, he should attach a copy of the settlement proposal.

4. *Certificate of Applicant.*—The amount certified in Section V as the amount of the contractor's charges should be the total that appears in Section III, line 9. If some of the charges are cost-supported and others are estimated, appropriate entries may be made in both columns A and B, and the amount certified should then be the sum of the two figures in line 9.

5. *Property Disposal Credits.*—In stating costs or estimated costs, the applicant should not include charges with respect to property which he intends to retain at no cost to the Government. Any credits that have resulted from the sale or retention of property as to which costs or estimated costs have been included in any application for a partial payment on this termination claim will be entered in Section III, line c.

6. *Obligations to Subcontractors.*—Attention is called to the fact that the cost of delivered completed articles may not be included in the termination claim of the producer of those articles. War contractors are obligated to pay at the contract price for completed articles shipped to them by their subcontractors and suppliers prior to the termination of and in accordance with the provisions of the subcontract or purchase orders calling for delivery of those articles. When necessary, prime contractors and subcontractors should apply for partial payments on their termination claims for the purpose of enabling them to meet such obligations promptly.

7. *Applications of Subcontractors.*—Subcontractors applying for a partial payment will submit this application to the contractor immediately above them. Unless that contractor has been authorized by the contracting agency to make a partial payment without obtaining specific approval in each case, he will attach his recommendation on the form provided in Section VI and forward the application through the contractor above him to the contracting agency. Contractors above the immediate reviewing contractor will fill in the form of recommendation that he cannot properly sign the form of recommendation, he should attach a statement setting forth the reasons for his refusal to sign the form and his recommendation. In the case of an application for a cost-supported partial payment, the settlement proposal need not be forwarded beyond the first reviewing contractor unless expressly requested.

8. *Signatures.*—A person other than an officer, partner, or owner may sign the application or recommendation where properly authorized, but in such a case, a copy of his authority should be attached.

9. THE CONTRACT SETTLEMENT ACT OF 1944 PROVIDES PENALTIES FOR OVERSTATEMENTS OF AMOUNTS OWING TO THE CONTRACTOR IN CONNECTION WITH INTERIM FINANCING AND FOR EXCESSIVE PAYMENTS (SECTIONS 8 (d) and 9 (b)). PENALTIES FOR FRAUD ARE PROVIDED FOR IN SECTION 10 OF THE ACT.

When the space provided for any information is insufficient, attach separate supporting schedules

OFFICE OF CONTRACT SETTLEMENT

REGULATION NO. 3

Directive Order 2 of the Office of War Mobilization is amended by the addition of paragraph 5 as follows:

" *****

"5. Any department or agency of the Government may embody in any contract a special agreement to pay the contractor, as fair compensation for the termination of the contract, amounts specified in the contract or to be readily computed according to specific methods, standards or bases appropriate to the particular contract and set out therein, in lieu of any other compensation therefor, whenever the department or agency determines (1) that the available data permits a reasonable forecast, consistent with sound commercial standards, of the factors involved in determining what will be fair compensation for termination in the case or class of cases and (2) that such agreement will substantially facilitate settlements, plant clearance, reconversion from war to civilian production or the efficient use of materials, manpower and facilities or will otherwise promote the objectives of the Contract Settlement Act of 1944. Such special agreements may be included in original contracts or may be inserted in contracts by amendment made before their termination; and, when so included or inserted, are hereby determined to provide a method for determining fair compensation for the termination of such contracts."

Robert H. Hinckley
Director

September 27, 1944

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OFFICE OF CONTRACT SETTLEMENT

GENERAL REGULATION NO. 4

Pursuant to the authority conferred upon me by section 4 (b) and section 12(g) of the Contract Settlement Act of 1944, the following policies, principles, methods, procedures, and standards relating to removal of government-owned plant equipment from private plants of war contractors are prescribed for all contracting agencies.

1. General Policies. It shall be the policy of the owning agencies¹ of the Government to assure the orderly and expeditious removal from the private plants² of war contractors of Government-owned machinery, tools and equipment (hereinafter called "plant equipment") which, by reason of termination of war contracts at the option, or for the convenience, of the Government or otherwise are no longer required by the contractors for war production or for the national defense and which are not to be retained by them. Much plant equipment is now held by war contractors under contracts or contract provisions specifically governing its use, retention, storage, maintenance or disposition (hereinafter called "facilities contracts") which obligate the war contractors to maintain the plant equipment in standby condition after it has become excess to the needs of the war contractors for war production, or which may otherwise impede orderly and expeditious plant clearance if enforced. To the extent found necessary to effectuate the policy of orderly and expeditious plant clearance, and consistent with the determination of the owning agencies as to the retention at contractors' plants of plant equipment necessary for the national defense, the owning agencies will waive or release, upon such terms and conditions as they may deem appropriate, any existing obligations of the war contractors under facilities contracts.

2. Procedure for plant clearance. The following general procedure will be observed by war contractors and the owning agencies in effecting plant clearance:

(a) Whenever a war contractor is of the opinion that he no longer requires for the performance of any war contract any plant equipment installed in his plant covered by an option to purchase or lease which he is then entitled to exercise, he will promptly notify the owning agency whether he desires to exercise the option or is willing to waive it. If he indicates that he desires to exercise the option and the owning agency determines the option provisions are operative, disposition of the plant equipment will be made accordingly.

(b) With respect to plant equipment which the war contractor considers no longer required for war production, (i) not covered by such an option, or (ii) covered by an option which the war contractor is willing to waive, he will promptly³ submit to the owning agency:

¹ The term "owning agency" refers to the Government agency which owns or holds title for the United States to the plant equipment located in the plant of the war contractor.

² The terms "private plants" and "his plant" refer to buildings or other structures owned by the contractor or leased by him from a party other than the Government and do not refer to contiguous separate buildings, extensions to buildings, or other structures owned by the Government.

³ In aid of sound administration, war contractors should not make repeated submissions covering minor amounts of plant equipment.

(1) a list of the plant equipment, adequately itemized and described, showing:

(a) the plant equipment which the war contractor desires to retain;

(b) the plant equipment which, in the opinion of the war contractor, must be removed from its then location in order to make room for other production (specifying the production for which the space occupied by this plant equipment is immediately needed); and

(11) a statement of the amount of space that is or can be made available, in the plant or plants of the war contractor or elsewhere in the vicinity, for the temporary storage of plant equipment; and

(111) a statement of whether the war contractor can arrange to use his own personnel to dismantle and prepare the plant equipment for removal and shipment, or intends to use outside contractors for this purpose.

(c) Unless the war contractor is notified within 10 days after receipt by the owning agency of the list and data that they are not satisfactory, then, within 20 days following such receipt:

(1) the war contractor will be notified whether any plant equipment on the list has been determined by the government to be necessary for his war production or for the national defense; and

(11) with respect to the balance of plant equipment on the list, the war contractor will be notified:

(a) whether the government is willing to dispose of any plant equipment to the war contractor which he desires to retain;

(b) whether it is desired that the war contractor (1) store plant equipment in available storage space in his own plant or plants, or (11) dismantle and prepare plant equipment for removal and shipment. The war contractors will be furnished with specifications, standardized so far as may be practicable, regarding methods of storage, or preparation for removal and shipment.

(d) Subject to the provisions of 3 below, the following will be accomplished within 60 days (or less if feasible) after receipt by the owning agency of a satisfactory list and data, with respect to all plant equipment on the list not determined by the Government to be necessary for the war contractor's war production or for the national defense:

- (i) The Government will dispose of any or all of the plant equipment to the war contractor which the Government is willing to release.
- (ii) As to the balance of plant equipment:
 - (a) The war contractor, in accordance with specifications, will temporarily store in available storage space in his own plant or plants the plant equipment which has been designated by the owning agency for such storage.
 - (b) The war contractor with his own personnel, or personnel under outside contract, will dismantle the plant equipment not retained for storage and prepare it for removal and shipment in accordance with specifications. The plant equipment will thereupon be removed by or on behalf of the Government.
- (iii) Prior to or at the time of storage or removal, the war contractor will furnish the Government with an undertaking to waive all option and similar contract rights with respect to this plant equipment whenever requested by the Government.

3. Matters for negotiation and agreement. -- It is recognized that the provisions of existing facilities contracts may be inconsistent with the procedures set forth in 2 (d). It is also recognized that existing facilities contracts do not in all cases indicate who is to bear the costs of dismantling and preparation, removal, or storage. Such matters (including the terms and conditions of the waiver or release of any existing obligations of the war contractors under facilities contracts) will be made the subject of negotiation and agreement. Such agreement will normally be reached within the time prescribed in 2(d) for final action. In other cases it may be feasible to carry out the physical steps prescribed in 2(d) within the time there allowed, postponing agreement on such matters as division of costs until a later date (for example, the date of any related termination settlement). Where agreement on essential terms cannot be reached and the war contractor is not willing in the absence of such agreement to carry out the physical steps prescribed in 2(d), the parties will be remitted to their respective rights under the existing facilities contract or any applicable provisions of law.

4. Contractor's right to store at his own expense. Except where the applicable facilities contract contains inconsistent provisions and such provisions have not been waived, a war contractor may at any time remove from his plant and -

store on his own premises or elsewhere at his own expense and risk, any plant equipment which has not been theretofore determined by the Government to be necessary for the war contractor's war production or for the national defense. The war contractor will use reasonable care in the transportation and preservation of plant equipment so removed and stored, and will comply with any standardized specifications covering removal, preservation, transportation, and storage which may be issued by the owning agency and will notify the owning agency of the action taken.

5. Contractor's right to store at Government expense. -- Except where the applicable facilities contract contains inconsistent provisions and such provisions have not been waived, a war contractor who has (so far as permitted by the Government) carried out the procedure prescribed in this statement, may, at any time after the lapse of 60 days from the date of receipt by the owning agency of a satisfactory list and data, and upon 20 days' prior written notice to the owning agency, remove from his plant and store on his premises or elsewhere, for the account and at the risk and expense of the Government, any plant equipment included in such list which has not been theretofore determined by the Government to be necessary for his war production or for the national defense, and which has not been disposed of, stored or removed as provided in 2(d). War contractors will use reasonable care in the transportation and preservation of plant equipment so removed and stored, and will comply with any standardized specifications covering removal, preservation, transportation and storage which may be issued by the owning agency and will notify the owning agency of the action taken.

6. Initiation of action by owning agencies. -- While the procedures set forth above assume that the steps looking toward removal of plant equipment will be initiated by war contractors, it is not intended that the owning agencies will necessarily delay action until war contractors present lists and data. Whenever plant equipment is determined by the Government to be excess to the war contractor's needs for war production, the owning agency, without awaiting a request from the war contractor, may avail itself of any existing contract rights and of applicable procedures, or enter into any additional arrangements which may be required, to cause such plant equipment to be removed.

7. Cooperation in providing storage. -- War contractors will be expected to cooperate in the securing of storage space by making space in their plants available for storage on suitable terms so long as their production requirements permit.

8. Restoration expenses not to be paid by the Government. -- Except where the facilities contracts otherwise provide and such provisions have not been superseded by agreement of the parties, the Government, in making arrangements with war contractors under this statement, will not undertake to reimburse or pay any expenses of restoring, rehabilitating or reconverting the war contractors' plants.

9. Facilities subcontractors. -- War contractors are empowered by certain outstanding facilities contracts to permit the plant equipment covered thereby to be installed in the plants of other war contractors (usually under arrangements which are in form subcontracts under the facilities contracts). In general, the

procedures for clearance of plant equipment from the plants of such facilities subcontractors will be the same as those set forth above, except that lists and data will be routed to the owning agency through the war contractor with whom the owning agency has executed the applicable facilities contract, and in the negotiation of terms (sec 3) it may become necessary to consider and adjust, among other things, the rights and obligations of the two war contractors as between themselves. The owning agencies may issue specific instructions covering this subject matter and describing the cases, if any, in which the facilities subcontractors may be permitted to present their lists and data direct to the owning agency.

10. Advance planning. -- It is important that war contractors be made aware of the functions which they will be expected to assume under this regulation. War contractors should be encouraged without relaxing war production to plan ahead for plant clearance and in particular to work out time schedules for clearance of the most urgently needed space in their plants. The owning agencies, so far as their personnel may from time to time be available for the purpose, will review war contractor's plans for plant clearance to the end that mutually satisfactory mechanics for handling the problems may be arrived at before substantial amounts of plant equipment are required to be removed.

ROBERT H. HINCKLEY
Director

September 28, 1944

OFFICE OF CONTRACT SETTLEMENT

REGULATION NO. 5

Pursuant to the authority conferred upon me by Sections 4(b), 6, and 20(d) of the Contract Settlement Act of 1944, the following policies, principles, methods, procedures and standards, are prescribed to govern the provision of fair compensation to war contractors for the termination of fixed-price-war supply contracts;

1. The Statement of Principles for Determination of Costs upon Termination of Government Fixed Price Supply Contracts, approved by the Joint Contract Termination Board on December 31, 1943, made effective by Directive Orders 1 and 2 of the Office of War Mobilization, dated respectively January 8, 1944, and February 24, 1944, is hereby amended as follows as of the date hereof:

- a. To strike from Par. 1(f) the words "provided that the amount to be allowed under this paragraph shall not exceed the adjusted basis of the facility for Federal Income Tax purposes immediately prior to the date of the termination of the contract; and provided further" and to substitute the word "provided".
 - b. To strike out Par. 3(e) in its entirety.
2. Accordingly, the Statement, as amended, reads as follows:

The following is the statement of principles for determination of costs upon termination of Government fixed-price supply contracts approved by the Joint Contract Termination Board, December 31, 1943, referred to in paragraph (h) of the uniform termination article applicable to the termination of fixed price supply contracts at the option of the Government:

1. General principles: The costs contemplated by this statement of principles are those sanctioned by recognized commercial accounting practices and are intended to include the direct and indirect manufacturing, selling, and distribution, administrative, and other costs incurred which are reasonably necessary for the performance of the contract, and are properly allocable or apportionable, under such practices, to the contract (or the part thereof under consideration). The general principles set out in this statement are subject to the application of any special provisions of the contract. Certain costs are specifically described below because of their particular significance, and, as in the case of other costs, should be included to the extent that they are allocable to or should be apportioned to the contract or the part thereof under consideration.

(a) Common inventory: The costs of items of inventory which are common to the contract and to other work of the contractor.

(b) Common claims of subcontractors: The claims of subcontractors which are common to the contract and to other work of the contractor.

(c) Depreciation: An allowance for depreciation at appropriate rates on buildings, machinery, and equipment, and other facilities including such amounts for obsolescence due to progress in the arts and other factors as are ordinarily given consideration in determining depreciation rates. Depreciation as defined herein shall not include loss of useful value of the type covered by subparagraph (f).

(d) Experimental and research expense: General experimental and research expense to the extent consistent with an established prewar program, or to the extent related to war purposes.

(e) Engineering and development and special tooling: Costs of engineering and development and of special tooling; provided that the contractor protects any interests of the Government by transfer of title or by other means deemed appropriate by the Government.

(f) Loss on facilities - conditions on allowance: In the case of any special facility acquired by the contractor solely for the performance of the contract, or the contract and other war production contracts, if upon termination of the contract such facility is not reasonably capable of use in the other business of the contractor having regard to the then condition and location of such facility, an amount which bears the same proportion to the loss of useful value as the deliveries not made under the contract bear to the total of the deliveries which have been made and would have been made had the contract and the other contracts been completed, provided that no amount shall be allowed under this paragraph unless upon termination of the contract title to the facility is transferred to the Government, except where the Government elects to take other appropriate means to protect its interests.

(g) Special leases: (1) Rentals under leases clearly shown to have been made for the performance of the contract, or the contract and other war production contracts, covering the period necessary for complete performance of the contract and such further period as may have been reasonably necessary; (2) costs of reasonable alteration of such leased property made for the same purpose; and (3) costs of restoring the premises, to the extent required by reasonable provisions of the lease; less (4) the residual value of the lease; provided that the contractor shall have made reasonable efforts to terminate, assign, or settle such leases or otherwise reduce the cost thereof.

(h) Advertising: Advertising expense to the extent consistent with a prewar program or to the extent reasonable under the circumstances.

(i) Limitation on costs described in subparagraphs (d), (e), (f), (g), and (h). In no event shall the aggregate of the amounts allowed under subparagraphs (d), (e), (f), (g), and (h) exceed the amount which would have been available from the contract price to cover these items, if the contract had been completed, after considering all other costs which would have been required to complete it.

(j) Interest: Interest on borrowings.

(k) Settlement expenses: Reasonable accounting, legal, clerical, and other expenses necessary in connection with the termination and settlement of the contract and subcontracts and purchase orders thereunder, including expenses incurred for the purpose of obtaining payment from the Government only to the extent reasonably necessary for the preparation and presentation of settlement proposals and cost evidence in connection therewith.

(1) Protection and disposition of property: Storage, transportation, and other costs incurred for the protection of property acquired or produced for the contract or in connection with the disposition of such property.

2. Initial costs: Costs of a nonrecurring nature which arise from unfamiliarity with the product in the initial stages of production should be appropriately apportioned between the completed and the terminated portions of the contract. In this category would be included high direct labor and overhead costs, including training, costs of excessive rejections, and similar items.

3. Excluded costs: Without affecting the generality of the foregoing provisions in other respects, amounts representing the following should not be included as elements of cost:

(a) Losses on other contracts, or from sales or exchanges of capital assets, fees and other expenses in connection with reorganization or recapitalization, anti-trust or Federal income-tax litigation, or prosecution of Federal income-tax claims or other claims against the Government (except as provided in paragraph 1 (k)); losses on investments; provisions for contingencies; and premiums on life insurance where the contractor is the beneficiary.

(b) The expense of conversion of the contractor's facilities to uses other than the performance of the contract.

(c) Expenses due to the negligence or willful failure of the contractor to discontinue with reasonable promptness the incurring of expenses after the effective date of the termination notice.

(d) Costs incurred in respect to facilities, materials or services purchased or work done in excess of the reasonable quantitative requirements of the entire contract.

4. To the extent that they conform to recognized commercial accounting practices and the foregoing statement of principles, the established accounting practices of the contractor as indicated by his books of account and financial reports will be given due consideration in the preparation of statements of cost for the purposes of this article.

5. The failure specifically to mention in this statement any item of cost is not intended to imply that it should be included or excluded.

3. The Statement, as amended, shall be incorporated by reference as soon as practicable in all new contracts containing the Uniform Termination Article, in lieu of the Statement as approved by the Joint Contract Termination Board on December 31, 1943; shall be offered by amendment to all holders of existing contracts containing that Article who contemplate settlement under paragraph (d) thereof; and shall be used for all other purposes in lieu of the Statement as approved December 31, 1943.

4. Directive Orders 1 and 2 of the Office of War Mobilization, dated respectively January 8 and February 24, 1944, are hereby continued in effect, except to the extent specifically amended by this Regulation and by Regulation No. 3 of this Office.

Robert H. Hinckley
Director
Office of Contract Settlement

September 30, 1944

REGULATION NO. 6

Pursuant to the authority conferred upon me by Sections 4(b), 6, and 20(d) of the Contract Settlement Act of 1944, the following policies, principles, methods, procedures and standards, are prescribed to govern the provision of fair compensation to war contractors for the termination of fixed price war supply contracts.

1. Paragraph 3 of the Statement of Policy concerning Settlement of Claims under Terminated Fixed Price Orders or Subcontracts for the Manufacture of Supplies under Government War Contracts, made effective by Directive Order 6 of the Office of War Mobilization, dated May 29, 1944, is hereby amended by inserting after the fourth sentence a new sentence reading as follows:

"It may be appropriate, if the parties so desire, to substitute for the first sentence of paragraph (a) of Exhibit A a provision for termination at the option of the buyer, or in paragraph (b)(2)(ii) to reduce the figure of 2%, or to change the figure 8%, to figures which are fair and reasonable under the circumstances of a particular contract."

and by inserting in the fifth sentence, after the words "on the same date" the words "as amended by Regulation 5 of the Office of Contract Settlement".

2. Paragraph 4 of this Statement is amended to insert, after the words "Exhibit A" in the last sentence, the words "and settlements arrived at in accordance with paragraph 7 of Regulation No. 7 of the Office of Contract Settlement".

3. Paragraph 6 of this Statement is amended by the addition at the end of the paragraph of the following sentence:

"In addition to any provision that may be made for the payment upon certificate, in accordance with the foregoing principles, of settlements involving \$1,000 or more, the following policy will also apply: Where a war contractor in good faith approves any settlement proposal properly submitted to him by his subcontractor on Form 1a of the Office of Contract Settlement (for use in connection with net claims of less than \$1,000 where the contractor retains or disposes of all inventory) the settlement, including credits for retention or disposal of inventory, will be recognized by the Government as final and conclusive for the purpose of settling the terminated prime contract to the extent that the subcontract is allocable to it, unless the contracting agency has previously caused notice to be

given to the settling war contractor that such settlements made by him with his immediate subcontractors are subject to approval by the Government."

4. A new paragraph 12 is added to this Statement, as follows:

"12. Notwithstanding the recommendation made in paragraph 3 that Exhibit A be used in subcontracts and purchase orders, recognition will be given to special agreements by contractors to pay, as fair compensation for the termination of the subcontract, amounts specified in the subcontract or to be readily computed according to specific methods, standards or bases appropriate to the particular subcontract and set out therein, in lieu of any other compensation therefor, whenever (1) the available data permits a reasonable forecast, consistent with sound commercial standards, of the factors involved in determining what will be fair compensation for termination in the case of class or cases and (2) such agreement will substantially facilitate settlement, plant clearance, re-conversion from war to civilian production or the efficient use of materials, manpower and facilities or will otherwise promote the objectives of the Contract Settlement Act of 1944. Such special agreements may be included in original subcontracts or may be inserted in subcontracts by amendment before their termination; and, when so included or inserted, are hereby determined to provide a method for determining fair compensation for the termination of such subcontracts. Settlements made in accordance with such agreements are subject to review to the same extent indicated in paragraphs 5 and 6 for settlements made on the basis of the rights and principles embodied in Exhibit A. The advantages and proper scope of such pretermination settlement agreements are described in the statement of the Director of Contract Settlement dated September 25, 1944 announcing General Regulation No. 3 of the Office of Contract Settlement dealing with the use of such agreements in prime contracts; and these advantages apply equally to pretermination settlement agreements for use in subcontracts."

5. Exhibit A, attached to this Statement, is amended by striking from the first sentence of paragraph (a) the words ", without the fault of the buyer"; by inserting after the words "third person" the words ", including the Government,"; and by inserting after the word "amended" the words ", so as".

6. Accordingly, the Statement of Policy, as amended, reads as follows:

Statement of Policy Concerning Settlement of Claims
Under Terminated Fixed Price Orders or Subcontracts
for the Manufacture of Supplies under Government War
Contracts.

1. Procedures for the expeditious settlement of subcontracts on a fair basis are essential. Delay in the settlement of subcontracts may impair the ability of the subcontractor to perform

further war work and would seriously interfere with quick transition to peacetime production when the war is over. The settlement of subcontracts will be greatly facilitated by the adoption of an approved form of termination article for use in subcontracts and by the establishment of uniform general principles governing the settlement and payment of claims of subcontractors.

2. The Uniform Termination Article for Fixed Price Supply Contracts made effective by order of the Office of War Mobilization dated 8 January 1944 requires the prime contractor, on notice of termination, to terminate all subcontracts and purchase orders chargeable to the contract, except as otherwise directed by the notice. The Article requires that settlements of subcontracts and purchase orders made by prime contractors shall be approved or ratified by the contracting officer only if and to the extent that the contracting officer may require.

3. It is the policy of the Government to favor the settlement of first tier or more remote subcontracts or purchase orders on the basis of the rights and principles embodied in the 'Approved Termination Provision for Use in Fixed Price Orders or Subcontracts for the Manufacture of Supplies under Government War Contracts' hereto attached as Exhibit A. Exhibit A is recommended for use in first tier or more remote fixed price subcontracts or purchase orders for the manufacture of supplies under Government war contracts. Exhibit A sets forth in short form the same general principles as the Uniform Termination Article for use in Fixed Price Supply Contracts made effective by the Office of War Mobilization on 8 January 1944. For the sake of brevity, Exhibit A omits certain provisions of the Uniform Termination Article which may be appropriate for, and which contractors may desire to incorporate in, particular subcontracts, as for instance the provision of paragraph (f) for a proper adjustment, in the case of partial termination, in the price of work not terminated, or the provision of paragraph (g) for partial payments. It may be appropriate, if the parties so desire, to substitute for the first sentence of paragraph (a) of Exhibit A a provision for termination at the option of the buyer, or in paragraph (b)(2)(ii) to reduce the figure of 2%, or to change the figure 8%, to figures which are fair and reasonable under the circumstances of a particular contract. The Statement of Principles for Determination of Costs upon Termination of Government Fixed Price Supply Contracts, made effective by the Office of War Mobilization on the same date, as amended by Regulation 5 of the Office of Contract Settlement, will be recognized by the Government as representing "recognized Commercial accounting practices" as that term is used in Exhibit A. Other Governmental policies applicable to the Uniform Termination Article will also be recognized as applying to Exhibit A, as for example the policy against reimbursing contractors at the contract rate on termination for completed undelivered articles which represent unreasonable anticipations of production schedules, and the policy against taking advantage of technical defaults when the real reason for termination is the termination of a prime contract by the Government.

4. It is the policy of the Government to encourage the use of the process of negotiation for settlement of terminated subcontracts to the same extent as for settlement of terminated prime contracts, and subject to substantially the same general principles. Such settlements will be reviewed in the manner and to the extent indicated in paragraphs 5 and 6, and will be approved if found to be fair and reasonable. The Government reserves the right to determine whether the basis of the settlement and the amount agreed upon are fair and reasonable. Settlements based upon reasonable estimates by the parties of the aggregate amount which would be due under subparagraphs (1), (2) and (3) of paragraph (b) of Exhibit A and settlements arrived at in accordance with paragraph 7 of Regulation No. 7 of the Office of Contract Settlement, will be considered fair and reasonable.

5. When settlements of subcontracts are submitted to the contracting officer for approval or ratification, they should be treated like any other element of cost in a prime contractor's settlement proposal, and procedures determining the extent to which they will be scrutinized should recognize the necessity for the accomplishment of speedy and final settlement as well as the protection of the interests of the Government. A high degree of reliance must and should be placed upon the investigation made by the contractor of the basis for the settlement. The procuring agency has, of course, the right, where circumstances indicate the necessity for so doing, to make full investigation of the settlement of any first tier or more remote subcontract.

6. If settlements are to be effected with the necessary speed, it will obviously be impracticable for all procuring agencies to review every settlement of subcontracts and purchase orders in every tier. Therefore, whenever and as long as the procuring agency is satisfied that the procedures and personnel employed by a prime contractor in making settlement with subcontractors are adequate, the procuring agency may provide for the payment of any settlement made by the prime contractor upon appropriate certificates. Likewise, in the case of these intermediate subcontractors, the number of whose lower tier subcontracts makes it important to do so, the procuring agency, whenever and as long as it is satisfied that the procedures and personnel employed by an intermediate subcontractor in making settlements thereof are adequate, may provide for the payment of any settlement made by the intermediate subcontractor upon appropriate certificates. In addition to any provision that may be made for the payment upon certificate, in accordance with the foregoing principles, of settlements involving \$1,000 or more, the following policy will also apply: Where a war contractor in good faith approves any settlement proposal properly submitted to him by his subcontractor on Form 1a of the Office of Contract Settlement (for use in connection with net claims of less than \$1,000 where the contractor retains or disposes of all inventory) the settlement, including credits for retention or disposal of inventory, will be recognized by the Government as final and conclusive for the purpose of settling the terminated prime contract to the extent that the subcontract is allocable to it, unless the contracting agency has previously caused notice to be given to the settling war contractor that such settlements made by

him with his immediate subcontractors are subject to approval by the Government.

7. The Government in some instances will be under an obligation either to make reimbursement for, or to assure the defense against, demands by subcontractors or suppliers chargeable to the prime contract which are greater in amount than would be recognized by the principles of Exhibit A. On the submission of a settlement which recognizes any such demand, the procuring agency will decide whether the settlement should be approved or ratified and whether the Government should protect the prime contractor or intermediate subcontractor from the asserted liability.

8. It is the policy of the Government not to delay the making or approval of settlements after agreement is reached for the purpose of disposing of property chargeable to the terminated subcontract. When agreement is concluded on a financial settlement, title to all property not theretofore disposed of or taken over should be taken by or for the account of the Government.

9. This statement deals with the settlement of subcontracts under the vertical basis of settlement, through the prime contractor and intervening subcontractors. If methods of direct or horizontal settlement of subcontracts are adopted, other implementation may be required.

10. Though Exhibit A is recommended for use in orders or subcontracts under Government war contracts, it is recognized that it may be used in subcontracts or orders having no connection with the war. The fact that a subcontract or purchase order contains Exhibit A has, therefore, no bearing on whether the particular subcontract or order is allocable or relates to war production.

11. The requirement of paragraph (a) of Exhibit A that "the seller will, as and to the extent directed by the buyer**** terminate work under orders and subcontracts outstanding hereunder" is not intended to affect the seller's right to allow such subcontracts or orders to continue to completion, if he desires to do so for his own account without making any claim against the buyer by reason thereof. The buyer's termination notice should make this clear, and also should specify in so far as possible which subcontracts or orders, or classes of them, the buyer wants completed for his account, and which he wants cancelled.

12. Notwithstanding the recommendation made in paragraph 3 that Exhibit A be used in subcontracts and purchase orders, recognition will be given to special agreements by contractors to pay, as fair compensation for the termination of the subcontract, amounts specified in the subcontract or to be readily computed according to specific methods, standards or bases appropriate to the particular subcontract and set out therein, in lieu of any other compensation therefor, whenever (1) the available data permits a reasonable forecast, consistent with sound commercial standards, of the factors involved in determining what will be fair compensation for termination in the case of class or cases and (2) such agreement will sub-

stantially facilitate settlement, plant clearance, reconversion from war to civilian production or the efficient use of materials, manpower and facilities or will otherwise promote the objectives of the Contract Settlement Act of 1944. Such special agreements may be included in original subcontracts or may be inserted in subcontracts by amendment before their termination; and, when so included or inserted, are hereby determined to provide a method for determining fair compensation for the termination of such subcontracts. Settlements made in accordance with such agreements are subject to review to the same extent indicated in paragraphs 5 and 6 for settlements made on the basis of the rights and principles embodied in Exhibit A. The advantages and proper scope of such pretermination settlement agreements are described in the statement of the Director of Contract Settlement dated September 25, 1944 announcing General Regulation No. 3 of the Office of Contract Settlement dealing with the use of such agreements in prime contracts; and these advantages apply equally to pretermination settlement agreements for use in subcontracts.

7. Accordingly, Exhibit A attached to the Statement of Policy, as amended, reads as follows:

Approved Termination Provision for Use in
Fixed Price Orders or Subcontracts for the
Manufacture of Supplies Under Government
War Contracts

ARTICLE _____, (a) The buyer may terminate work under this order in whole or in part at any time by written or telegraphic notice, whenever (1) the Government requests the termination of this order or (2) a contract between the buyer and a third person, including the Government, requiring for its performance articles or services of the kind or type covered by this order is terminated, in whole or in part, or amended, so as to eliminate or reduce such requirements. Such notice shall state the extent and effective date of such termination; and, upon the receipt thereof, the seller will, as and to the extent directed by the buyer, stop work under this order and the placement of further orders or subcontracts hereunder, terminate work under orders and subcontracts outstanding hereunder, and take any necessary action to protect property in the seller's possession in which the buyer has or may acquire an interest.

(b) If the parties cannot by negotiation agree within a reasonable time upon the amount of fair compensation to the seller for such termination, the buyer in addition to making prompt payment of amounts due for articles delivered or services rendered prior to the effective date of termination, will pay to the seller the following amounts without duplication:

(1) The contract price for all articles or services which have been completed in accordance with this order and not previously paid for.

(2) (1) The actual costs incurred by the seller which are properly allocable or apportionable under recognized commercial accounting practices to the terminated portion of this

order, including the cost of discharging liabilities which are so allocable or apportionable, and (ii) a sum equal to 2% of the part of such costs representing the costs of articles or materials not processed by the seller, plus a sum equal to 8% of the remainder of such costs, but the aggregate of such sums shall not exceed 6% of the whole of such costs. For the purpose of subdivision (ii) such costs shall exclude any charge for interest on borrowings and shall exclude the cost of discharging liabilities for parts, materials and services not received by the seller before the effective date of termination.

(3) The reasonable costs of the seller in making settlement hereunder and in protecting property in which the buyer has or may acquire an interest.

Payments made under this paragraph (b), exclusive of payments under subparagraph (3), shall not exceed the aggregate price specified in this order, less payments otherwise made or to be made.

(c) With the consent of the buyer, the seller may retain at an agreed price or sell at an approved price any completed articles, or any articles, materials, work in process or other things the cost of which is allocable or apportionable to this order under paragraph (b) (2) above, and will credit or pay the amounts so agreed or received as the buyer directs. As directed by the buyer, the seller will transfer title to, and make delivery of, any such articles, materials, work in process or other things not so retained or sold. Appropriate adjustment will be made for delivery costs or savings therein.

(d) The provisions of this Article _____ shall not limit or affect the right of the buyer to terminate this order for the default of the seller.

8. Directive Order 6 of the Office of War Mobilization, dated May 29, 1944, is hereby continued in effect except to the extent specifically modified by this Regulation.

Robert H. Hinckley
Director of Contract Settlement

October 4, 1944

OFFICE OF CONTRACT SETTLEMENT

REGULATION NO. 7

Pursuant to the authority conferred upon me by Sections 4(b) and 6 of the Contract Settlement Act of 1944, the following policies, principles, methods, procedures and standards are prescribed to govern the provision of fair compensation to war contractors for the termination of fixed price war supply contracts:

1. Existing Directives of Office of War Mobilization Prescribing Termination Provisions for Use in Prime Contracts and Subcontracts. By Directive Orders 1 and 2, dated January 8, 1944 and February 24, 1944, the Office of War Mobilization made effective a Uniform Termination Article for Use in Government Fixed Price War Supply Contracts (hereinafter called the "Price Contract Article"). Paragraph (c) of this Article provides that the contractor and the contracting officer may agree upon the amount to be paid to the contractor by reason of the termination of the contract. Paragraph (d) of the Article thereupon specifies the basis of determining, for the purpose of court action or otherwise, the amount to be paid to the contractor in the event of the failure of the contractor and the contracting officer to agree.

By Directive Order 6, dated May 29, 1944, the Office of War Mobilization made effective an Approved Termination Provision which was recommended for use in Fixed Price Orders and Subcontracts under Government War Contracts (hereinafter called the "Subcontract Article"). Paragraph (b) of the Subcontract Article contemplates that the parties will seek, by agreement, to determine the amount to be paid by reason of the termination of the order or subcontract, but specifies the basis of determining, for the purpose of court action or otherwise, the amount to be paid to the holder of the order or subcontract in the event of the failure of the parties to agree. This basis is substantially the same as that specified by paragraph (d) of the Prime Contract Article.

By Section 20(d) of the Contract Settlement Act the foregoing Directive Orders remain in full force and effect unless and until modified as therein provided. The Director of Contract Settlement, by Regulations 3, 5 and 6, has amended the foregoing Directive Orders in certain respects and has continued them in effect as amended; and the references hereinafter made to these Directive Orders, to the Prime Contract Article, to the Statement of Principles for Determination of Costs Upon Termination of Government Fixed Price Supply Contracts, and to the Subcontract Article, are to these orders and documents as so amended.

2. Policy Determinations to be Made by the Office of Contract Settlement. The Director of Contract Settlement is required, by the

provisions of the Contract Settlement Act of 1944,¹ approved July 1, 1944, to determine (a) what standards should guide the making of settlement without agreement in order to provide for fair compensation in accordance with the requirements of the Act; (b) what standards should guide the making of settlements by agreement in order to provide fair compensation in accordance with the requirements of the Act; and (c) to what extent the factors enumerated by Section 6(d) of the Act should be taken into account in establishing methods and standards for determining fair compensation in the settlement of termination claims by agreement.

3. The Formula Provisions of the Prime Contract Article Provide Fair Compensation. Paragraph (d) of the Prime Contract Article provides in brief that, if the parties fail to agree, the contractor shall receive (subject to the limitations herein stated) the contract price for accepted completed articles, the cost attributable to the terminated work and of settling related subcontracts, a profit, and the costs incident to the termination and to the protection of property. By the terms of paragraph (h) of the Prime Contract Article, the determinations of cost required by paragraph (d) are to be made in accordance with the Statement of Principles for Determination of Costs upon Termination of Government Fixed Price Supply Contracts approved by the Joint Contract Termination Board December 31, 1943 (hereinafter called the "Statement of Cost Principles").

1. Section 6(a) of the Act makes it the responsibility of the contracting agencies and the Director to provide speedy and fair compensation for the termination of any war contract. Section 6(b) of the Act requires each contracting agency to establish methods and standards, suitable to the condition of various war contractors, for determining such fair compensation, suggests several possible bases for such a determination, but provides that any other equitable basis deemed appropriate may be used. Section 6(d) deals with termination claims not settled by agreement, and provides that in such cases, with certain exceptions, the method or standard shall take into account an enumerated series of factors and shall not include as elements of cost a second enumerated series. Section 6(e) then provides that termination claims shall be settled by agreement to the maximum extent feasible; that the methods and standards of determining fair compensation shall be designed to facilitate settlement by agreement; and that the Director shall require the contracting agencies to take into account the factors enumerated in Section 6(d) in establishing methods and standards for determining fair compensation in settlements by agreement, to the extent that he deems it practicable to do so without impeding expeditious settlements.

The predecessors of Section 6(d) and 6(e) of the Contract Settlement Act originated in the Judiciary Committee of the House of Representatives, which incorporated therein almost verbatim the Statement of Cost Principles. In reporting the bill, the House Judiciary Committee said:

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"The new provisions are contained in subsections (d) and (e) of section 6. In preparing these provisions the Committee has been guided by the uniform contract termination article recommended by Messrs. Baruch and Hancock and by the cost principles which are applicable thereunder in cases not settled by agreement. This uniform termination article is now included in new contracts and by agreement existing contracts are being modified to include it."

The provisions, in this form, were passed by the House.

The Conference Committee changed the provisions of the bill to the form in which they were finally enacted; and the conference report states that its purpose in so doing was to revise "this House provision to state more concisely and in more general terms the costs to be taken into account for such purpose [establishing methods and standards for settling claims not settled by agreement] * * *".

From the foregoing, it clearly appears that the provisions of Section 6(d) of the Act, defining what shall be taken into account and what shall be excluded in establishing methods and standards for determining fair compensation in cases not settled by agreement, were based upon the provisions of the Prime Contract Article and the Statement of Cost Principles, and were recognized by the Congress as consistent therewith. It further appears, moreover, that Congress desired to deal with principles of cost determination in a more general manner, to allow for flexible treatment of the individual items contained in the Statement of Cost Principles. It is accordingly determined that the method of settlement established by paragraph (d) of the Prime Contract Article in the event of the failure of the contractor and the contracting officer to agree provides for fair compensation for the termination of the contract, and that paragraph (d) of that Article and the Statement of Cost Principles take into account or exclude, as the case may be, the several factors enumerated in Section 6(d) of the Act in accordance with the requirements of that Section. The contracting agencies will, to the extent provided in Directive Orders 1 and 2 of the Office of War Mobilization, dated respectively January 8 and February 24, 1944, use the Prime Contract Article in new contracts and offer it by amendment, before or after their termination, to the holders of existing contracts.

4. The Formula Provisions of the Subcontract Article Provide for Fair Compensation. As recited in the "Statement of Policy Concerning Settlement of Claims under Terminated Fixed Price Orders or Subcontracts for the Manufacture of Supplies under Government War Contracts" approved by the Office of War Mobilization in Directive

Order 6 on May 29, 1944, the Subcontract Article sets forth in short form the same general principles as the Prime Contract Article, and the Statement of Cost Principles will be recognized by the Government as representing recognized commercial accounting practices as that term is used in the Subcontract Article. It is accordingly determined that the method of settlement established by paragraph (b) of the Subcontract Article, if the parties cannot by negotiation agree upon fair compensation, provides for fair compensation for the termination of the order or subcontract, and takes into account or excludes, as the case may be, the several factors enumerated in Section 6(d) of the Act in accordance with the requirements of that Section. The contracting agencies will, to the extent provide in Directive Order 6 of the Office of War Mobilization dated May 29, 1944, recommend the use of the Subcontract Article in first tier or more remote fixed price subcontracts or purchase orders for the manufacture of supplies under Government war contracts, and authorize, approve or ratify amendments of such subcontracts or purchase orders, before or after their termination, to include the Subcontract Article.

5. Standards Applicable to Termination Settlements by Agreement under the Prime Contract Article. The debates and committee reports which preceded the enactment of the Contract Settlement Act emphasize the primary factors to be considered in establishing such standards. These include the vital need for speed in settlement, the necessity of negotiating settlements by agreement if adequate speed is to be attained, and the requirement of sufficient latitude for the application of standards of business judgment if negotiation is to take place successfully. As stated in the Report of the House Judiciary Committee:

"The hearings and reports by the various committees of Congress which have studied this matter clearly indicate that the overwhelming bulk of termination claims must be settled by negotiated agreements if the job is to be done expeditiously enough to permit rapid reconversion and reemployment at the end of the war."

* * * * *

"The ability to apply standards of business judgment as distinct from strict accounting principles is at the heart of the negotiated settlement."

Accordingly, the following conclusions flow from the provisions of the Act and its legislative history:

The primary test of the methods and standards of settlement to be established by the contracting agencies pursuant to Section 6(b) of the Act is whether they provide fair compensation. Various methods of determining fair compensation are to be developed. Fair compensation is inherently a matter of judgment and therefore incapable of exact measurement. In a given situation, more than one method of arriving at fair compensation may be appropriate, and differing

amounts, within the range of reasonable variations of method and sound judgment, may all be regarded as constituting fair compensation. Cost and accounting data, like other criteria for judgment, are to be regarded as guides to the ascertainment of fair compensation, and not as rigid measures of it. Settlement by agreement is to be facilitated to the maximum extent feasible; and the amount of record keeping, reporting, and accounting in connection with the settlement of termination claims is to be reduced to the minimum compatible with the reasonable protection of the public interest.

On the basis of the foregoing, the following standards are established for the guidance of contracting agencies in the settlement of claims by agreement, in cases in which the settlement is negotiated on the basis of a consideration of costs and profit. As contemplated by Section 6(b) of the Contract Settlement Act of 1944, other bases for such negotiation (e.g. estimated percentage of completion of the work under a terminated contract) may be developed by the Director of Contract Settlement or the contracting agencies.

a. General:

The object of the negotiation will be to agree upon a total amount to be paid in settlement of the contractor's claim which will constitute fair compensation. The amount agreed upon may be determined as an entirety, leaving flexibility in the determination of any particular element entering into the final result. However, in the consideration of costs and profit as elements of the total amount to be agreed upon as fair compensation, certain principles should be observed which are stated in paragraphs (b), (c) and (d).

b. Costs:

(1) The Statement of Cost Principles reflects certain policy determinations regarding the type of costs which should be taken into account in determining the compensation to which the contractor is fairly entitled by reason of the termination of his contract for the best interest of the Government. Contractors can properly expect that their costs of the types described by the Statement of Cost Principles as includible will be so taken into account in a settlement by agreement. Conversely, such a settlement should not be made the means for reimbursing expenditures of the types which the Statement excludes.

(2) The contracting agencies will of necessity require contractors to submit, and will review, relevant information in support of their claims. This information will include technical and accounting data to the extent deemed necessary. Cost data should serve, however, not as a first step in an attempt at an exact determination of cost but rather as the basis for a business negotiation leading directly to a prompt settlement which will be fair to the contractor and will adequately protect the interest of the Government. Reasonable estimates and approximations may be used

for the purpose of expediting settlements; and, to the fullest practicable extent, differences should be compromised and questions of doubt settled by agreement.

c. Profit:

Profit should be limited to preparations made and work done for the terminated portion of the contract; but, subject to this limitation, any reasonable method of arriving at a fair profit may be used. The most satisfactory criterion of what is a fair profit on the terminated part of a contract is ordinarily a proper proportion of what the parties have agreed upon. Evidences of this agreement might be either (a) the amount of the profit which was agreed upon or contemplated by both parties at the time when the contract was negotiated; or (b) the amount of profit which the contractor would have earned had the contract been completed; or (c) the amount of profit which the contractor agreed to accept in the event the contract was terminated and litigation resulted. Ordinarily, the ascertainment of the profit which the contractor would have earned had the contract been completed would involve complicated time-consuming forecasts which cannot in practice be made with reasonable accuracy; and the most satisfactory substitute for this criterion will be the amount of profit which the parties agreed upon at the outset. Accordingly, the following considerations may be taken into account in arriving at a reasonable profit, whether determined separately or as part of a reasonable over-all total.

(1) Where satisfactory evidence is available and it is practicable to do so, one method of arriving at a reasonable profit on the terminated portion of the contract is as follows:

(i) Ascertain the dollar amount of the profit which was agreed upon or was contemplated by both parties at the time when the contract was negotiated.

(ii) Allow to the contractor the portion of this amount determined by the relation between the work performed by him on the terminated portion of the contract and the work contemplated by the entire contract.

(iii) The estimate of this relationship does not necessarily depend on the percentage of the costs incurred on the terminated portion of the contract to total estimated costs, nor on the percentage of materials acquired for this portion to total materials required. While these factors should be considered, emphasis should rather be put on the extent and difficulty of the work completed by the contractor (including engineering work, production scheduling, planning, technical study and supervision, arrangement and supervision of subcontracts, as well as other services) as compared with the total work required of him by the contract. Engineering estimates of percentage of completion should not ordinarily be required, although entitled to proper consideration if available.

amounts, within the range of reasonable variations of method and sound judgment, may all be regarded as constituting fair compensation. Cost and accounting data, like other criteria for judgment, are to be regarded as guides to the ascertainment of fair compensation, and not as rigid measures of it. Settlement by agreement is to be facilitated to the maximum extent feasible; and the amount of record keeping, reporting, and accounting in connection with the settlement of termination claims is to be reduced to the minimum compatible with the reasonable protection of the public interest.

On the basis of the foregoing, the following standards are established for the guidance of contracting agencies in the settlement of claims by agreement, in cases in which the settlement is negotiated on the basis of a consideration of costs and profit. As contemplated by Section 6(b) of the Contract Settlement Act of 1944, other bases for such negotiation (e.g. estimated percentage of completion of the work under a terminated contract) may be developed by the Director of Contract Settlement or the contracting agencies.

a. General:

The object of the negotiation will be to agree upon a total amount to be paid in settlement of the contractor's claim which will constitute fair compensation. The amount agreed upon may be determined as an entirety, leaving flexibility in the determination of any particular element entering into the final result. However, in the consideration of costs and profit as elements of the total amount to be agreed upon as fair compensation, certain principles should be observed which are stated in paragraphs (b), (c) and (d).

b. Costs:

(1) The Statement of Cost Principles reflects certain policy determinations regarding the type of costs which should be taken into account in determining the compensation to which the contractor is fairly entitled by reason of the termination of his contract for the best interest of the Government. Contractors can properly expect that their costs of the types described by the Statement of Cost Principles as 'includible' will be so taken into account in a settlement by agreement. Conversely, such a settlement should not be made the means for reimbursing expenditures of the types which the Statement excludes.

(2) The contracting agencies will of necessity require contractors to submit, and will review, relevant information in support of their claims. This information will include technical and accounting data to the extent deemed necessary. Cost data should serve, however, not as a first step in an attempt at an exact determination of cost but rather as the basis for a business negotiation leading directly to a prompt settlement which will be fair to the contractor and will adequately protect the interest of the Government. Reasonable estimates and approximations may be used

for the purpose of expediting settlements; and, to the fullest practicable extent, differences should be compromised and questions of doubt settled by agreement.

c. Profit:

Profit should be limited to preparations made and work done for the terminated portion of the contract; but, subject to this limitation, any reasonable method of arriving at a fair profit may be used. The most satisfactory criterion of what is a fair profit on the terminated part of a contract is ordinarily a proper proportion of what the parties have agreed upon. Evidences of this agreement might be either (a) the amount of the profit which was agreed upon or contemplated by both parties at the time when the contract was negotiated; or (b) the amount of profit which the contractor would have earned had the contract been completed; or (c) the amount of profit which the contractor agreed to accept in the event the contract was terminated and litigation resulted. Ordinarily, the ascertainment of the profit which the contractor would have earned had the contract been completed would involve complicated time-consuming forecasts which cannot in practice be made with reasonable accuracy; and the most satisfactory substitute for this criterion will be the amount of profit which the parties agreed upon at the outset. Accordingly, the following considerations may be taken into account in arriving at a reasonable profit, whether determined separately or as part of a reasonable over-all total.

(1) Where satisfactory evidence is available and it is practicable to do so, one method of arriving at a reasonable profit on the terminated portion of the contract is as follows:

(i) Ascertain the dollar amount of the profit which was agreed upon or was contemplated by both parties at the time when the contract was negotiated.

(ii) Allow to the contractor the portion of this amount determined by the relation between the work performed by him on the terminated portion of the contract and the work contemplated by the entire contract.

(iii) The estimate of this relationship does not necessarily depend on the percentage of the costs incurred on the terminated portion of the contract to total estimated costs, nor on the percentage of materials acquired for this portion to total materials required. While these factors should be considered, emphasis should rather be put on the extent and difficulty of the work completed by the contractor (including engineering work, production scheduling, planning, technical study and supervision, arrangement and supervision of subcontracts, as well as other services) as compared with the total work required of him by the contract. Engineering estimates of percentage of completion should not ordinarily be required, although entitled to proper consideration if available.

This principle will result in fair compensation in cases which have involved the arrangement of subcontracts and the supervision of their performance, by reflecting this work in the estimate of the extent of completion, while at the same time properly avoiding the practice of measuring the prime contractor's profit by the amount of his payments to subcontractors for their termination claim. This principle will also avoid excessive compensation in cases where a large proportion of the contractor's costs represents merely the acquisition of materials not processed by him.

(2) Another method which may be appropriate is to approximate the amount of the profit which the contractor would have been entitled to receive under the formula in his contract in the event of the failure of the parties to agree. This will be especially helpful in cases or classes of cases where it is impracticable to determine the amount of profit in accordance with principles stated in subparagraph (a), or where payment of this approximation of the formula will increase speed of settlement, or where it appears that the contractor would have failed to realize a profit in the event of completion of the contract.

d. Overall Considerations:

To avoid forcing the contractor to unnecessary litigation to establish his legal rights against the Government, it will be appropriate in any case, where the contractor so desires, to pay the amount of the approximation of the formula.

As indicated in the case of settlements in the absence of agreement, the gross amount of the settlement (exclusive of sums paid as compensation for post-termination expenses and services) should not exceed the contract price, less payments otherwise made or to be made to the contractor. This amount is subject to proper deduction for advance or partial payments or other items in accordance with any applicable provisions of statute or contract, as for example paragraph (e) of the Prime Contract Article.

6. Standards Applicable to Termination Settlements by Agreement Under Prime Contracts not Containing the Prime Contract Article. Directive Orders 1 and 2, dated January 8 and February 24, 1944, require the contracting agencies, with the exceptions therein stated, to use the Prime Contract Article in future contracts and to offer to their existing contractors an opportunity to amend their contracts to include the Article. In cases where contracts not containing or amended to contain the Article are terminated for the convenience of the Government, the principles stated in paragraph 5 should nevertheless be applied in making settlements by agreement, to the extent not inappropriate in the light of the provisions of the particular contract.

7. Standards Applicable to the Settlement by Agreement of Terminated Subcontracts. Directive Order 6, dated May 29, 1944,

provides in part the criteria to be used by the contracting agencies in approving the settlement of terminated subcontracts. That Directive Order provides, among other things, that it is the policy of the Government to encourage the use of the process of negotiation for the settlement of terminated subcontracts to the same extent as for the settlement of terminated prime contracts, and on the basis of substantially the same general principles; that such settlements will be approved if, upon review as provided in that Order, they are found to be fair and reasonable; and that settlements based upon reasonable estimates by the parties of the aggregate amount which would be due under the formula set out in paragraphs (1), (2) and (3) of paragraph (b) of the Subcontract Article will be considered fair and reasonable.

Section 6(a) of the Contract Settlement Act provides that fair compensation for the termination of subcontracts shall be based on the same principles as compensation for the termination of prime contracts. Accordingly, the contracting agencies shall approve or provide for the approval of subcontract settlements (in addition to the circumstances set forth in Directive Order 6) when such settlements are made upon the principles of paragraph 5 of this Statement of Policy. However, since the contracting agency will not ordinarily have participated in the negotiation of the original subcontract, the contracting agency where consideration is given to the factors set forth in paragraph 5(c) may, elect to take into account the profit which the contracting agency would have agreed to pay in connection with a direct procurement of the same or a similar item rather than a profit determined in accordance with paragraph 5(c).

8. Determination required by Section 6(e) of the Act. It is hereby determined that to the extent that it is presently deemed practicable to do so without impeding expeditious settlements, the provisions of paragraphs 5, 6 and 7 of this Statement of Policy require the contracting agencies to take into account the factors enumerated in Section 6(d) of the Act in establishing methods and standards for determining fair compensation in the settlement of termination claims by agreement.

9. As contemplated by the Act, modifications may be made from time to time in this Regulation.

Robert H. Hinckley

OFFICE OF CONTRACT SETTLEMENT

(Regulation No. 8)

October 13, 1944.

Pursuant to the authority conferred upon me by Section 4 (b) of the Contract Settlement Act of 1944, the attached forms, designated thereon Office of Contract Settlement forms 1, 1a, 1b, 2a, 2b, 2c, 2d, and 3, are hereby prescribed for use by all government agencies in connection with the settlement of claims under terminated fixed-price war supply contracts in accordance with "Instructions for use of Standard Contract Settlement Proposal Forms" hereto attached.

ROGER L. PUTNAM,
Acting Director.

OFFICIAL CONTRACT SETTLEMENT
October 1, 1944INSTRUCTIONS
FOR USE OF
STANDARD CONTRACT SETTLEMENT
PROPOSAL FORMS

GENERAL

1. **Standard Forms Provided.**—The Standard Forms are prescribed by the Director of Contract Settlement under the Contract Settlement Act of 1944. They are required to be used by all prime contractors and subcontractors in submitting proposals for settlement of claims under terminated fixed-price war supply contracts. This includes fixed-price supply subcontracts underlying cost-plus-fixed-fee prime contracts or subcontracts. The forms should be used by prime contractors for filing with the Government, and by subcontractors for filing with the company from which the notice of termination was received. They have been made uniform for all Departments and agencies of the United States Government in order to expedite preparation and review of settlement proposals. Previously authorized forms of the War Department or Navy Department may continue to be used until the Standard Forms are generally available.

2. **Departures from Standard Forms.**—Although minor deviations from the requirements of the forms are permissible, prior approval of the contracting officer or the customer (contractor in next higher tier) should be obtained for any substantial departures from the requirements. However, a contractor receiving such approval may not require his subcontractors to submit their proposals on other than the prescribed standard forms. Submission of additional information which the contractor considers relevant is encouraged and may expedite review and approval of the proposal. As used in these instructions, the term "contracting officer" includes the contracting officer's representatives.

3. **Where to Obtain Forms.**—The forms may be obtained from any Government contracting agency and the larger war contractors.

4. **Reproduction of Forms.**—Reproduction of the forms in any size is authorized, without approval of any Government agency, provided no change is made in the general arrangement. Reproduction of the inventory schedules on larger forms is encouraged where desired.

SHORT FORM SETTLEMENT PROPOSAL
(Form 1a)

5. This form may be used only where:
- (a) the contractor proposes to dispose of or retain all the inventory allocable to the terminated portion of the contract, and
 - (b) the net amount of the proposed settlement, after deducting his offer for the entire inventory (including proceeds of sales of any inventory disposed of) is less than \$1,000.
6. Neither the inventory schedules (Forms 2a, 2b, 2c, and 2d) nor the Schedule of Accounting Information (Form 3) are to be submitted with this form. The back of the form contains instructions for its use. Also see Miscellaneous Instructions on page 3 hereof.

OTHER FORMS

7. The other forms are as follows:

(a) Settlement Proposal

Form 1—General form, which may be used for any proposal, other than one on the total cost basis, regardless of amount.

Form 1b—Total cost basis form, for use only where it is necessary to present the proposal on the total cost basis. This form is not generally distributed but will be provided by any Government contracting office on request.

(b) Termination Inventory Schedules

Form 2a—Metals (in mill product form).
Form 2b—Raw Materials (other than metals), Purchased Parts, Finished Components, Finished Product, and Miscellaneous.

Form 2c—Work in Process.

Form 2d—Dies, Jigs, Fixtures, etc., and Special Tools.

(c) Schedule of Accounting Information

Form 3—This form is provided to facilitate accounting reviews of settlement proposals, and, wherever possible, to enable the review to be made without field examination.

SETTLEMENT PROPOSAL

8. **Basis of Presenting Proposal.**—Form 1 may be used for any settlement proposal, other than one on the total cost basis, regardless of amount. It is designed for presenting proposals on the inventory basis, which should be used wherever practicable. Under this basis the settlement proposal will consist essentially of an inventory of individual items or groups of similar items stated at cost. In those cases where the inventory method is not practicable, contractors may present their proposals on the total cost basis. Under this method, the accumulated costs applicable to all work done on the contract are summarized; profit, if any, is added, and any amounts previously invoiced or to be invoiced for finished product are then deducted. Form 1b, designed for presenting proposals on the total cost basis, may be obtained from any Government contracting agency on request. When using this form, a contractor must, however, for purposes of property accountability and disposition, submit Termination Inventory Schedules listing all the inventory items for which amounts are included in the total costs presented in the Settlement Proposal. The Contract Settlement Act of 1944 authorizes the use of any other equitable basis deemed appropriate by the contracting agency for determining fair compensation for the termination of war contracts. When using any such other method, the contractor should consult his customer or the contracting officer concerning the manner and form of presenting it.

9. **Separate Proposals for Separate Contracts.**—A separate proposal should ordinarily be submitted for each terminated war contract or purchase order unless some other procedure is approved by the contracting officer or customer. Claims based on a series of orders from the same purchaser for items applicable to the same contract may, however, be combined in a single proposal.

10. **Interim Proposals.**—Normally, a proposal when submitted should cover all elements of the claim, including the contractor's own charges and settlements with subcontractors. However, proposals may be filed in successive steps covering separate portions of a claim arising from the termination. Except with the approval of the customer or contracting officer, this system of progressive reporting should not be used to present claims covering portions of the contractor's own costs as they may be determined. Rather, it is intended to enable the contractor to file proposals covering either all his own costs, or his settlements with subcontractors, or his settlement expenses. In submitting an interim proposal, the contractor should complete only those portions of the form applicable to his proposal; for example, in submitting a proposal to cover settlements or proposed settlements with subcontractors, he should fill out, in addition to the boxes at the top of the form, only Schedule F and Item 14, and execute the certificate at the bottom of the form. Interim proposals may also be filed in connection with requests for partial payments. In submitting an initial proposal, amounts should be inserted only in column 4, and the required supporting schedules be completed. In filing subsequent proposals, the schedules should be completed in support of the items in column 3, or if this is not feasible, a revised schedule should be prepared in support of the accumulated totals in column 4.

11. Individual Items of Form 1:

Settlement Expenses—Item 12.—These are sometimes referred to as post-termination expenses. They include reasonable accounting, legal, clerical, and other costs and expenses incident to termination and settlement of the contract or order, and reasonable costs and expenses of preserving and protecting termination inventory.

Settlements With Subcontractors—Item 14.—The war contractor submitting a settlement proposal need attach settlement proposals of his subcontractors only in cases where such settlement proposals are required by Government regulations to be reviewed or examined by the contracting officer or a Government review board, or where the contracting officer or customer so directs.

Acceptable Finished Product—Item 15.—Normally prime contractors will be authorized to obtain payment for acceptable finished product on hand at date

or termination by invoicing at the contract price, and such product will not be reported on the inventory forms or be included in the proposed settlement. Subcontractors should similarly seek to obtain payment for acceptable finished product on hand at the date of termination through regular billing procedure. Where, however, such payment is not obtained (solely because of the termination), the items should be listed on the appropriate inventory schedule (Form 2b), the contract price should be entered instead of cost in the cost column, and the items included at contract price in the settlement proposal. If the contract price is a delivered price, freight and other charges which would have been payable by the contractor had delivery been completed should be deducted.

Allowance for Interest—Item 16.—The Contract Settlement Act of 1944 provides for allowing interest on the amount due and unpaid from time to time on the termination claim at the rate of 2½ percent per annum for the period beginning 30 days after the date fixed for termination and ending with the date of final payment, with certain exceptions stated in section 6 (f) of the Act. For guidance in computing the interest to be allowed, reference is made to regulations of the various contracting agencies.

Disposal Credits—Item 18.—This item represents amounts by which the contractor's proposal should be reduced on account of (1) the contractor's offers to retain or sell inventory items, and (2) the proceeds of authorized sales (including credits for authorized retentions). The amount entered on Schedule G in the first proposal filed should agree with the total of the contractor's offers and the proceeds of authorized sales shown in column 8 on all the inventory schedules. If a subsequent settlement proposal is filed, increases or decreases in the amount of the disposal credits need not be supported by revised inventory Schedules, but adjustments should be explained in Schedule G. If practicable, the part of the disposal credit applicable to acceptable finished product included in the proposal should be shown separately in Schedule G.

12 Supporting Inventory Schedules.—Items 1 through 7, and Item 16, must be supported by the inventory schedules described below.

TERMINATION INVENTORY SCHEDULES (Forms 2a, 2b, 2c, and 2d)

13. When Used.—These schedules, which are filed either with or in advance of the Settlement Proposal (other than the Short Form) serve two principal purposes: (1) To support the amount of inventory costs included in the Settlement Proposal; and (2) to aid in arranging for the removal, storage, sale, or other disposition of the termination inventory.

14. Partial Inventories.—Where inventory schedules covering a substantial portion of the inventory can be prepared in advance of other portions, partial filings are encouraged in the interest of expediting property removal and disposal.

15. Description—Column 2.—On Form 2a (Metals) full commercial description is required for all items. On all other inventory schedules full commercial description is required only for items believed to have commercial value. For other items, the contractor need furnish only such description as is sufficient to enable the contracting officer or customer, as the case may be, to determine the appropriate disposition. This may involve ascertaining whether the items can be used elsewhere in the procurement program, or passing upon scrap recommendations or offers to purchase. The more limited description required for these purposes will ordinarily suffice in the case of most special parts, most special tools, dies, jigs and fixtures, and most work in process. Where the contractor is in doubt as to the extent of the description required, he should consult with the contracting officer or the customer who may accept such description as he thinks satisfactory under all the circumstances. The "Handbook of Standards for Describing Surplus Property" compiled for the disposal agencies of the Government, will be made available by contracting agencies to war contractors. It will be helpful as a guide to the type of information needed for a full commercial description.

16. Sundry Listing of Small Amounts.—Items having a cost of less than \$100 need not be listed separately but may be lumped together under a "sundry" caption with only a general description of the type of items, provided the aggregate amount included does not exceed \$5,000, or 20 percent of the total inventory cost, whichever is less. For this purpose, the term "item" means all the substantially similar articles in the termination inventory at any one location. Contractors are urged to

retain or dispose of all such items at the best price obtainable. In the case of items retained by the contractor this means a price which in his judgment is fair and reasonable and not less than the price he would obtain if the item were offered for sale. His insertion in column 8 of the Inventory Schedules, or in Schedule G of the Settlement Proposal, of amounts in respect of such items will constitute his representation that such amounts are in his judgment the best prices obtainable, as that phrase is used above. No approval of such prices by the customer or the contracting officer will be required.

17. Common Items.—Items which are reasonably usable on other work of the contractor because they are materials, parts, or components, common in nature to both the terminated contract and other work of the contractor, should not be listed, nor should any costs with respect thereto be included in the proposal, to the extent that the items are reasonably applicable to the contractor's other work in accordance with regulations of the contracting agency.

18. Classification of Items.—To aid in selling or storing property which is to be removed from the contractor's plant by the Government, a classified arrangement of the items on the inventory schedules is essential. Except in the case of work in process and of items having no commercial value, like items are required to be listed with like items and, with certain exceptions, a separate sheet must be used for each classification of property at any one location. Instructions for arranging the items on the Inventory Schedules are given in Appendix A hereto and must be closely followed.

19. Submission of Termination Inventory Schedules and Obligation of Government to Remove Property.—These schedules will serve as the contractor's statement showing the material claimed to be termination inventory which, if not otherwise disposed of or covered by agreement, he desires to have removed by the Government. The obligation of the Government under the Contract Settlement Act of 1944 to remove or arrange for storage of any such items will not arise until 60 days, or such other time as may be agreed on, after the Termination Inventory Schedules on which they are listed are received in satisfactory form by the appropriate Government officer in such manner as may be prescribed. In the case of a prime contract, the appropriate Government officer is the contracting officer, or his representative*, administering the contract, or such other representative as the contracting agency may designate. In the case of a subcontract, it is the contracting officer, or his representative*, administering the prime contract under which the subcontract is terminated, or such other representative as the contracting agency may designate. Both the description and classification required by these instructions are necessary for satisfactory form. Schedules will not be deemed unsatisfactory in form with respect to items under \$100 cost merely because they are lumped under a "sundry" caption in accordance with paragraph 16 above, provided the contractor files a supplementary Termination Inventory Schedule or Schedules with respect thereto which are in satisfactory form and meet the following conditions: (1) that they be received by the appropriate Government officer at least 20 days (or such other time as the contracting agency may prescribe) before the obligation of the Government would arise to remove or arrange for storage of the items in the "sundry" caption, (2) that there be listed any such items which have not by that time been disposed of and are to be tendered to the Government, and (3) that such items be described and classified in accordance with paragraphs 15 and 18 above.

20. Option To Submit Unclassified Schedules.—Subject to the conditions stated below, contractors who desire to do so may prepare and submit the Termination Inventory Schedules without classification of the items. This may make possible an earlier submission of the Settlement Proposal and may enable the contractor to avoid classification of items which will in fact be scrapped, retained, or otherwise disposed of without transfer to the Government. Schedules so submitted to the contracting officer or his representative will not, however, be deemed to be satisfactory in form, as that term is used in paragraph 19 above, and the 60-day period there referred to will not commence to run with respect to any of the items included on them until supplementary schedules containing the required classified listing of such items are received by the appropriate Government officer.

*In the case of the Navy Department, Navy Material Inspectors and other designated representatives of the inventory disposition agencies will act as the representatives of the contracting officer for this purpose.

21. **Condition—Column 3.**—For purposes of indicating condition of material, other than work in process, the following code should be used. It requires the combination of a letter and a number in each instance (as E4 or N2).

N—New	1—Excellent
E—Used-reconditioned	2—Good
O—Usable without repairs	3—Fair
R—Used-repairs required	4—Poor

Use the letter "X" without a number, for material considered to have no further value for use as originally intended, but of possible salvage value other than as scrap.

22. **Costs—Columns 5 and 6.**—Any generally recognized basis for costing inventory may be used, providing the system has been regularly in use by the contractor and reasonably reflects his costs. In some cases, particularly where a settlement proposal is filed on the total cost basis, complete costing of inventory schedules may not be possible; in such cases, however, the contractor should give as much cost information as practicable, particularly with respect to items of inventory other than work in process. Where the contractor's system of accounting makes it impracticable to determine unit costs for each item of inventory, it is permissible to enter total costs for all of the items or for groups of similar items. Estimated costs should be given where actual costs are not available.

23. **Scrap Recommendation—Column 7.**—A contractor should make scrap recommendations by inserting an "S" in column 7.

24. **Contractor's Offer, or Proceeds of Authorized Sale.**—The letter "C" inserted after the dollar amount in column 8 will indicate the contractor's offer to retain or sell, and the letter "A" so inserted will indicate a sale (or credit for retention) previously authorized or approved by or on behalf of the contracting officer or customer. In either case quantity should also be shown (on a second line) if less than the full quantity shown in column 4.

25. **Inventory Certificate Required.**—The Inventory Schedules, whether or not filed with the Settlement Proposal, must be accompanied by a certificate in the form set forth in Appendix B hereto. When the procedure authorized in paragraph 20 is followed, the second paragraph of the form of certificate should be omitted.

26. **Government-Owned Property.**—Whenever Government-owned property is listed on the Termination Inventory Schedules, separate sheets should be used, marked to show that the items are Government-owned, and the schedules should be filed with the authorized Government representative as that term is used in paragraph 19 above.

(a) Termination inventory to which the Government has title under fixed-price contracts should be listed on the Termination Inventory Schedules as follows:

(1) Government-owned materials furnished under the terminated contract without cost to the contractor (sometimes called "Government-furnished materials" or "Government-furnished equipment") should, for purposes of property accountability and disposition and not as a part of the settlement proposal, be listed unless the contracting officer directs otherwise.

(2) Where under a fixed-price supply contract, title to materials purchased by the contractor is vested in the Government, such materials should be listed, and cost data supplied to the extent required under paragraph 23 above.

(b) Government-owned facilities should not be listed on the Termination Inventory Schedules unless the contracting agency or the contracting officer so directs.

(c) Although these instructions relate to fixed-price supply contracts, termination inventory under cost-plus-fixed-fee contracts may also be listed on the Termination Inventory Schedules if the contractor desires, and shall be so listed if required by the contracting agency.

SCHEDULE OF ACCOUNTING INFORMATION (Form 3)

27. Form 3 is intended to facilitate accounting reviews and particularly to obviate the necessity of many field examinations which might otherwise be required. It should be filed only once in connection with each termination. It is not required if (1) the proposal is submitted on the Short Form (Form 1a), or (2) filing of Form 3 has been waived by the contracting officer or customer, or (3) the contractor has already filed a Form 3 with the contracting officer or customer in connection

with a previous termination. In the latter case a statement showing any changes in accounting information from that set forth in the previously filed Form 3 will be sufficient.

MISCELLANEOUS INSTRUCTIONS

28. **Cents May Be Omitted.**—In any of the forms, cents may be omitted, either by dropping them entirely or by stating the amount at the nearest dollar, except in the case of the unit cost column (col. 5) of the Inventory Schedules.

29. **Separate Schedules.**—If the space provided for any information called for by any of the forms is insufficient, attach separate supporting schedules.

30. **Number of Copies.**—The number of copies required of any of the forms will be indicated by the Government contracting agency or the contractor from whom notice of termination is received.

31. **Retention of Records.**—Attention is called to Section 19 of the Contract Settlement Act of 1944, which with certain exceptions requires contractors to retain their records and working papers for five years after (1) disposition of termination inventory, or (2) final settlement of the war contract, or (3) termination of hostilities in the present war, whichever is latest. Attention is also called to the provisions of Section 19 of the Act imposing penalties for filing fraudulent claims.

32. **Deliveries to Government may be Required.**—Contractors will be advised, usually in the Notice of Termination, of any portions of the termination inventory which the Government requires to be delivered to it.

33. **Approval of Proposals Filed on Form 1a (Short Form).**—Where a war contractor in good faith approves any settlement proposal properly submitted to him on Form 1a by his immediate subcontractor, the settlement, including credits for retention or disposal of inventory, will be recognized by the Government as final and conclusive for the purpose of settling the terminated prime contract, to the extent the subcontract is allocable to it, unless the contracting agency has previously caused notice to be given to the settling war contractor that such settlements made by him are subject to approval by the Government.

34. **References.**—For guidance in preparing Settlement Proposals reference is made to the termination article of the contract, the Contract Settlement Act of 1944, and the regulations and instructions of various Government contracting agencies, and of the Director of Contract Settlement.

35. **Changes in Instructions.**—These instructions are subject to change by notice published in the Federal Register.

APPENDIX A

Classifying Items on the Inventory Schedules

GENERAL

1. **Why Classification Required.**—Inventory Schedules will not be considered to be in satisfactory form for the purposes of the 60-day period referred to in paragraph 19 of Instructions above unless the items are arranged in general groupings on separate sheets in accordance with the following instructions. This procedure is prescribed in order to facilitate removal from the contractor's plant and disposal of property listed on the Inventory Schedules and to meet the requirements of the disposal agencies. Contractors are urged to follow the instructions carefully in order to avoid delays in clearing their plants.

2. **Classification Distinguished From Description.**—These instructions concerning classification apply solely to the arrangement of items on separate inventory sheets and in no way affect the requirements for description of the items, set forth in paragraph 15.

3. When Classification Required.

On Form 2a—Metals —Classification required for all items.

On Form 2c—Work in Process —No classification required.

On Form 2b—Raw Materials (other than metals); Purchased Parts; Finished Components; Finished Product; Miscellaneous. —Classification required for items believed to have commercial value; items having no commercial value may be placed in a single classification designated "No Commercial Value."

On Form 2d—Dies, Jigs, Fixtures, etc., and Special Tools. —Classification required for all items.

Description is, however, required in all instances in accordance with paragraph 15 of the Instructions.

4. **Instructions for Classifying.**—For metals (in mill product form) and raw materials, list items of one material with items of the same material. For all other products, list like items with like items. Each group will then comprise a separate classification of property. See examples below.

5. **Write in the top right-hand corner of each inventory sheet** opposite "Property Classification" the name of the classification for which the sheet is used. For example, in the case of Metals the name of the metal; in the case of Raw Materials (other than metals), or of Parts, Finished Components, Finished Product, or Miscellaneous, the name by which the material or article is commonly known in the trade.

6. **Use a new sheet for each such separate general classification.** In the case of small inventories or classifications having only a few items, however, several different classifications may be put on the same page, provided they are separated by at least three spaces, and the name of each classification is written in the top right-hand corner of the form.

7. **Option To Submit Unclassified Schedules.**—See paragraph 20 of the Instructions concerning filing inventory schedules without classification of the items, and the effect thereof on any obligation of the Government under the Contract Settlement Act of 1944 to remove or arrange for storage of the items listed.

INDIVIDUAL FORMS

8. **On Form 2a—Metals** (in mill product form, excluding castings and forgings).

List metals in raw or primary form as furnished by the mill and on which there has been no subsequent fabricating operation. Do not include castings and forgings. They are to be listed on Form 2b. Except where there are only a few items, use a new sheet or series of sheets for each type of metal, and write the name of the metal or alloy in the space provided in the upper right-hand corner of the form. Examples are:

Alloy Steel	Copper	Aluminum
Carbon Steel	Free Cutting Brass	Silver
Stainless Steel	Manganese Bronze	Tin

In addition, on the sheets for any such metal, list like forms of the metal or alloy together in sequence. For example, on the sheet or sheets used to list Carbon Steel, group together all the strip, then follow with the sheets, then the bar stock, etc.

9. **On Form 2b—Raw Materials (other than Metals); Purchased Parts; Finished Components; Finished Product; and Miscellaneous.**

The term "Raw Materials" is here used to include materials in primary form. Examples of the many different general classifications of raw or primary materials (other than metals) include:

Chemicals	Lumber	Textiles
Pulp and paper	Hides and skins	Cotton
Paper board	Leather	Kapok
Plastics (primary forms)	Shoe cut stock	Wool
Oils, fats, waxes	Cement	Hair
Rubber	Cork	Glass

Examples of some of the large number of general classifications of parts, components, finished product, or miscellaneous include:

Engines and turbines	Bearings
Compressors and pumps	Valves
Insulated wire and cable	Surgical instruments
Nuts and bolts	Electric motors
Conveyors	Drugs
Fans and blowers	Ignition equipment

Note that on this form items having no commercial value may be placed in a single classification designated "No Commercial Value," and no further classification of such items is required. For items deemed to have commercial value, use a new sheet for each classification (except as permitted under paragraph 6 above). Insert the name of the classification in the top right-hand corner of the inventory form and arrange the items falling under that classification in sequence under separate sub-headings. For example, on the sheet or sheets used to list Chemicals, group separately all Acids, all Alkalies, all Resins, etc. Under the general classification of Insulated Wire and Cable, group separately all Asbestos-Insulated Copper Wire, all Rubber-Insulated Copper Wire, all Magnet Wire, etc. On the sheets used for Drugs, group separately all Antitoxins, all Vaccines, all Strychnine Derivatives, all Morphine Derivatives, etc.

10. On Form 2c—Work in Process.

No classification of items is required on this schedule. However, a description must be given sufficient to enable the Government representative to identify the property and determine the appropriate method of disposal. Finished components should not be listed on this form but on Form 2b. Other materials which have not lost their identity through whole or partial assembly and which are deemed to have a further commercial use should similarly be listed on Form 2b.

11. On Form 2d—Dies, Jigs, Fixtures, etc., and Special Tools.

Note that on this form items having no commercial value may be placed in a single classification designated "No Commercial Value." Such items require no further classification. For items deemed to have commercial value, general classifications may be limited to the following:

Dies Jigs Gauges Fixtures Special tools

Use a new sheet for each such general classification (except as permitted under paragraph 6 above). Insert the name of the classification in the top right-hand corner, and list the items falling under that classification in sequence. For example, on the sheet used to list Dies, group separately all Extruding Dies, all Forging Dies, all Forming Dies, etc. On the sheet used for Gauges, group separately all Thread Gauges, all Radius Gauges, all Depth Gauges, etc.

12. If perishable tools are charged to indirect factory expense, they may not also be included in termination inventory. Where, however, indirect factory expense is adjusted to exclude such a charge, or where the perishable tools are charged directly to the contract, they should be included in the inventory, but should be listed on Form 2b and not 2d.

13. **List separately when in doubt.** Extreme care should be used to list only very similar items together as a single classification. If doubt exists as to the proper classification of any item, list that item separately and insert the commonly accepted trade name at the top right-hand corner of the page. Where forms overlap, the contractor may use the form best suited, except that finished components should be put on Form 2b and not on Form 2c.

APPENDIX B (See Instructions, par. 25)

Form of Termination Inventory Schedule Certificate

The contractor hereby certifies that the attached Termination Inventory Schedules, pages _____ to _____, inclusive, have been prepared in accordance with applicable instructions; that the inventory described therein is allocable to the designated contract and is located at the places specified; that the quantities are not in excess of the reasonable quantitative requirements of the terminated portion of the contract; and that the prices shown in column 8 (contractor's offer, or proceeds of authorized sale) are fair and reasonable and comply with Government price regulations.

The attached Schedules constitute the contractor's statement showing the materials claimed to be termination inventory which, if not otherwise disposed of, the contractor desires to have removed by the Government within 60 days from receipt hereof by the Government, or such shorter period as may be prescribed under the Contract Settlement Act of 1944, or such other period as may be agreed upon. Subject to such prior disposition, title to such materials is hereby tendered to the Government and is warranted to be free and clear of all liens and encumbrances.

Upon request of the Government, the contractor (will) (will not) negotiate to store at the Government's expense all or part of the inventory listed in the attached Schedules. (Strike out one.)

The supervisory accounting official is:

(Signature)

(Title)

(Name of contractor or subcontractor)

By _____
(Name of authorized officer)

(Title)

(Date)

These Instructions have been approved by the Bureau of the Budget in accordance with the Federal Reports Act of 1942.

SETTLEMENT PROPOSAL

For Use by Prime Contractor or Subcontractor Under Terminated Fixed-Price War Supply Contract

This proposal applies to (check one):

- ☐ A prime contract with the Government, or
☐ Subcontract or purchase order No(s).

with

(Name of contractor who sent Notice of Termination)

(Address)

If moneys payable under the contract have been assigned, give name and address of assignee

Is Form 3 (Schedule of Accounting Information) attached? If not, explain

Yes ☐ No ☐

(Company)

(Street address)

(City)

(State)

Govt. Agency

Govt. Prime Contract No.

Contractor's Reference No.

Effective date of termination

This is proposal No. _____ under this termination and is deemed to be
☐ Interim, or ☐ final. (Check one.)

Status of Contract or Order AT EFFECTIVE DATE OF TERMINATION

Products covered by terminated contract or purchase order		Finished		Unfinished or not commenced		Total covered by contract or order
		Previously shipped and invoiced	On hand Payment to be received through invoice	Included in this proposal	To be completed (Partial termination only)	
	Quantities					
	\$					
	Quantities					
	\$					
	Quantities					
	\$					

PROPOSED SETTLEMENT

No.	Item	Use Columns 1 and 2 only when previous proposal has been filed (See instructions)		Total proposed to date	Leave blank
		Total previously proposed	Increase or (decrease) by this proposal		
(1)		(2)	(3)	(4)	(5)
1.	Metals (from Form 2a)				
2.	Raw materials (other than metals) (from Form 2b)				
3.	Purchased parts (from Form 2b)				
4.	Finished components (from Form 2b) (See Sch. A)				
5.	Miscellaneous (from Form 2b)				
6.	Work in process (from Form 2c) (See Sch. A)				
7.	Dies, jigs, fixtures and special tools (Form 2d)				
8.	Other costs (from Schedule B)				
9.	General and administrative expenses (from Sch. C)				
10.	TOTAL (Items 1 to 9, inclusive)				
11.	Profit (explain in Schedule D)				
12.	Settlement expenses (from Schedule E)				
13.	TOTAL (Items 10 to 12 inclusive)				
14.	Settlements with subcontractors (from Schedule F)				
15.	Acceptable finished product (from Form 2b)				
16.	Allowance for interest				
17.	TOTAL (Items 13 to 16, inclusive)				
18.	Disposal credits (from Schedule G)				
19.	Partial advance, or program payments (See Sch. H)				
20.	TOTAL CREDITS (Items 18 and 19)				
21.	NET SETTLEMENT (Item 17 less Item 20)				

CERTIFICATE

The undersigned, individually and as an authorized representative of the contractor, certifies that he has examined this Settlement Proposal and that, to the best of his knowledge and belief: (1) AS TO CONTRACTOR'S OWN CHARGES—The Proposed Settlement (exclusive of charges set forth in Item 14) and supporting schedules and explanations have been prepared from the books of account and records of the contractor in accordance with recognized commercial accounting practices; they include only those charges allocable to the terminated portion of claims against the United States or an agency thereof; and the charges so stated are fair and reasonable. (2) AS TO SUBCONTRACTORS' CHARGES—(a) The contractor has examined, or caused to be examined, to an extent it considers adequate in the circumstances, the claims of its immediate subcontractors (exclusive of claims filed against such immediate subcontractors by their subcontractors); (b) the settlements on account of immediate subcontractors' own charges are fair and reasonable, said charges are allocable to the terminated portion of this contract and said settlements were negotiated in good faith and are not more favorable to its immediate subcontractors than those which the contractor would make if reimbursement by the Government were not involved; (c) the contractor has received from all its immediate subcontractors appropriate certificates with respect to their claims, which certificates, if the claims are for more than \$1,000, are substantially in the form of this certificate; and (d) the contractor has no knowledge leading it to doubt (5) the reasonableness of the settlements with more remote subcontractors or (6) that the charges for them are allocable to this contract. Upon receipt by the contractor of amounts covering settlements with its immediate subcontractors, the contractor will pay or credit them promptly with the amounts so received, to the extent that it has not previously done so. The subcontractor as used above includes suppliers.

The undersigned certifies that to the best of his knowledge and belief the statements with respect to accounting matters made in the above Certificate are true.

(Supervisory accounting official)

(Title)

By

(Name of contractor)

(Authorized official)

(Title)

(Date)

When the space provided for any information is insufficient, attach separate supporting schedules.

SCHEDULE A**ANALYSIS OF INVENTORY COST****(ITEMS 4 and 5)**

Furnish the following information (unless not reasonably available) in respect of inventories of finished components and work in process included in this proposal:

	Total Direct Labor	Total Direct Materials	Total Indirect Expenses	TOTAL
Finished Components				
Work in Process				

SCHEDULE B**OTHER COSTS****(ITEM 8)**

Item	Explanation	Amount	Leave Blank

SCHEDULE C**GENERAL AND ADMINISTRATIVE EXPENSES****(ITEM 9)**

Detail of expenses	Method of allocation	Amount	Leave Blank

SCHEDULE D**PROFIT****(ITEM 11)**

Explanation:	Amount	Leave Blank

SCHEDULE E**SETTLEMENT EXPENSES****(ITEM 12)**

Item	Explanation	Amount	Leave Blank

SCHEDULE F**SETTLEMENTS WITH IMMEDIATE SUBCONTRACTORS AND SUPPLIERS****(ITEM 14)**

Name and address of Subcontractor	Brief description of product canceled	Amount of Settlement	Leave Blank

SCHEDULE G**DISPOSAL OR OTHER CREDITS****(ITEM 18)**

Description	Amount	Leave Blank

(If practicable, show separately amount of disposal credits applicable to acceptable finished product included in Item 18)

SCHEDULE H**PARTIAL, ADVANCE OR PROGRESS PAYMENTS****(ITEM 19)**

Date	Explanation	Amount	Leave Blank

When the space provided for any information is insufficient, attach separate supporting schedules.

SHORT FORM SETTLEMENT PROPOSAL

For Use by Prime Contractor or Subcontractor Under Terminated Fixed-Price War Supply Contract
TO BE USED ONLY WHERE YOU PROPOSE TO RETAIN OR DISPOSE OF ALL INVENTORY (ITEMS 1 AND 2) AND AMOUNT
OF YOUR NET PROPOSAL (ITEM 5) IS LESS THAN \$1,000

This proposal applies to (check one):

☐ A prime contract with the Government, or

☐ Subcontract or purchase order No(s) _____

with _____
(Name of contractor who sent Notice of Termination)

(Address)

(Company)

(Street address)

(City)

(State)

If moneys payable under the contract have been assigned, give name
and address of assignee _____

Govt. Agency _____

Govt. Prime Contract No. _____

Contractor's Reference No. _____

Effective date of termination _____

Status of Contract or Order AT EFFECTIVE DATE OF TERMINATION

Products covered by terminated contract or purchase order		Finished			Unfinished or not accounted		Total covered by contract or order
		Previously shipped and invoiced	On hand		To be completed (Partial terminations only)	Not to be completed	
			Payment to be received through invoicing	Included in this proposal			
	Quant.						
	\$						
	Quant.						
	\$						
	Quant.						
	\$						

PROPOSED SETTLEMENT

(Include only items allocable to terminated portion of contract)

1. Charge for acceptable finished product not covered by invoicing \$ _____
2. Charge for work in process, raw materials, etc., on hand \$ _____
3. Other charges, including settlement expenses, settlements with subcontractors, etc. \$ _____
4. TOTAL CHARGES \$ _____
5. Deduct—Your offer for entire inventory included in items 1 and 2 (including proceeds of any sales) \$ _____
6. NET SETTLEMENT \$ _____

Give below a brief explanation of how you arrived at the amounts shown in items 2, 3, and 5. State the amount of profit and the allowance for interest included in this proposal. State briefly the nature of the inventory, how much of it was sold and how much retained, and the manner in which sale prices and the value of inventory retained were determined. You should retain all papers and records relating to the proposal for possible examination by your customer or the contracting officer.

CERTIFICATE

The undersigned certifies that the above Proposed Settlement includes only charges allocable to the terminated portion of the contract or purchase order, that the total charges (Item 4) and the deduction for the inventory retained or disposed of (Item 5) are fair and reasonable, and that this proposal has been prepared with knowledge that it will, or may, be used directly or indirectly as the basis for settlement of a claim or claims against the United States or an agency thereof. Other charges (Item 3) include an allowance for interest on this claim to 60 days from the date hereof, and no additional interest will be claimed unless a revised settlement proposal is submitted.

(Name of your company)

By _____

(Signature)

(Date)

(Title)

When the space provided for any information is insufficient, use reverse of this sheet or attach a separate schedule
(SEE INSTRUCTIONS ON REVERSE SIDE)

INSTRUCTIONS

1. This settlement proposal should be submitted to the contracting officer, if you are a prime contractor, or to your customer, if you are a subcontractor.

2. You should review any provisions of your contract relating to termination. The Contract Settlement Act of 1944 provides for the payment of fair compensation for termination of war contracts, and regulations of Government contracting agencies contain detailed information relating to termination claims. Your claim for fair compensation may be prepared on a cost basis, or on the basis of a percentage of the contract price representing the estimated percentage of completion of work under the terminated contract, or may be calculated by any other method that will provide fair compensation for the preparations made and work done for the terminated portion of the contract, including a reasonable profit on such preparations and work.

3. Generally, if your settlement proposal is prepared on a cost basis, it may include, under items 2 and 3, the following:

(a) *Costs.*—Costs incurred which are reasonably necessary and are properly allocable to the terminated portion of your contract under recognized commercial accounting practices, including direct and indirect manufacturing, selling and distribution, administrative, and other costs and expenses incurred.

(b) *Settlements with Subcontractors.*—Reasonable settlements of claims of subcontractors allocable to the terminated portion of your contract.

(c) *Settlement Expenses.*—Reasonable costs of preserving and protecting termination inventory in your possession and of settling your claim.

(d) *Profit.*—A reasonable profit with respect to the preparations you have made and work you have actually done for the terminated portion of your contract. No profit should be included with respect to work which has not been done.

4. If you use this form, your net proposal must be less than \$1,000, and you must retain or dispose of all the termination inventory at the best price obtainable. The Government may examine your books and records relative to this proposal, and if you are a subcontractor, your customer must be satisfied with respect to it. Acceptance of this proposal will constitute approval of the price which you offer for the entire inventory, including the proceeds of any sales which you have made.

5. Reference is made to Section 19 of the Contract Settlement Act of 1944 relating to the retention of records and working papers, and to any similar provisions of your contract, and to the provisions of Section 19 of the Act imposing penalties for the filing of fraudulent claims.

SETTLEMENT PROPOSAL (TOTAL COST BASIS)

For Use by Prime Contractor or Subcontractor Under Terminated Fixed-Price War Supply Contract

This proposal applies to (check one):

☐ A prime contract with the Government, or☐ Subcontract or purchase order No. (x)with _____
(Name of contractor who sent Notice of Termination)

(Address)

If moneys payable under the contract have been assigned, give name
and address of assignee _____

Is Form 3 (Schedule of Accounting Information)

attached? If not, explain _____ Yes ☐ No ☐

(Company)

(Street address)

(City)

(State)

Govt. Agency _____

Govt. Prime Contract No. _____

Contractor's Reference No. _____

Effective date of termination _____

This is proposal No. _____ under this termination and is deemed to be
☐ interim, or ☐ final. (Check one.)

Status of Contract or Order AT EFFECTIVE DATE OF TERMINATION

Products covered by terminated contract or purchase order		Finished		Unfinished or not commenced		Total covered by contract or order
		Previously shipped and invoiced	On hand	Subsequently completed and invoiced (See note below)	Not to be completed	
	(a)	(b)	(c)	(d)	(e)	(f)
Quota						
Quota						
Quota						
Quota						

Note.—Column (f) above should only be used in the event of a partial termination, in which case the total not reported below should be accumulated to date of completion of the terminated portion of the business and the debits for finished product (Items 1 to 10) should be the contract price at finished product in column (a), (b), and (c) above.

PROPOSED SETTLEMENT

No.	Item	Use Columns 2 and 3 only where previous proposal has been filed (See Instructions)		Total proposed to date	Leave blank
		Total previously proposed	Increase or (Decrease) by this proposal		
	(1)	(2)	(3)	(4)	(5)
1.	Direct material				
2.	Direct labor				
3.	Indirect factory expense (from Schedule A)				
4.	Dies, jigs, fixtures and special tools (Form 2d)				
5.	Other costs (from Schedule B)				
6.	General and administrative expenses (from Sch. C)				
7.	TOTAL (Items 1 to 6, inclusive)				
8.	Profit (explain in Schedule D)				
9.	TOTAL (Items 7 and 8)				
10.	Deduct—Finished product invoiced or to be invoiced (See note above)				
11.	TOTAL (Item 9 less Item 10)				
12.	Settlement expenses (from Schedule E)				
13.	TOTAL (Items 11 and 12)				
14.	Settlements with subcontractors (from Sch. F)				
15.	Allowance for interest				
16.	TOTAL (Items 13 to 15, inclusive)				
17.	Disposal credits (from Schedule G)				
18.	Partial, advance, or progress payment (from Sch. H)				
19.	TOTAL CREDITS (Items 17 and 18)				
20.	NET SETTLEMENT (Item 16 less Item 19)				

Note.—Inventory schedule (Forms 2a, 2b, 2c, and 2d) applicable to inventories allowable to this contract and on hand at date of termination used in Item 10. See Instructions.

CERTIFICATE

The undersigned, individually and as an authorized representative of the contractor, certifies that he has examined this Settlement Proposal and that, to the best of his knowledge and belief: (1) AS TO CONTRACTOR'S OWN CHARGES—The Proposed Settlement (exclusive of charges set forth in Item 14) and supporting schedules and explanations have been prepared from the books of account and records of the contractor in accordance with recognized commercial accounting practices; they include only those charges allocable to the terminated contract; they have been prepared with knowledge that they will, or may, be used directly or indirectly as the basis of settlement of a claim or claims against the United States or an agency thereof; and the charges as stated are fair and reasonable. (2) AS TO SUBCONTRACTORS' CHARGES—(a) The contractor has examined, or caused to be examined, to an extent it considers adequate in the circumstances, the claims of its immediate subcontractors (inclusive of claims filed against work immediate subcontractors by their subcontractors); (b) the settlements on account of immediate subcontractors' own charges are fair and reasonable, said charges are allocable to the terminated portion of this contract and said settlements were negotiated in good faith and are not more favorable to its immediate subcontractors than those which the contractor would make if reimbursement by the Government were not involved; (c) the contractor has received from all its immediate subcontractors appropriate certificates with respect to their claims, which certificates, if the claims are for more than \$1,000, are substantially in the form of this certificate; and (d) the contractor has no knowledge leading it to doubt (i) the reasonableness of the settlements with more remote subcontractors or (ii) that the charges for them are allocable to this contract. Upon receipt by the contractor of amounts covering settlements with its immediate subcontractors, the contractor will pay or credit them promptly with the amounts so received, to the extent that it has not previously done so. The term subcontractor as used above includes suppliers.

The undersigned certifies that to the best of his knowledge and belief the statements with respect to accounting matters made in the above Certificate are true.

(Supervisory accounting official)

By _____

(Name of contractor)

(Authorized official)

(Title)

(Title)

(Date)

When the space provided for any information is insufficient, attach separate supporting schedules.

SCHEDULE A		INDIRECT FACTORY EXPENSE		(ITEM 8)	
Detail of expenses	Method of Allocation	Amount	Leave Blank		

SCHEDULE B		OTHER COSTS		(ITEM 9)	
Item	Explanation	Amount	Leave Blank		

SCHEDULE C		GENERAL AND ADMINISTRATIVE EXPENSES		(ITEM 10)	
Detail of expenses	Method of Allocation	Amount	Leave Blank		

SCHEDULE D		PROFIT		(ITEM 11)	
Explanation:		Amount	Leave Blank		

SCHEDULE E		SETTLEMENT EXPENSES		(ITEM 12)	
Item	Explanation	Amount	Leave Blank		

SCHEDULE F			SETTLEMENTS WITH IMMEDIATE SUBCONTRACTORS AND SUPPLIERS		(ITEM 14)	
Name and address of Subcontractor	Brief description of product canceled		Amount of Settlement	Leave Blank		

SCHEDULE G		DISPOSAL OR OTHER CREDITS		(ITEM 17)	
Description		Amount	Leave Blank		

(If practicable, show separately amount of disposal credits applicable to acceptable finished product reported on Form 20)

SCHEDULE H		PARTIAL ADVANCE OR PROGRESS PAYMENTS		(ITEM 18)	
Date	Explanation	Amount	Leave Blank		

When the space provided for any information is insufficient, attach separate supporting schedules.

TERMINATION INVENTORY SCHEDULE—METALS (In Mill Product Form)

(Use Form 2b for castings and forgings)

Form 2a
OFFICE OF CONTRACT SETTLEMENT

This schedule applies to (check one):

☐ A prime contract with the govt., or ☐ Subcontract(a) or purchase order(s)

with

(Name of contractor who sent Notice of Termination)

(Address)

for

(Product covered by purchase order or order)

Govt. Prime Contract No.

Contractor's Ref. No.

Property Classification

(See Instructions)

(Company)

(Street address)

(City)

Location of material

(State)

Leave Blank	Item No.	Form, Shape, Rolling treatment, Where applicable, type of edge (Example: 3/8 rolled steel, Ck flat sheets, hot rolled, tubing in straight location, etc. etc.)	Heat treatment, Temper, Hardness, Finish, etc. (Example: Annealed and pickled, 1/4 hard, polished, etc.)	Specifications, and Alloy or other Variable Designation in the Specification (Example: 90-T-951-D B16-42, Alloy 7, Grade B)	Dimensions			Quantity	Unit of Measure	COST		Scrap recommended	Contractor's offer (C), or Proceeds of authorized sale (A)*	Leave Blank	
					Thickness	Width	Length			Unit	Total				
							ft.								in.
(1)	(2a)	(2b)	(2c)	(2d)	(2e)	(2f)		(3)	(4)	(4a)	(5)	(6)	(7)	(8)	

*Use col. 8 for contractor's offer and for proceeds of an authorized sale. Indicate former by "C" and latter by "A" after dollar amount. Show quantity (on a second line) if less than col. 4.

Page of pages

NOTE.—See Instructions, par. 25, concerning certificate.
See Instructions, par. 26, concerning Govt. owned property.

☐ **RAW MATERIALS**
(Other Than Metals)☐ PURCHASED PARTS

☐ FINISHED COMPONENTS

☐ FINISHED PRODUCT

☐ MISCELLANEOUS

This schedule applies to (check one):

☐ A prime contract with the govt., or ☐ Subcontract(s) or purchase order(s)

with

(Name of contractor who sent Notice of Termination)

CAUTION

for

Govt. Prime Contract No. _____

Contractor's Ref. No. _____

Property Classification
(See Instructions)

©Cengage

(Street address)

(C&P)

Location of material

170

[illegible]

* Use col. 8 for contractor's offer and for proceeds of an authorized sale. Indicate former by "C" and latter by "A" after dollar amount. Show quantity (on a second line) if less than col. 4.

Page _____ of _____ pages.

NOTE.—See Instructions, par. 25, concerning certificate.

See Instructions, par. 26, concerning Govt. owned property.

APPENDIX B - EXHIBIT XII-F

- 82b -

Regraded Unclassified

(Date) Location of material

NOTE.—See Instructions, par. 25, concerning certificate.
See Instructions, par. 26, concerning Govt. owned property.

Form approved.
Budget Bureau No. 17-1008.

SCHEDULE OF ACCOUNTING INFORMATION

Form 3
OFFICE OF CONTRACT SETTLEMENTS

This proposal applies to (check one):

- ☐ A prime contract with the Government, or
☐ Subcontract or purchase order No.(s) _____

with _____

(Name and address of contractor who sent Notice of Termination)

(Company)

(Street address)

(City)

(State)

Government Agency _____

Govt. Prime Contract No. _____

Contractor's Reference No. _____

Effective date of termination _____

1. Furnish name, title, address, and telephone number of an individual in your organization from whom additional information may be requested on questions relating to (1) accounting matters; (2) property disposal:

(1) _____

(2) _____

2. Are the accounts of the contractor subject to regular periodic examination by independent public accountants? Yes ☐ No ☐.

3. Furnish the name and address of any accountants who have reviewed or assisted in the preparation of the attached proposal.

4. Furnish the name and address of any governmental agency which has reviewed your accounts in connection with a prior settlement proposal.

5. Have there been any significant deviations from your regular accounting procedures and policies in arriving at the costs set forth in the attached proposal? Yes ☐ No ☐. If YES, explain briefly.

6. Were the detailed cost records used in preparing this proposal controlled by and in agreement with your general books of account? Yes ☐ No ☐.

7. Were inventory quantities based on a physical count as of the date of termination? Yes ☐ No ☐. If NO, explain exceptions.

8. If this settlement proposal is based on standard costs and such costs are in excess of actual, has proper adjustment thereof for any significant variations been made? Yes ☐ No ☐. If NO, explain.

9. Does this proposal include charges for major inventory items and claims of subcontractors common to this terminated contract and other work of the contractor? Yes ☐ No ☐. If YES, furnish information as to the method used in allocating amounts to the terminated portion of this contract.

10. Explain briefly your method of pricing inventories, indicating whether material handling cost has been included in charges for materials.

11. Are any parts, materials, or finished product, known to be defective, included in the inventory? Yes ☐ No ☐. If YES, explain.

12. Have any charges been included in this proposal in respect of severance, dismissal, or separation pay? Yes ☐ No ☐. If YES, furnish brief explanation and estimates of amounts included.

13. Does this proposal include any element of profit to the contractor or a related organization, other than profit set forth separately in the proposal or included in the contract price at which acceptable finished product, if any, is included in the proposal? Yes ☐ No ☐. If YES, explain briefly.

14. Describe briefly the nature of indirect expense items included in inventory costs (see Schedule A, Form 1); and explain your method of allocation used in preparing this proposal, including if practicable, the rates used and the period of time upon which they are based.

15. Do the costs set forth in the attached proposal include provisions for any reserves other than normal depreciation reserves? Yes ☐ No ☐. If YES, list such reserves.

CERTIFICATE

I hereby certify that, to the best of my knowledge and belief, the above statements are true and correct.

(Contractor)

(Supervisory accounting official)

(Title)

(Date)

Use reverse side or attach schedule for required information

FORM OCS-R1 (9-15-44)		OFFICE OF CONTRACT SETTLEMENT	
MONTHLY SUMMARY REPORT ON CONTRACT TERMINATIONS AND SETTLEMENTS (PRIME CONTRACTS ONLY)		BUDGET BUREAU NO. 17-2011 APPROVAL EXPIRES SEPTEMBER 30, 1945	
		REPORTING DEPARTMENT	
		TECHNICAL SERVICE	
		DATE TRANSMITTED	
ITEM (1)	CORRECTIONS PREVIOUS REPORT? MONTH (2)	CUMULATIVE THROUGH OR (Status as of) MONTH (3)	FOR MONTH OF MONTH (4)
I. FIXED PRICE CONTRACT TERMINATIONS			
A. NUMBER			
1. TERMINATIONS EFFECTED			
2. CLAIMS FILED			
3. TERMINATIONS "AWAITING CLAIM"			XXXXXXX
4. SETTLEMENTS "WITHOUT CLAIM"			XXXXXXX
5. SETTLEMENTS "WITH CLAIM"			
6. CLAIMS AWAITING SETTLEMENT			XXXXXXX
(REPORT IN THOUSANDS OF DOLLARS)			
B. CONTRACT PRICE OF ITEMS CANCELED			
1. TERMINATIONS EFFECTED			
2. CLAIMS FILED			
3. TERMINATIONS "AWAITING CLAIM"			XXXXXXX
4. SETTLEMENTS "WITHOUT CLAIM"			XXXXXXX
5. SETTLEMENTS "WITH CLAIM"			
6. CLAIMS AWAITING SETTLEMENT			XXXXXXX
C. AMOUNT OF CLAIM			
1. CLAIMS FILED			
2. CLAIMS SETTLED			
3. CLAIMS AWAITING SETTLEMENT			XXXXXXX
D. AMOUNT OF SETTLEMENT			
1. GROSS SETTLEMENT			
2. DISPOSAL CREDITS			
3. NET SETTLEMENT			
4. COST OF PROPERTY ACQUIRED IN SETTLEMENT			
II. COST-PLUS-A-FEE CONTRACT TERMINATIONS			
A. NUMBER			
1. TERMINATIONS EFFECTED			
2. TERMINATIONS SETTLED			
3. TERMINATIONS AWAITING SETTLEMENT			XXXXXXX
(REPORT IN THOUSANDS OF DOLLARS)			
B. ESTIMATED COST OF ITEMS CANCELED			
1. TERMINATIONS EFFECTED			
2. TERMINATIONS SETTLED			
3. TERMINATIONS AWAITING SETTLEMENT			XXXXXXX
This column should contain the corrections (plus or minus) to the previous month's cumulative total so that where the figures in Column (4) for this report are added to the corrected cumulative total in the previous report the same will agree with the figures in Column (3).			
REPORTING OFFICIAL _____ SIGNATURE _____			

TIME LAPSE REPORT OF TERMINATION CLAIMS SETTLED
(FIXED PRICE PRIME CONTRACTS)

TECHNICAL SERVICE

DATE TRANSMITTED

ITEMS BY TIME INTERVALS (1)	NUMBER		(REPORT IN THOUSANDS OF DOLLARS)					
			CONTRACT PRICE OF ITEMS CANCELED		AMOUNT CLAIMED		AMOUNT SETTLED FOR	
	CUMULATED THROUGH	FOR MONTH OF	CUMULATED THROUGH	FOR MONTH OF	CUMULATED THROUGH	FOR MONTH OF	CUMULATED THROUGH	FOR MONTH OF
	MONTH (2)	MONTH (3)	MONTH (4)	MONTH (5)	MONTH (6)	MONTH (7)	MONTH (8)	MONTH (9)
TERMINATION CLAIMS SETTLED - TOTAL								
ELAPSED TIME FROM EFFECTIVE DATE OF TERMINATION								
3 MONTHS OR UNDER								
4 THROUGH 6 MONTHS								
7 THROUGH 12 MONTHS								
OVER 12 MONTHS								
ELAPSED TIME FROM DATE OF CLAIM								
3 MONTHS OR UNDER								
4 THROUGH 6 MONTHS								
7 THROUGH 12 MONTHS								
OVER 12 MONTHS								
CORRECTIONS TO PREVIOUS REPORT¹								
TERMINATION CLAIMS SETTLED - TOTAL		XXXX		XXXX		XXXX		XXXX
ELAPSED TIME FROM EFFECTIVE DATE OF TERMINATION								
3 MONTHS OR UNDER		XXXX		XXXX		XXXX		XXXX
4 THROUGH 6 MONTHS		XXXX		XXXX		XXXX		XXXX
7 THROUGH 12 MONTHS		XXXX		XXXX		XXXX		XXXX
OVER 12 MONTHS		XXXX		XXXX		XXXX		XXXX
ELAPSED TIME FROM DATE OF CLAIM								
3 MONTHS OR UNDER		XXXX		XXXX		XXXX		XXXX
4 THROUGH 6 MONTHS		XXXX		XXXX		XXXX		XXXX
7 THROUGH 12 MONTHS		XXXX		XXXX		XXXX		XXXX
OVER 12 MONTHS		XXXX		XXXX		XXXX		XXXX
¹ These columns should contain the corrections (plus or minus) to the previous month's cumulative totals so that when the appropriate figures in Columns (3), (5), (7) and (9) for this report are added to the corrected cumulative totals in the previous report the sums will agree with the figures in Columns (2), (4), (6) and (8).								
REPORTING OFFICIAL _____ SIGNATURE _____								

APPENDIX B - EXHIBIT VIII-B

FORM **OCS-R3**
(9-15-44)

OFFICE OF CONTRACT SETTLEMENT

**TIME LAPSE REPORT FOR TERMINATION CLAIMS
AWAITING SETTLEMENT AND TERMINATIONS AWAITING CLAIMS
(FIXED PRICE PRIME CONTRACTS)
STATUS AS OF _____**

BUDGET BUREAU NO. 17-2013
APPROVAL EXPIRES SEPTEMBER 30, 1945

REPORTING DEPARTMENT _____

TECHNICAL SERVICE _____

DATE TRANSMITTED _____

ITEMS BY TIME INTERVALS (1)	NUMBER OF CLAIMS OR TERMINATIONS (2)	CONTRACT PRICE OF ITEMS CANCELED (Thousands) (3)	AMOUNT CLAIMED (Thousands) (4)	PARTIAL PAYMENTS	
				NUMBER (5)	AMOUNT (Thousands) (6)
TERMINATION CLAIMS AWAITING SETTLEMENT - TOTAL					
ELAPSED TIME FROM EFFECTIVE DATE OF TERMINATION					
3 MONTHS OR UNDER					
4 THROUGH 6 MONTHS					
7 THROUGH 12 MONTHS					
OVER 12 MONTHS					
ELAPSED TIME FROM DATE OF CLAIM					
3 MONTHS OR UNDER					
4 THROUGH 6 MONTHS					
7 THROUGH 12 MONTHS					
OVER 12 MONTHS					
TERMINATIONS AWAITING CLAIMS - TOTAL					
ELAPSED TIME FROM DATE OF TERMINATION					
3 MONTHS OR UNDER					
4 THROUGH 6 MONTHS					
7 THROUGH 12 MONTHS					
OVER 12 MONTHS					
<div style="display: flex; justify-content: space-between;"> REPORTING OFFICIAL _____ SIGNATURE _____ </div>					

APPENDIX B - EXHIBIT VIII-C

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A P P E N D I X C

STATISTICAL TABLES

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3. NAVY DEPARTMENT - War Contract Terminations and Settlements, Prime Contracts, Quarter Ending September 30, 1944.
4. MARITIME COMMISSION - War Contract Terminations and Settlements, Prime Contracts, Quarter Ending September 30, 1944.
5. PROCUREMENT DIVISION - TREASURY DEPARTMENT - War Contract Terminations and Settlements, Prime Contracts, Quarter Ending September 30, 1944.
6. DEFENSE PLANT CORPORATION - RECONSTRUCTION FINANCE CORPORATION - War Contract Terminations and Settlements, Prime Contracts, Quarter Ending September 30, 1944.

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9. PERCENTAGE DISTRIBUTION OF AMOUNT OF WAR SUPPLY CONTRACTS, By Geographic Region and Status, Thru July 1944.
10. NUMBER, AMOUNT OF CLAIM, AND PERCENTAGE DISTRIBUTIONS FOR PRIME FIXED-PRICE WAR CONTRACT TERMINATION CLAIMS SETTLED, by Size of Claim and Lapse of Time from Effective Date of Termination, January - July 1944.

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CONTRACTING AGENCY REPORTS

Tables 2 through 6 give the information on contract terminations and settlements as reported to the Office of Contract Settlement on Form OCS-R1 (Appendix B, Exhibit XIII) by the War Department, Navy Department, Maritime Commission, Treasury Department (Procurement Division), and Reconstruction Finance Corporation, (Defense Plant Corporation). Table 1 is a summary for the five reporting contracting agencies.

TABLE 1

APPENDIX C

TOTAL-ALL REPORTING AGENCIES
WAR CONTRACT TERMINATIONS AND SETTLEMENTS - PRIME CONTRACTS
Quarter Ending September 30, 1944 ^{a/}

ITEM	CUMULATIVE THROUGH JUNE 30, 1944 ^{b/}	FOR MONTH OF:			CUMULATIVE THROUGH SEPT. 30, 1944
		JULY ^{c/}	AUGUST	SEPTEMBER	
<u>ALL CONTRACTS</u>					
<u>Number</u>			(Number)		
Terminations Effected	104,293	1,785	4,366	5,739	116,183
Terminations Settled	94,636	2,316	4,318	4,765	106,036
Terminations Awaiting Settlement ^{d/}	9,657	9,126	9,174	10,147	10,147
<u>Contract Price of Items Canceled</u>			(Thousands of Dollars)		
Terminations Effected	17,950,272	756,942	1,288,637	1,954,698	21,950,549
Terminations Settled	6,641,963	1,282,642	665,037	959,901	9,550,543
Terminations Awaiting Settlement ^{d/}	11,307,309	10,781,609	11,405,209	12,430,006	12,430,006
<u>FIXED-PRICE CONTRACTS</u>					
<u>Number</u>			(Number)		
Terminations Effected	103,776	1,757	4,330	5,700	115,563
Claims Filed	11,345	641	712	762	13,460
Terminations Awaiting Claim ^{d/}	6,794	6,443	6,689	7,671	7,671
Settlements Without Claim	85,637	1,467	3,372	3,955	94,432
Settlements With Claim	8,799	811	918	776	11,304
Claims Awaiting Settlement ^{d/}	2,546	2,376	2,170	2,156	2,156
<u>Contract Price of Items Canceled</u>			(Thousands of Dollars)		
Terminations Effected	13,645,145	433,169	805,488	923,026	15,805,028
Claims Filed	5,163,757	482,900	168,941	1,184,550	7,100,148
Terminations Awaiting Claim ^{d/}	5,162,062	4,856,401	5,131,970	4,684,693	4,684,693
Settlements Without Claim	3,319,526	255,930	258,978	185,773	4,020,207
Settlements With Claim	2,861,905	960,981	395,370	505,165	4,721,421
Claims Awaiting Settlement ^{d/}	2,301,852	1,833,771	1,697,342	2,378,707	2,378,707
<u>Amount of Claim</u>					
Claims Filed	460,705	36,012	51,346	45,162	593,225
Claims Settled	264,704	73,368	50,113	32,775	420,961
Claims Awaiting Settlement ^{d/}	196,001	158,645	159,878	172,264	172,264
<u>Amount of Settlement</u>					
Gross Settlement	211,474	66,676	42,828	28,967	349,955
Disposal Credits	23,746	11,047	6,117	3,011	43,921
Net Settlement	187,728	55,629	36,721	25,956	306,034
Cost of Property Acquired in Settlement	46,308	13,920	15,584	11,540	87,352
<u>COST-PLUS-A-FEE CONTRACTS</u>					
<u>Number</u>			(Number)		
Terminations Effected	517	28	36	39	620
Terminations Settled	200	38	28	34	300
Terminations Awaiting Settlement ^{d/}	317	307	315	320	320
<u>Estimated Cost of Items Canceled</u>			(Thousands of Dollars)		
Terminations Effected	4,304,927	323,773	485,149	1,031,672	6,145,521
Terminations Settled	461,532	65,731	10,689	250,963	788,915
Terminations Awaiting Settlement ^{d/}	3,843,395	4,101,437	4,575,897	5,356,606	5,356,606

^{a/} Summarized from reports of the contracting agencies to the Office of Contract Settlement.

^{b/} Includes data cumulative through July 31, 1944 for the Reconstruction Finance Corporation - Defense Plant Corporation, for which earlier data are unavailable.

^{c/} Does not include data for month of July for Reconstruction Finance Corporation - Defense Plant Corporation for all lines except those footnoted (d) which are "Status as of the end of Month" lines.

^{d/} Data entered in these lines are "Status as of the end of Month".

TABLE 2

APPENDIX C

WAR DEPARTMENT
WAR CONTRACT TERMINATIONS AND SETTLEMENTS - PRIME CONTRACTS
Quarter Ending September 30, 1944 ^{a/}

ITEM	CUMULATIVE THROUGH JUNE 30, 1944	FOR MONTH OF:			CUMULATIVE THROUGH SEPT. 30, 1944
		JULY	AUGUST	SEPTEMBER	
<u>ALL CONTRACTS</u>					
<u>Number</u>			(Number)		
Terminations Effected	26,101	1,089	1,031	1,567	29,788
Terminations Settled	20,824	1,765	1,681	1,442	25,713
Terminations Awaiting Settlement b/	5,277	4,601	3,951	4,075	4,075
<u>Contract Price of Items Cancelled</u>			(Thousands of Dollars)		
Terminations Effected	14,046,684	393,512	964,575	1,544,279	16,949,050
Terminations Settled	6,047,820	1,252,639	563,664	714,758	8,578,881
Terminations Awaiting Settlement b/	7,998,864	7,139,737	7,540,648	8,370,169	8,370,169
<u>FIXED-PRICE CONTRACTS</u>					
<u>Number</u>			(Number)		
Terminations Effected	25,717	1,072	1,001	1,544	29,334
Claims Filed	6,671	592	523	644	8,450
Terminations Awaiting Claim b/	3,956	3,469	3,023	3,067	3,067
Settlements Without Claim	15,090	967	924	835	17,817
Settlements With Claim	5,568	760	735	580	7,643
Claims Awaiting Settlement b/	1,103	935	723	807	807
<u>Contract Price of Items Cancelled</u>			(Thousands of Dollars)		
Terminations Effected	10,893,851	175,617	519,290	622,276	12,211,034
Claims Filed	4,557,304	289,674	234,027	1,139,845	6,220,850
Terminations Awaiting Claims b/	3,528,638	3,180,595	3,258,265	2,631,588	2,631,588
Settlements Without Claim	2,807,909	233,986	207,593	109,108	3,358,596
Settlements With Claim	2,781,824	952,922	345,887	355,051	4,435,684
Claims Awaiting Settlement b/	1,775,480	1,112,232	1,000,372	1,785,166	1,785,166
<u>Amount of Claim</u>					
Claims Filed	406,549	30,856	45,947	41,496	524,848
Claims Settled	252,826	72,686	46,488	24,188	396,188
Claims Awaiting Settlement b/	153,723	111,893	111,352	128,660	128,660
<u>Amount of Settlement</u>					
Gross Settlement	203,055	66,008	39,866	21,180	330,109
Disposal Credits	23,029	10,946	5,998	2,652	42,625
Net Settlement	180,026	55,062	33,868	18,528	287,484
Cost of Property Acquired in Settlement	45,072	13,653	14,459	7,417	80,601
<u>COST-PLUS-A-FEE CONTRACTS</u>					
<u>Number</u>			(Number)		
Terminations Effected	384	17	30	23	454
Terminations Settled	166	38	22	27	253
Terminations Awaiting Settlement b/	218	197	205	201	201
<u>Estimated Cost of Items Cancelled</u>			(Thousands of Dollars)		
Terminations Effected	3,152,833	217,895	445,285	922,003	4,738,016
Terminations Settled	458,087	65,731	10,184	250,599	784,601
Terminations Awaiting Settlement b/	2,694,746	2,846,910	3,282,011	3,953,415	3,953,415

^{a/} As reported by the War Department to the Office of Contract Settlement.

^{b/} Data entered in these lines are "Status as of the end of Month".

TABLE 3
NAVY DEPARTMENT
WAR CONTRACT TERMINATIONS AND SETTLEMENTS-PLUS CONTRACTS
Quarter ending September 30, 1944 a/

APPENDIX C

ITEM	CUMULATIVE THROUGH JUNE 30, 1944	FOR MONTH OF:			CUMULATIVE THROUGH SEPT. 30, 1944
		JULY	AUGUST	SEPTEMBER	
<u>ALL CONTRACTS</u>					
<u>Number</u>			(Number)		
Termination Effected	1,962	454	460	773	3,629
Terminations Settled b/	787	225	300	383	1,695
Terminations Awaiting Settlement c/	1,175	1,384	1,544	1,934 d/	1,934 d/
<u>Contract Price of Items Canceled</u>			(Thousands of Dollars)		
Terminations Effected	3,012,710	858,484	277,678	371,586	4,020,458
Terminations Settled b/	207,918	25,809	58,154	186,996	478,877
Terminations Awaiting Settlement c/	2,804,792	3,157,467	3,556,991	3,541,581 d/	3,541,581 d/
<u>FIXED-PRICE CONTRACTS</u>					
<u>Number</u>			(Number)		
Terminations Effected	1,891	423	454	758	3,526
Claims Filed	580	50	61	34 d/	525 d/
Terminations Awaiting Claim c/	815	989	1,128	1,510 d/	1,510 d/
Settlements Without Claim	696	199	254	342	1,491
Settlements With Claim	91	26	46	41	204
Claims Awaiting Settlement c/	289	313	328	321 d/	321 d/
<u>Contract Price of Items Canceled</u>			(Thousands of Dollars)		
Terminations Effected	2,135,886	252,606	237,814	262,005	2,888,311
Claims Filed	424,145	120,896	18,023	34,908 d/	597,972 d/
Terminations Awaiting Claim c/	1,524,810	1,635,890	1,827,089	2,001,221 d/	2,001,221 d/
Settlements Without Claim	186,921	20,630	28,592	52,965	289,118
Settlements With Claim	20,987	5,179	29,562	134,031	189,759
Claims Awaiting Settlement c/	405,158	518,875	507,336	408,213 d/	408,213 d/
<u>Amount of Claim</u>					
Claims Filed	33,089	4,955	2,779	1,845 d/	42,668 d/
Claims Settled	3,972	560	1,960	6,460	12,952
Claims Awaiting Settlement c/	29,117	33,512	34,331	29,716 d/	29,716 d/
<u>Amount of Settlement</u>					
Gross Settlement	3,094	573	1,619	5,921	11,207
Disposal Credits	84	97	21	223	425
Net Settlement	3,010	476	1,598	5,698	10,782
Cost of Property Acquired in Settlement	1,055	246	1,125	4,123	6,549
<u>COST-PLUS-A-FEE CONTRACTS</u>					
<u>Number</u>			(Number)		
Terminations Effected	71	11	6	15	103
Terminations Settled b/	NA	NA	NA	NA	NA
Terminations Awaiting Settlement c/	71	82	88	103	103
<u>Estimated Cost of Items Canceled</u>			(Thousands of Dollars)		
Terminations Effected	876,824	105,878	39,864	109,581	1,132,147
Terminations Settled b/	-	-	-	-	-
Terminations Awaiting Settlement c/	876,824	982,702	1,022,566	1,132,147	1,132,147

a/ As reported by the Navy Department to the Office of Contract Settlement.

b/ In the absence of settlement information, it has been assumed that all cost-plus-a-fee contract terminations reported by the Navy Department are awaiting settlement. This may understate somewhat the total settled terminations and overstate those awaiting settlement.

c/ Data entered in these lines are "Status as of the end of Month".

d/ Preliminary.

TABLE 4

APPENDIX C

MARITIME COMMISSION
WAR CONTRACT TERMINATIONS AND SETTLEMENTS-PRIME CONTRACTS
Quarter Ending September 30, 1944 ^{a/}

ITEM	CUMULATIVE THROUGH	FOR MONTH OF:			CUMULATIVE THROUGH
	JUNE 30, 1944	JULY	AUGUST	SEPTEMBER	SEPT. 30, 1944
<u>ALL CONTRACTS</u>					
<u>Number</u>			(Number)		
Terminations Effected	2,390	189	655	643	3,877
Terminations Settled	361	253	105	31	750
Terminations Awaiting Settlement b/	2,029	1,965	2,515	3,127	3,127
<u>Contract Price of Items Canceled</u>			(Thousands of Dollars)		
Terminations Effected	401,203	332	7,167	3,239	411,941
Terminations Settled	17,689	-622 c/	5,346	2,485	24,898
Terminations Awaiting Settlement b/	383,514	384,468	386,289	387,043	387,043
<u>FIXED-PRICE CONTRACTS</u>					
<u>Number</u>			(Number)		
Terminations Effected	2,383	189	655	643	3,870
Claims Filed	282	-4 c/	52	9	339
Terminations Awaiting Claim b/	1,807	1,771	2,299	2,913	2,913
Settlements Without Claim	294	229	75	20	618
Settlements With Claim	67	24	30	11	132
Claims Awaiting Settlement b/	215	187	209	207	207
<u>Contract Price of Items Canceled</u>			(Thousands of Dollars)		
Terminations Effected	130,524	332	7,167	3,239	141,262
Claims Filed	16,921	71,974	1,379	315	90,589
Terminations Awaiting Claim b/	99,197	30,795	34,963	37,400	37,400
Settlements Without Claim	14,406	-3,240 c/	1,620	487	13,273
Settlements With Claim	3,283	2,618	3,726	1,998	11,625
Claims Awaiting Settlement b/	13,638	82,994	80,647	78,964	78,964
<u>Amount of Claim</u>					
Claims Filed	5,270	197	486	-80 c/	5,873
Claims Settled	590	81	679	314	1,664
Claims Awaiting Settlement b/	4,680	4,796	4,603	4,209	4,209
<u>Amount of Settlement</u>					
Gross Settlement	501	72	666	291	1,530
Disposal Credits	35	4	31	46	116
Net Settlement	466	68	635	245	1,414
Cost of Property Acquired in Settlement d/	NA	NA	NA	NA	NA
<u>COST-PLUS-A-FEE CONTRACTS</u>					
<u>Number</u>			(Number)		
Terminations Effected	7	-	-	-	7
Terminations Settled	-	-	-	-	-
Terminations Awaiting Settlement b/	7	7	7	7	7
<u>Estimated Cost of Items Canceled</u>			(Thousands of Dollars)		
Terminations Effected	270,679	-	-	-	270,679
Terminations Settled	-	-	-	-	-
Terminations Awaiting Settlement b/	270,679	270,679	270,679	270,679	270,679

^{a/} As reported by the Maritime Commission to the Office of Contract Settlement.

^{b/} Data entered in these lines are "Status as of the end of Month".

^{c/} These negative figures for monthly additions to data for "Settlements Without Claim" in July and "Claims Filed" in September are the result of reinstatements as "pending" in these months of terminations previously reported as settled. The actual monthly additions to these amounts are thus not correctly reflected by these figures noted.

^{d/} Data not available.

TABLE 5

PROCUREMENT DIVISION - TREASURY DEPARTMENT
WAR CONTRACT TERMINATIONS AND SETTLEMENTS - PRIME CONTRACTS
Quarter Ending September 30, 1944 a/

ITEM	CUMULATIVE THROUGH JUNE 30, 1944	FOR MONTH OF:			CUMULATIVE THROUGH SEPT. 30, 1944
		JULY	AUGUST	SEPTEMBER	
<u>ALL CONTRACTS</u>					
<u>Number</u>			(Number)		
Terminations Effected	86	73	44	35	238
Terminations Settled	66	73	44	40	223
Terminations Awaiting Settlement b/ 20		20	20	15	15
<u>Contract Price of Items Cancelled</u>			(Thousands of Dollars)		
Terminations Effected	6,318	4,614	2,660	2,875	16,467
Terminations Settled	4,810	4,816	2,660	2,672	14,958
Terminations Awaiting Settlement b/ Settlement	1,508	1,306	1,306	1,509	1,509
<u>FIXED PRICE CONTRACTS</u>					
<u>Number</u>			(Number)		
Terminations Effected	86	73	44	35	238
Claims Filed	31	3	-	2	36
Terminations Awaiting Claim b/	5	3	3	3	3
Settlements Without Claim	50	72	44	33	199
Settlements With Claim	16	1	-	7	24
Claims Awaiting Settlement b/	15	17	17	12	12
<u>Contract Price of Items Cancelled</u>			(Thousands of Dollars)		
Terminations Effected	6,318	4,614	2,660	2,875	16,467
Claims Filed	4,690	356	-	257	5,303
Terminations Awaiting Claim b/	432	136	136	261	261
Settlements Without Claim	1,196	4,554	2,660	2,493	10,903
Settlements With Claim	3,614	262	-	179	4,055
Claims Awaiting Settlement b/	1,076	1,170	1,170	1,248	1,248
<u>Amount of Claim</u>					
Claims Filed	534	4	7	16	561
Claims Settled	276	41	-	10	327
Claims Awaiting Settlement b/	258	221	228	234	234
<u>Amount of Settlement</u>					
Gross Settlement	240	23	-	23	286
Disposal Credits	1	-	-	13	14
Net Settlement	239	23	-	10	272
Cost of Property Acquired in Settlement	-	21	-	-	21
<u>COST-PLUS-A-FEE CONTRACTS</u>					
<u>Number</u>			(Number)		
Terminations Effected					
Terminations Settled					
Terminations Awaiting Settlement b/					
<u>Estimated Cost of Items Cancelled</u>					
Terminations Effected					
Terminations Settled					
Terminations Awaiting Settlement b/					

a/ As reported by the Treasury Department to the Office of Contract Settlement.

b/ Data entered in these lines are "Status as of the end of Month".

TABLE 6

APPENDIX C

DEFENSE PLANT CORPORATION - RECONSTRUCTION FINANCE CORPORATION
WAR CONTRACT TERMINATIONS AND SETTLEMENTS - PRIME CONTRACTS
Quarter Ending September 30, 1944 a/

ITEM	CUMULATIVE THROUGH		FOR MONTH OF:		CUMULATIVE THROUGH
	JULY 31, 1944	JULY	AUGUST	SEPTEMBER	SEPT. 30, 1944
<u>ALL CONTRACTS</u>					
<u>Number</u>			(Number)		
Terminations Effected	73,754		2,176	2,721	78,651
Terminations Settled	72,598		2,188	2,869	77,655
Terminations Awaiting Settlement b/	1,156		1,144	996	996
<u>Contract Price of Items Canceled</u>			(Thousands of Dollars)		
Terminations Effected	483,357		36,557	32,719	552,633
Terminations Settled	364,726		35,213	32,990	432,929
Terminations Awaiting Settlement b/	118,631		119,975	119,704	119,704
<u>FIXED-PRICE CONTRACTS</u>					
<u>Number</u>			(Number)		
Terminations Effected	73,699		2,176	2,720	78,595
Claims Filed	3,981		76	53	4,110
Terminations Awaiting Claim b/	211		236	178	178
Settlements Without Claim	69,507		2,075	2,725	74,307
Settlements With Claim	3,057		107	137	3,301
Claims Awaiting Settlement b/	924		893	809	809
<u>Contract Price of Items Canceled</u>			(Thousands of Dollars)		
Terminations Effected	478,766		36,577	32,631	547,954
Claims Filed	160,697		15,512	9,205	185,414
Terminations Awaiting Claim b/	8,985		11,517	14,223	14,223
Settlements Without Claim	309,084		18,513	20,720	348,317
Settlements With Claim	52,197		16,195	11,906	80,298
Claims Awaiting Settlement b/	108,500		107,817	105,116	105,116
<u>Amount of Claim</u>					
Claims Filed	15,263		2,127	1,885	19,275
Claims Settled	7,040		986	1,804	9,830
Claims Awaiting Settlement b/	8,223		9,364	9,445	9,445
<u>Amount of Settlement</u>					
Gross Settlement	4,584		687	1,552	6,823
Disposal Credits c/	597		67	77	741
Net Settlement	3,987		620	1,475	6,082
Cost of Property Acquired in Settlement d/	181		-	-	181
<u>COST-PLUS-A-FEE CONTRACTS</u>					
<u>Number</u>			(Number)		
Terminations Effected	55		-	1	56
Terminations Settled	34		6	7	47
Terminations Awaiting Settlement b/	21		15	9	9
<u>Estimated Cost of Items Canceled</u>			(Thousands of Dollars)		
Terminations Effected	4,591		-	88	4,679
Terminations Settled	3,445		505	364	4,314
Terminations Awaiting Settlement b/	1,146		641	365	365

a/ As reported by the Reconstruction Finance Corporation to the Office of Contract Settlement.

b/ Data entered in these lines are "Status as of the end of Month".

c/ Cumulative from May 1 only. Gross settlement is therefore understated since it was estimated by adding incomplete Disposal Credits to Net Settlement figures.

d/ Incomplete - Includes data for Defense Plant Corporation, Machine Tool Pool terminations only.

WAR PRODUCTION BOARD TABULATIONS

Only terminations for which the undelivered values were \$100,000 or more are included. While the number of terminations excluded is large, the total of the undelivered values is not.

Data in tables 7 through 17 show the following:

1. The largest number and value of terminated commitments have been in the heavily industrialized East North Central, Middle Atlantic, New England, and Pacific regions of the United States. This is not only true for total terminations, but is also true for aircraft, ships, and ordnance separately.

2. The distribution of undelivered value of terminated contracts among the geographic regions is approximately the same as the distribution of outstanding contract commitments. There has, however, been a greater concentration of terminations than of awards and outstanding commitments in the Middle Atlantic and East North Central regions. And there has been a lesser proportion of terminations than of awards and outstanding commitments in the Pacific region.

3. Size of claim is an important factor affecting the speed of settlement. Experience of the War and Navy Departments has been that, on the average, the larger the claim the longer the time between termination and filing. It also has been that the larger the claim, the longer the time between filing and final settlement.

4. Experience of the War and Navy Departments indicates that subcontracts have slowed speed of settlement mainly for the larger claims involving substantial numbers of subcontracts.

5. On the average, the larger the claim of the prime contractor has been, the greater number of first tier subcontractor claims. For War and Navy Department terminations, the number of such subcontractor claims has varied from less than one on the average for prime claims of less than \$10,000 to over 44 on the average for prime claims of \$1,000,000 or more. The average number of first tier claims has been 3.

6. Approximately 19 percent of the net settlements paid to prime contractors has in turn been paid as net settlements to first tier subcontractors.

7. Net settlements paid to prime contractors have averaged about 84 percent of their net claims; the comparable figure for first tier subcontracts is slightly lower -- 82%.

8. 150 companies have absorbed about 80% of the \$14,339,000,000 of terminations covered by the War Production Board sample. These companies are those which have filed large claims and have a large number of subcontractors.

TABLE 7

APPENDIX C

NUMBER AND PERCENTAGE DISTRIBUTIONS FOR PRIME WAR CONTRACT TERMINATIONS
By Geographic Region and Major Object
January - July 1944 ^{a/}

GEOGRAPHIC REGION	TOTAL	Aircraft	MAJOR OBJECT		
			Ships	Ordnance	Other
NUMBER OF TERMINATIONS					
TOTAL	5,402	1,060	212	2,002	2,128
New England	547	117	25	217	184
Middle Atlantic	1,879	381	54	600	844
East North Central	1,919	360	63	821	675
West North Central	236	32	13	80	111
South Atlantic	225	47	13	66	99
East South Central	132	11	4	65	52
West South Central	116	11	11	53	41
Mountain	18	2	-	9	7
Pacific	260	79	25	65	91
Outside U.S. & Unassignable	70	20	-	26	24
PERCENTAGE DISTRIBUTION BY GEOGRAPHIC REGION					
TOTAL	100	100	100	100	100
New England	10	11	14	11	9
Middle Atlantic	35	36	25	30	40
East North Central	36	34	30	41	32
West North Central	4	3	6	4	5
South Atlantic	4	4	6	3	5
East South Central	3	1	2	3	2
West South Central	2	1	5	3	2
Mountain	b/	b/	-	1	b/
Pacific	5	8	12	3	4
Outside U.S. & Unassignable	1	2	-	1	1
PERCENTAGE DISTRIBUTION BY MAJOR OBJECT					
TOTAL	100	20	4	37	39
New England	100	21	5	40	34
Middle Atlantic	100	20	3	32	45
East North Central	100	19	3	43	35
West North Central	100	14	5	34	47
South Atlantic	100	21	6	29	44
East South Central	100	8	3	49	40
West South Central	100	9	9	46	36
Mountain	100	11	-	50	39
Pacific	100	30	10	25	35
Outside U.S. & Unassignable	100	29	-	37	34

^{a/} Included are all War and Navy Department fixed-price and cost-plus-a-fee prime war contract terminations for which the contract price of items canceled is \$100,000 or more, and pending settlement on January 1 or terminated from January through July 1944. The excluded terminations for which the contract price of items canceled is less than \$100,000 number 12,834, for which the canceled portion totals \$224,000,000.

^{b/} Less than 0.5 percent.

Source: WAR PRODUCTION BOARD

TABLE 8

APPENDIX C

CONTRACT PRICE OF ITEMS CANCELED AND PERCENTAGE DISTRIBUTIONS
FOR PRIME WAR CONTRACT TERMINATIONS
By Geographic Region and Major Object
January-July 1944 ^{a/}

GEOGRAPHIC REGION	TOTAL	MAJOR OBJECT			
		Aircraft	Ships	Ordnance	Other
CONTRACT PRICE OF ITEMS CANCELED (MILLIONS OF DOLLARS)					
TOTAL	14,339	5,273	1,316	5,904	1,846
New England	1,019	332	188	400	99
Middle Atlantic	4,362	1,529	557	1,543	733
East North Central	5,331	1,288	348	3,123	572
West North Central	731	360	14	280	77
South Atlantic	640	330	15	110	135
East South Central	443	359	8	59	17
West South Central	210	66	73	45	26
Mountain	67	1	-	65	1
Pacific	1,208	894	113	144	57
Outside U. S. & Unassignable	328	64	-	135	129
PERCENTAGE DISTRIBUTION BY GEOGRAPHIC REGION					
TOTAL	100	100	100	100	100
New England	7	6	14	7	5
Middle Atlantic	30	29	42	26	40
East North Central	37	25	26	53	31
West North Central	5	7	1	5	4
South Atlantic	5	7	1	2	7
East South Central	3	7	1	1	1
West South Central	2	1	6	1	2
Mountain	1	b/	-	1	b/
Pacific	8	17	9	2	3
Outside U. S. & Unassignable	2	1	-	2	7
PERCENTAGE DISTRIBUTION BY MAJOR OBJECT					
TOTAL	100	37	9	41	13
New England	100	33	18	39	10
Middle Atlantic	100	35	13	35	17
East North Central	100	24	6	59	11
West North Central	100	49	2	38	11
South Atlantic	100	60	2	17	21
East South Central	100	81	2	13	4
West South Central	100	31	35	22	12
Mountain	100	2	-	97	1
Pacific	100	74	9	12	5
Outside U. S. & Unassignable	100	20	-	41	39

a/ Included are all War and Navy Department fixed-price and cost-plus-a-fee prime War contract terminations for which the contract price of items canceled is \$100,000 or more, and pending settlement on January 1 or terminated from January through July 1944. The excluded terminations for which the contract price of items canceled is less than \$100,000 number 12,834, for which the canceled portion totals \$224,000,000.

b/ Less than 0.5 percent.

Source: WAR PRODUCTION BOARD

PERCENTAGE DISTRIBUTION OF AMOUNT OF WAR SUPPLY CONTRACTS
By Geographic Region and Status
Through July 1944

GEOGRAPHIC REGION	CUMULATIVE AMOUNT OF ALL CONTRACTS a/	UNDELIVERED AMOUNT OF ACTIVE CONTRACTS	CONTRACT PRICE OF ITEMS CANCELED BY TERMINATIONS b/
TOTAL	100	100	100
New England	9	9	7
Middle Atlantic	24	22	31
East North Central	33	32	38
West North Central	6	6	5
South Atlantic	6	6	5
East South Central	2	2	3
West South	5	6	2
Mountain	1	c/	1
Pacific	14	18	8

a/ Adjusted to reflect all contract terminations and reductions.

b/ The percentage distribution shown here differs from that shown in Table 8, which is based on data including terminations outside the U. S. and terminations unassignable by geographic region.

c/ Less than 0.5 percent.

Source: WAR PRODUCTION BOARD

TABLE 10

APPENDIX C

NUMBER, AMOUNT OF CLAIM, AND PERCENTAGE DISTRIBUTIONS
FOR PRIME FIXED-PRICE WAR CONTRACT TERMINATION CLAIMS SETTLED
By Size of Claim and Lapse of Time from Effective Date of Termination
January - July 1944 a/

SIZE OF CLAIMS (Dollars)	TOTAL CLAIMS FILED	TOTAL CLAIMS SETTLED	LAPSE OF TIME FROM EFFECTIVE DATE TO SETTLEMENT DATE		
			0 to 6 Months	6 to 12 Months	12 Months or More
NUMBER OF CLAIMS SETTLED					
TOTAL	2,373	1,665	874	610	181
1 - 9,999	499	358	244	90	24
10,000 - 49,999	783	568	342	181	45
50,000 - 99,999	410	288	145	109	34
100,000 - 499,999	569	388	134	191	63
500,000 - 999,999	76	46	7	30	9
1,000,000 or More	36	17	2	9	6
PERCENTAGE DISTRIBUTION BY LAPSE OF TIME					
TOTAL		100	52	37	11
1 - 9,999		100	68	25	7
10,000 - 49,999		100	60	32	8
50,000 - 99,999		100	50	38	12
100,000 - 499,999		100	35	49	16
500,000 - 999,999		100	15	65	20
1,000,000 or More		100	12	53	35
AMOUNT OF CLAIMS SETTLED (THOUSANDS OF DOLLARS)					
TOTAL	342,984	221,373	54,349	93,395	73,629
1 - 9,999	2,404	1,551	1,051	420	80
10,000 - 49,999	21,842	15,715	9,023	5,424	1,268
50,000 - 99,999	29,298	20,289	10,035	7,672	2,582
100,000 - 499,999	124,724	84,215	26,889	41,557	15,769
500,000 - 999,999	51,912	32,076	4,573	20,873	6,630
1,000,000 or More	112,804	67,527	2,778	17,449	47,300
PERCENTAGE DISTRIBUTION BY LAPSE OF TIME					
TOTAL		100	25	42	33
1 - 9,999		100	68	27	5
10,000 - 49,999		100	57	35	8
50,000 - 99,999		100	49	38	13
100,000 - 499,999		100	32	49	19
500,000 - 999,999		100	14	65	21
1,000,000 or More		100	4	26	70

a/ Included are all War and Navy Department fixed-price termination claims for which the contract price of items canceled is \$100,000 or more which were settled from January through July 1944. The excluded termination claims settled for which the contract price of items canceled is less than \$100,000 number 2597, for which the amount of claim totals \$18,600,000.

Source: WAR PRODUCTION BOARD

APPENDIX C

TABLE 11

NUMBER, AMOUNT OF CLAIM, AND PERCENTAGE DISTRIBUTIONS
FOR PRIME FIXED-PRICE WAR CONTRACT TERMINATION CLAIMS PENDING
By Size of Claim and Lapse Of Time From Effective Date Of Termination
January - July 1944 ^{a/}

SIZE OF CLAIM (Dollars)	TOTAL CLAIMS FILED	TOTAL CLAIMS PENDING	LAPSE OF TIME FROM EFFECTIVE DATE TO JULY 31, 1944		
			0 to 6 Months	6 to 12 Months	12 Months or More
NUMBER OF CLAIMS PENDING					
TOTAL	2,373	708	419	219	70
1 - 9,999	499	141	109	26	6
10,000 - 49,999	783	215	142	51	22
50,000 - 99,999	410	122	71	38	13
100,000 - 499,999	569	181	84	73	24
500,000 - 999,999	76	30	9	19	2
1,000,000 - Or More	36	19	4	12	3
PERCENTAGE DISTRIBUTION BY LAPSE OF TIME					
TOTAL		100	59	31	10
1 - 9,999		100	77	19	4
10,000 - 49,999		100	66	24	10
50,000 - 99,999		100	58	31	11
100,000 - 499,999		100	47	40	13
500,000 - 999,999		100	30	63	7
1,000,000 Or More		100	21	63	16
AMOUNTS OF CLAIMS PENDING (THOUSANDS OF DOLLARS)					
TOTAL	342,984	121,611	39,705	52,241	29,665
1 - 9,999	2,404	853	734	94	25
10,000 - 49,999	21,842	6,127	4,056	1,487	584
50,000 - 99,999	29,298	9,009	5,284	2,782	943
100,000 - 499,999	124,724	40,509	17,381	17,736	5,392
500,000 - 999,999	51,912	19,836	6,003	12,510	1,323
1,000,000 Or More	112,804	45,277	6,247	17,632	21,398
PERCENTAGE DISTRIBUTION BY LAPSE OF TIME					
TOTAL		100	33	43	24
1 - 9,999		100	86	11	3
10,000 - 49,999		100	66	24	10
50,000 - 99,999		100	59	31	10
100,000 - 499,999		100	43	44	13
500,000 - 999,999		100	30	63	7
1,000,000 Or More		100	14	39	47

^{a/} Included are all War and Navy Department fixed-price termination claims for which the contract price of items canceled is \$100,000 or more which were pending settlement on July 31, 1944. The excluded pending termination claims for which the contract price of items canceled is less than \$100,000 number 524, for which the amount of claim totals \$18,100,000.

Source: WAR PRODUCTION BOARD

TABLE 12

NUMBER, AMOUNT OF CLAIM, AND PERCENTAGE DISTRIBUTIONS
FOR PRIME FIXED-PRICE WAR CONTRACT TERMINATIONS FILED
By Size of Claim and Lapse of Time from Effective Date of
Termination to Filing Date of Claim
January - July 1944 a/

SIZE OF CLAIMS (Dollars)	TOTAL CLAIMS FILED	LAPSE OF TIME FROM EFFECTIVE DATE TO FILING DATE		
		0 to 6 Months	6 to 12 Months	12 Months or More
NUMBER OF CLAIMS FILED				
TOTAL	2,373	2,062	273	38
1 - 9,999	499	450	41	8
10,000 - 49,999	783	700	79	4
50,000 - 99,999	410	354	48	8
100,000 - 499,999	569	477	78	14
500,000 - 999,999	76	59	17	-
1,000,000 or more	36	22	10	4
PERCENTAGE DISTRIBUTION BY LAPSE OF TIME				
TOTAL	100	87	11	2
1 - 9,999	100	90	8	2
10,000 - 49,999	100	89	10	1
50,000 - 99,999	100	86	12	2
100,000 - 499,999	100	84	14	2
500,000 - 999,999	100	78	22	-
1,000,000 or more	100	61	28	11
AMOUNT OF CLAIMS FILED (THOUSANDS OF DOLLARS)				
TOTAL	342,984	237,567	50,549	54,868
1 - 9,999	2,404	2,230	147	27
10,000 - 49,999	21,842	19,418	2,315	109
50,000 - 99,999	29,298	25,191	3,484	623
100,000 - 499,999	124,724	102,913	17,795	4,016
500,000 - 999,999	51,912	40,568	11,344	-
1,000,000 or more	112,804	47,247	15,464	50,093
PERCENTAGE DISTRIBUTION BY LAPSE OF TIME				
TOTAL	100	69	15	16
1 - 9,999	100	93	6	1
10,000 - 49,999	100	89	11	b/
50,000 - 99,999	100	86	12	2
100,000 - 499,999	100	83	14	3
500,000 - 999,999	100	78	22	-
1,000,000 or more	100	42	14	44

a/ Included are all War and Navy Department fixed-price termination claims for which the contract price of items canceled is \$100,000 or more which were pending settlement on January 1 or filed from January through July 1944. The excluded termination claims filed for which the contract price of items canceled is less than \$100,000 number 2864, for which the amount of claim totals \$36,800,000.

b/ Less than 0.5 percent.

Source: WAR PRODUCTION BOARD

TABLE 13

NUMBER, AMOUNT OF CLAIM, AND PERCENTAGE DISTRIBUTIONS
FOR PRIME FIXED-PRICE WAR CONTRACT TERMINATION CLAIMS SETTLED
By Size of Claim and Lapse of Time from Filing Date to Settlement Date
January - July 1944 a/

SIZE OF CLAIM (Dollars)	TOTAL CLAIMS SETTLED	LAPSE OF TIME FROM FILING DATE TO SETTLEMENT DATE		
		0 to 6 Months	6 to 12 Months	12 Months or More
NUMBER OF CLAIMS SETTLED				
TOTAL	1,665	1,402	228	35
1 - 9,999	358	335	22	1
10,000 - 49,999	568	498	63	7
50,000 - 99,999	288	243	38	7
100,000 - 499,999	388	281	91	16
500,000 - 999,999	46	35	8	3
1,000,000 or More	17	10	6	1
PERCENTAGE DISTRIBUTION BY LAPSE OF TIME				
TOTAL	100	84	14	2
1 - 9,999	100	94	6	b/
10,000 - 49,999	100	88	11	1
50,000 - 99,999	100	84	13	3
100,000 - 499,999	100	72	24	4
500,000 - 999,999	100	76	17	7
1,000,000 or More	100	59	35	6
AMOUNT OF CLAIMS SETTLED (Thousands of Dollars)				
TOTAL	221,373	171,598	40,401	9,374
1 - 9,999	1,551	1,435	111	5
10,000 - 49,999	15,715	13,548	1,937	230
50,000 - 99,999	20,289	17,069	2,677	543
100,000 - 499,999	84,215	59,679	19,911	4,625
500,000 - 999,999	32,076	24,030	5,519	2,527
1,000,000 or More	67,527	55,837	10,246	1,444
PERCENTAGE DISTRIBUTION BY LAPSE OF TIME				
TOTAL	100	78	18	4
1 - 9,999	100	93	7	b/
10,000 - 49,999	100	86	12	2
50,000 - 99,999	100	84	13	3
100,000 - 499,999	100	71	24	5
500,000 - 999,999	100	75	17	8
1,000,000 or More	100	83	15	2

a/ Included are all War and Navy Department fixed-price termination claims for which the contract price of items canceled is \$100,000 or more which were settled from January through July 1944. The excluded settled termination claims for which the contract price of items canceled is less than \$100,000 number 2,597, for which the amount of claim totals \$18,600,000.

b/ Less than 0.5 percent.

Source: WAR PRODUCTION BOARD.

TABLE 14

NUMBER OF PRIME FIXED PRICE WAR CONTRACT TERMINATION CLAIMS SETTLED
By Size of Claim, Number of Subcontractors' Claims Submitted, and
Lapse of Time from Effective Date to Settlement Date
January - July 1944 a/

SIZE OF CLAIM AND NUMBER OF SUBCONTRACTORS' CLAIMS SUBMITTED	TOTAL CLAIMS SETTLED	LAPSE OF TIME FROM EFFECTIVE DATE TO SETTLEMENT DATE		
		0 to 6 Months	6 to 12 Months	12 Months Or More
All Claims - Total	1,665	874	610	181
No Subcontractors' Claims Submitted	731	421	242	68
1 " " "	284	170	91	23
2 - 3 " " "	238	121	99	18
4 - 5 " " "	156	74	67	15
6 - 10 " " "	136	57	50	29
11 - 20 " " "	82	23	46	13
21 or More " " "	38	8	15	15
Claims of \$1 to \$9,999 - Total	358	244	90	24
No Subcontractors' Claims Submitted	241	159	65	17
1 " " "	62	44	15	3
2 - 3 " " "	36	26	7	3
4 - 5 " " "	13	12	1	-
6 - 10 " " "	3	2	-	1
11 - 20 " " "	3	1	2	-
21 or More " " "	-	-	-	-
Claims of \$10,000 to \$49,999 - Total	568	342	181	45
No Subcontractors' Claims Submitted	262	162	80	20
1 " " "	115	71	38	6
2 - 3 " " "	96	58	33	5
4 - 5 " " "	54	31	18	5
6 - 10 " " "	31	16	10	5
11 - 20 " " "	7	4	2	1
21 or More " " "	3	-	-	3
Claims of \$50,000 to \$99,999 - Total	288	145	109	34
No Subcontractors' Claims Submitted	107	53	42	12
1 " " "	62	36	21	5
2 - 3 " " "	44	19	20	5
4 - 5 " " "	27	12	12	3
6 - 10 " " "	32	18	9	5
11 - 20 " " "	14	6	5	3
21 or More " " "	2	1	-	1
Claims of \$100,000 to \$499,999 - Total	388	134	191	63
No Subcontractors' Claims Submitted	112	45	50	17
1 " " "	39	18	14	7
2 - 3 " " "	55	18	33	4
4 - 5 " " "	53	16	31	6
6 - 10 " " "	64	21	26	17
11 - 20 " " "	47	12	29	6
21 or More " " "	18	4	8	6
Claims of \$500,000 to \$999,999 - Total	46	7	30	9
No Subcontractors' Claims Submitted	8	2	4	2
1 " " "	6	1	3	2
2 - 3 " " "	6	-	5	1
4 - 5 " " "	6	2	3	1
6 - 10 " " "	6	-	5	1
11 - 20 " " "	8	-	7	1
21 or More " " "	6	2	3	1
Claims of \$1,000,000 or More - Total	17	2	9	6
No Subcontractors' Claims Submitted	1	-	1	-
1 " " "	-	-	-	-
2 - 3 " " "	1	-	1	-
4 - 5 " " "	3	1	2	-
6 - 10 " " "	-	-	-	-
11 - 20 " " "	3	-	1	2
21 or More " " "	9	1	4	4

a/ Includes all War and Navy Department fixed-price termination claims for which the contract price of items canceled is \$100,000 or more which were settled from January through July 1944. The excluded settled termination claims for which the contract price of items canceled was less than \$100,000 number 2,597, for which the amount of claim totals \$18,600,000.

NUMBER AND PERCENT OF SETTLED PRIME CONTRACTOR CLAIMS
REQUIRING SIX MONTHS OR MORE FOR SETTLEMENT
By Size of Claim and Number of Subcontractor Claims
January - July 1944 a/

NUMBER OF SUBCONTRACTORS' CLAIMS SUBMITTED	ALL CLAIMS	SIZE OF CLAIM (Dollars)				
		1 - 9,999	10,000 - 49,000	50,000 - 99,000	100,000 - 499,999	500,000 or More
<u>ALL CLAIMS SETTLED</u>						
Total Prime Claims	1,665	358	568	288	388	63
Requiring 6 Months or Over	791	114	226	143	254	54
Percent-6 Months or Over <u>b/</u>	48	32	40	50	65	86
<u>NO SUBCONTRACTOR CLAIMS</u>						
Total Prime Claims Settled	731	241	262	107	112	9
Requiring 6 Months or Over	310	82	100	54	67	7
Percent -6 Months or Over <u>b/</u>	42	34	38	50	60	78
<u>1 - 5 SUBCONTRACT CLAIMS</u>						
Total Prime Claims Settled	678	111	265	133	147	22
Requiring 6 Months or Over	313	29	105	66	95	18
Percent-6 Months or Over <u>b/</u>	46	26	40	50	65	82
<u>6 - 10 SUBCONTRACTOR CLAIMS</u>						
Total Prime Claims	136	3	31	32	64	6
Requiring 6 Months or Over	79	1	15	14	43	6
Percent-6 Months or Over <u>b/</u>	58	33	48	44	67	100
<u>11 OR MORE SUBCONTRACTOR CLAIMS</u>						
Total Prime Claims Settled	120	3	10	16	65	26
Requiring 6 Months or Over	89	2	6	9	49	23
Percent-6 Months or Over <u>b/</u>	74	67	60	56	75	88

a/ Includes all War and Navy Department fixed-price termination claims for which the contract price of items canceled is \$100,000 or more which were settled from January through July 1944. The excluded termination claims number 2,597, for which the amount of claim totals \$18,600,000.

b/ Number of prime contractor claims requiring 6 months or more for settlement as a percentage of total prime contract claims settled.

Source: WAR PRODUCTION BOARD

TABLE 16

APPENDIX C

SUBCONTRACTORS' SETTLEMENTS AS RELATED TO PRIME CONTRACTORS' SETTLEMENTS
By Size of Claim
January - July 1944 a/

ITEM	TOTAL	SIZE OF TOTAL GROSS CLAIM (Dollars)					
		1 - 9,999	10,000 - 49,999	50,000 - 99,999	100,000 - 499,999	500,000 - 999,999	1,000,000 or More
<u>PRIME CONTRACTORS' CLAIMS</u>		(Number)					
Number	1,665	358	568	288	388	46	17
		(Thousands of Dollars)					
Amount For Benefit Of Prime Contractors:							
Gross Claim	183,340	1,316	13,456	17,479	72,509	25,668	52,912
Gross Settlement	157,995	1,134	11,455	14,582	59,536	21,849	49,439
Disposal Credit	26,962	222	2,880	3,642	10,051	2,673	7,494
Net Claim	156,378	1,094	10,576	13,837	62,458	22,995	45,418
Net Settlement	131,033	912	8,575	10,940	49,485	19,176	41,945
<u>SUBCONTRACTORS' CLAIMS</u>		(Number)					
Number Approved	5,056	233	898	702	2,111	360	752
		(Thousands of Dollars)					
Amount of:							
Net Claim	38,033	235	2,259	2,810	11,706	6,408	14,615
Net Settlement	31,135	209	1,745	2,137	9,392	5,436	12,216
<u>Number of Subcontractors' Claims Per Prime Contractor Settlement</u>		(Number)					
	3.0	0.7	1.6	2.4	5.4	7.8	44.2
<u>Subcontractors' Percent of Total Net Settlement</u>		(Percent)					
	19.2	18.6	16.9	16.3	16.0	22.1	22.6
Net Settlement as percent of Net Claim for:							
Prime Contractors	83.8	83.4	81.1	79.1	79.2	83.4	92.4
Subcontractors	81.9	88.9	77.2	76.0	80.2	84.8	83.6

a/ Included are all War and Navy Department fixed-price termination claims for which the contract price of items canceled is \$100,000 or more which were settled from January through July 1944. The excluded termination claims for which the contract price of items canceled is less than \$100,000 number 2597, for which the amount of claim totals \$18,600,000.

Source: WAR PRODUCTION BOARD

TABLE 17

APPENDIX C

NUMBER AND PERCENTAGE DISTRIBUTIONS OF COMPANIES HAVING PRIME CONTRACT TERMINATIONS
By Number of Terminations Per Company and Total Contract Price of Items Canceled per Company
January - July 1944 ^{a/}

AMOUNT TERMINATED PER COMPANY (Dollars)	TOTAL NUMBER OF COMPANIES	NUMBER OF TERMINATIONS PER COMPANY					
		One	Two or Three	Four or Five	Six to Ten	Eleven- Twenty	Twenty-One Or More
NUMBER OF COMPANIES							
TOTAL	2,152	1,535	559	118	82	37	21
100,000-249,999	645	636	9	-	-	-	-
250,000-499,999	424	321	103	-	-	-	-
500,000-999,999	370	198	160	11	1	-	-
1,000,000-4,999,999	461	148	228	59	24	2	-
5,000,000-9,999,999	96	19	26	19	26	6	-
10,000,000-49,999,999	107	12	26	26	21	18	4
50,000,000-99,999,999	17	1	6	1	5	4	-
100,000,000 or More	32	-	1	2	5	7	17
PERCENTAGE DISTRIBUTION BY AMOUNT TERMINATED PER COMPANY							
TOTAL	100	100	100	100	100	100	100
100,000-249,999	30	48	2	-	-	-	-
250,000-499,999	20	24	18	-	-	-	-
500,000-999,999	17	15	28	9	1	-	-
1,000,000-4,999,999	21	11	41	50	29	5	-
5,000,000-9,999,999	4	1	5	16	32	16	-
10,000,000-49,999,999	5	1	5	22	26	49	19
50,000,000-99,999,999	1	b/	1	1	6	11	-
100,000,000 or More	2	-	b/	2	6	19	81
PERCENTAGE DISTRIBUTION BY NUMBER OF TERMINATIONS PER COMPANY							
TOTAL	100	62	26	5	4	2	1
100,000-249,999	100	99	1	-	-	-	-
250,000-499,999	100	76	24	-	-	-	-
500,000-999,999	100	54	43	3	b/	-	-
1,000,000-4,999,999	100	32	50	13	5	b/	-
5,000,000-9,999,999	100	20	27	20	27	6	-
10,000,000-49,999,999	100	11	24	24	20	17	4
50,000,000-99,999,999	100	6	35	6	29	24	-
100,000,000 or More	100	-	3	6	16	22	53

^{a/} Included are all War and Navy Department fixed-price and cost-plus-a-fee prime war contract terminations for which the contract price of items canceled is \$100,000 or more which were pending on January 1 or were terminated from January through July 1944. The excluded terminations for which the contract price of items canceled is less than \$100,000 number 1284, for which the canceled portion totals \$224,000,000.

^{b/} Less than 0.5 percent.

Source: WAR PRODUCTION BOARD

C.S.L.L.(44) 3rd meetingCOMBINED SUBCOMMITTEE ON MUTUAL LEND-LEASE AID
BETWEEN THE U.S. AND U.K.MINUTES of a Meeting held in Room 3438 in the
U.S. Treasury, on 4th November, 1944
at 2:30 p.m.P R E S E N T

Mr. White (In the Chair)

U.S. RepresentativesMr. Casaday
Mr. Taft
Mr. Fetter
Mr. Currie
Mr. Davidson
Mr. HavlikU.K. RepresentativesRt. Hon. Ben Smith
Lord Keynes
Sir Charles Hambro
Mr. Hutton
Mr. Helmore
Mr. GoschenMr. Coe) Joint Secretaries
Mr. Lee)ANNEX "A" OF THE U.K. CASE

1. The discussion was mainly concerned with the elucidation of many of the details given in Annex "A" of the U.K. case, especially (i) the prospective U.K. balance of payments in 1945 given in paragraph 12 of the Annex (ii) the estimated balance sheet for 1945 of the gold and dollar reserve position of the sterling area pool given in paragraph 14 of the Annex.

2. LORD KEYNES said that the UK representatives would be glad to answer questions to the best of their ability but he emphasised that the answers would require later checking. He explained that the figures in the balance of payments had been prepared some time ago, that since they were prepared some of them had been superseded by later estimates, and that this and other tables could necessarily only be regarded as forecasts. MR. CURRIE emphasised the relation of the British financial analysis to the proposals in Chapter 3 of the U.K. case. He said that it would be particularly helpful to the U.S. group if information could be given to construct a balance of payments for the United Kingdom and the Sterling Area with the U.S. for 1945, with a comparative statement in respect of 1943.

3. DETAILS INCLUDED IN THE DRAFT BALANCE OF PAYMENTS FOR 1945.(a) Requirements in the U.S.

MR. CURRIE asked if the U.K. representatives could indicate upon what objects the cash dollar expenditure, implied in the table (i.e. the difference between the figures for total expenditure in the U.S. and the Lend-Lease demands), would be incurred. MR. COE said that the over-all figure for imports seemed to be \$520 millions.

The following explanations were given by the U.K. representatives:-

Food, Civilian.

LORD KEYNES and MR. HUTTON said that dollar food import items included Caribbean sugar (\$71 millions), Iceland products (\$10 millions), small purchases (\$6-8 millions), or a total of about \$90 millions.

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Food for U.K. Forces.

Cash items amounted to \$10-12 millions, according to MR. HUTTON, and comprised partly stores for NAAFI and partly so-called luxury foods (e.g. pickles) which had been taken off lend-lease.

Tobacco.

MR. HUTTON said that the cost of the cash imports into the U.K. (i.e. tobacco for civilians) was \$90 millions.

Materials.

SIR CHARLES HAMBRO said the cash imports planned in 1945 under head 3 (certain raw materials and manufactured goods) amounted to \$40 millions.

Oil.

MR. LEE thought that the total oil figure included about \$90 millions in respect of cash items such as the purchase of equipment, crude oil in the Caribbean, etc., but that figure would need checking.

Other Imports.

It was agreed that a breakdown of the figure of \$148 millions should be supplied.

Interest, etc.

MR. WHITE expressed surprise that estimated payments (\$60 millions) should exceed estimated receipts under this head, but LORD KEYNES said that this was not surprising having regard to the realisation and mortgaging of U.K. investments in the U.S. He thought that the Bank of England's figures, here used, could be taken as accurate.

Other Payments.

LORD KEYNES said that the figure of \$280 millions included about \$70 millions for motion picture payments, large sums in respect of U.K. government expenditure in the U.S. and other items such as remittance payments and insurance premiums. A breakdown was promised.

(b) Receipts: U.K. exports to U.S.

MR. WHITE and others asked whether the figure of \$120 millions was not low. LORD KEYNES and MR. HELMORE said that in their view the estimate for the total exports of the U.K. in 1945--\$1740 millions--was too high, that it was doubtful whether the goods would be produced and exported in the face of competing demands for goods on the home market, and that a large proportion of the increase would inevitably go to the goods-starved countries in the Sterling Area. MR. HELMORE said that the types of goods in respect of which the U.K. could most easily expand its exports were ones which the U.S. would not want. Several U.S. representatives asked whether there was not a disparity between the large expansion of exports assumed in the overall figure of \$1740 millions and the fact that no increase in exports to the U.S. was apparently contemplated,

They stated that since the market existed and since the allocation of manpower for exports would be much increased, it seemed plausible that exports to the U.S. should increase. LORD KEYNES undertook to communicate a note in defence of the U.K. estimate.

4. ESTIMATED 1945 BALANCE SHEET OF STERLING AREA GOLD AND DOLLAR RESERVES.

(a) Sterling Area: Commercial Balance with U.S.

MR. COE asked whether any figures other than the prospective deficit of \$100 millions were available. He said that U.S. trade figures for 1943 indicated a balance, excluding troop pay, which was favorable to the rest of the sterling area by \$300 millions. LORD KEYNES said that trade figures were of doubtful value because of shipping and other complications. He referred to the figures for 1944 in his memorandum of October 31, which showed most of the sterling area to be running a deficit with the U.S. and said that he doubted whether a better breakdown could be given.

Reciprocal Aid.

There was some discussion on the question of what figure had been assumed for sterling area reciprocal aid in raw material and food exports. LORD KEYNES said it had been assumed that the present levels would continue. MR. COE estimated a drop from \$140 millions in 1944 to \$100 millions in 1945.

(b) Gold.

MR. WHITE asked for a breakdown of the estimate of \$160 millions increase in gold holdings in 1945 and a detailed estimate of sales in that year. There were questions about production and sales in 1944. LORD KEYNES gave the following estimates for 1944 but said that it should not be inferred that the same position would hold good in 1945, especially as regards gold receipts from South Africa.

(in millions of pounds sterling).			
<u>Receipts</u>		<u>Sales</u>	
S. Africa	79.5	Sweden	13.2
W. Africa	4.8	Switzerland	11.8
Belgian Congo	2.1	Spain	1.2
Other	6.0	Iran	6.8
USSR	4.8	E. East	6.2
Total	97.2	Norway	1.3
		Bolivia	4.7
		Total	45.2

In answer to questions LORD KEYNES said that Australian gold production was petering out and that in 1944 she would take a million pounds more gold than she sold. He said that thanks to debt repatriation South Africa had sold gold to the U.K. in excess of amounts required to finance the trade balance, but that it was doubtful whether this would hold good in 1945. The figures which he had quoted were exclusive of Indian transactions, where the U.K. sold on its own account 46 millions in pounds sterling in 1944 and had advanced gold for sale on U.S. account against part repayment in gold and part repayment in dollars.

(c) Dollar Payments to Third Countries.

MR. COE asked whether the balance given in paragraph 14 of Annex "A" involved double counting of items like oil and sugar payments here and under imports in the balance of payments statement. LORD KEYNES said that this was possible, and that he would check the position.

(d) Troop Pay.

MR. WHITE said that in his opinion the estimated receipts from U.S. troop pay in the U.K. (\$60 millions) had been put at somewhat too low a figure, especially if the German war continued well on into 1945. On the other hand, he thought that the estimates for the Sterling area of the same item, namely \$200 millions, were too high, although it appeared possible that sufficient account had not been taken of U.S. naval expenditure in Australia. LORD KEYNES said that the U.K. would welcome any additional information which could be given about these two estimates.

(e) Gold and Dollar Liabilities.

MR. WHITE asked for information about the gold and dollar liabilities which were always shown as a deduction from the gross reserves. LORD KEYNES said details were being obtained from London and would be communicated as soon as possible. MR. WHITE asked whether the registered dollars would be likely to be drawn on in 1945. LORD KEYNES said that this was likely to happen as U.S. troops left an area: it was already happening in Australia. He also said that he did not look for any increase of such balances by American banks when trade was increased.

MR. WHITE asked whether it was not the case that the Portuguese balances were only payable in gold five years after the war. LORD KEYNES said that was the case.

5. EMERGENCY HOUSES.

LORD KEYNES asked whether the U.S. representatives, without committing themselves, could give an indication as to whether the U.K. proposals under this head were likely to be sympathetically received. If so, London would like to send out an expert mission to deal with the technical questions involved. MR. CURRIE said that PEA was still considering the question. No decision had been made but the initial reaction of the U.S. representatives had been that the proposal was certainly worth careful consideration. MR. TAFT said that there might conceivably be supply difficulties as regards timber, and he advised the U.K. representatives to get into touch with Mr. Earl Draper of F.H.A. LORD KEYNES said that he was gratified by the initial reception given to the U.K. proposals and that he would advise London to send over the proposed mission.

Washington D.C.
22nd. November 1944

Recd
11/6/44

TOP SECRET

CCPY NO. 20

LEND LEASE IN STAGE II.

Further Particulars of Australia's Requirements.

Attached below are tables (1) giving further particulars of the original Australian requirements which were submitted in the amplified version of Chapter 4; and (2) some more information relating to the additional items (specified in the Australian memorandum of 1st November) which might be brought under lend lease if the civilian and capital goods rules could be relaxed.

(Sgd.) A.W. SNELLING.

Washington, D.C.
4th November, 1944.

AUSTRALIA: QUANTITATIVE ANALYSIS OF REQUIREMENTS.

(All figures (\$000)
Thousands Dollars)

		5th Lend-Lease Estimate				1st Year Stage II			(All figures \$000)	
Item No.	Description	Unit	Quantity	\$000 Value	\$000 Total	Unit	Quantity	\$000 Value	\$000 Total	Thousands Dollars
Food										
1.	Tobacco - Leaf	lbs.	8,930,000	4,465		lbs.	6,236,000	3,100		Military requirements only. An additional 8½ million dollars required for civilian purposes. Used for payment of native porters in forward battle areas. For requirement of armed forces only. Civilian use prohibited. Australian food programme for allied forces. Australian food programme for allied forces. Coca Cola Concentrate in amount of \$275,000 entirely for U.S. Forces.
2.	Tobacco - Native Twist	L/T	290	487		L/T	348	900		
3.	Fish - Canned	Cases	294,600	3,252		Cases	239,500	2,000		
4.	Seeds - Vegetable	Lbs	2,303,300	659		Lbs.	2,303,300	600		
5.	Sausage Casings - Artificial	Pcs.	894,400	81		Pcs.	1,188,800	100		
6.	Coca Cola Concentrate & Misc	Var.	-	586	9,530	L/T	7,955	300	7,000	
Raw Materials										
7.	Tinplate	S/T	156,800	18,816		S/T	116,667	14,000		95% for use in canning programme for allied forces. Various industrial purposes directly connected with munitions programme. Military and war production and construction - Civilian construction prohibited. To augment Australian production which is inadequate for war purposes - paper usage all under strict and rigid control.
8.	Metals - Carbon Steel	S/T	23,074.18	1,846		S/T	15,000	1,200		
9.	" - Alloy Steel	S/T	6,027.58	1,506		S/T	4,000	1,000		
10.	" - Non-Ferrous	Var.	Var.	7,787		Var.	Var.	800		
11.	Timber - Softwood	Var	Var.	415.6		M Bd.Ft.	56,400	2,400		
12.	" - Hardwood	Bd.Ft.	2,351,522	231.5		M Bd. Ft.	1,900	1,400		
13.	" - Plywood	-	-	-		Var.	Var.	200		
14.	Pulp & Paper - Woodpulp	S/T	38,232	2,200		S/T	24,896	2,000		
15.	" " - Fine Paper	S/T	29,250	5,144.6		S/T	16,092	3,500		
16.	" " - Wrapping Paper	S/T	7,434	2,378.8		S/T	5,331	1,800		
17.	" " - Sanitary and other Tissue	S/T	3,904	624		S/T	3,724	1,000		
18.	" " - All other paper	-	-	-		S/T	696	700		
19.	Raw Cotton	500#bales	30,000	3,750		500# bales	26,700	2,800		Military textiles, surgical dressings etc. Largely for use in military tire programmes-supply under instructions of Combined Boards.
20.	Raw Cotton Bleached Linters	-	-	-		S/T	356	200		
21.	Synthetic Rubber - G.R.S.	-	-	-		S/T	9,000	6,000		

Item No.	Description	5th Lend-Lease Estimate				1st Year Stage II				Remarks
		Unit	Quantity	\$000 Value	\$000 Total	Unit	Quantity	\$000 Value	\$000 Total	
<u>End Products (Cont'd)</u>										
42.	Medical Supplies - X-Ray	-	-	-	-	Var.	Var.	800	-	For use in Australian hospitals
43.	" - Surgical	-	-	-	-	Var.	Var.	300	-	at the service of Allied
44.	" - Drugs	-	-	-	-	Var.	Var.	1,100	-	forces.
45.	" - Proprietary	-	-	-	-	Var.	Var.	200	-	
46.	" - Misc.	-	-	-	-	Var.	Var.	600	-	
47.	Textiles - Belting Duck	Lbs.	4,720,000	3,550	-	Lbs.	483,840	500	-	General industrial war production.
48.	" - Tire Cord	Lbs.	10,000,000	5,500	-	Lbs.	9,800,000	9,500	-	Military tire programme.
49.	" - Cotton Piece Goods	Sq.Yds	110,000,000	38,500	-	-	-	-	-	
50.	Silver Bullion/Coinage	-	-	-	-	ozs.	19,000,000	5,000	-	Returnable in kind under special agreement.
51.	Miscellaneous - Film	Lin.Ft.	23,648,400	120	-	Lin.Ft.	27,800,000	200	-	Entertainment of armed forces.
52.	" - Photographic	Each	700	138	-	Each	848	200	-	"
53.	" - Business Machines	"	10,520	930	-	Var.	Var.	500	-	To be used directly by armed forces
54.	" - Hand Tools	Var.	Var.	2,409	-	Var.	Var.	2,000	-	General war production use.
55.	" - Elec. Equipment	Var.	Var.	595	-	Var.	Var.	1,900	-	"
56.	" - Industrial Eqt.	Var.	Var.	737.7	80,693.7	Var.	Var.	1,200	44,000	"
<u>RECAPITULATION</u>										
	Food			9,530.0				7,000		
	Raw Materials			55,752.8				51,000		
	End Products			80,693.7				44,000		
	GRAND TOTAL			145,976.5				102,000		

Commonwealth of Australia
War Supplies Procurement

November 3 1944.

Item No.	Description	Unit	5th Lend-Lease Estimate		1st Year Stage II		Value	Total	Remarks
			Quantity	\$000	Quantity	\$000			
<u>Raw Materials (Cont'd)</u>									
22.	Chemicals - Phosphate Rock	S/T	224,000	1,500	S/T	262,000	2,100		Required in connection with
23.	" - Insecticides	S/T	1,934.4	437	S/T	1,500	1,800		food programme.
24.	" - Sulphur	S/T	49,280	748	S/T	36,000	500		Required in munitions programme.
25.	" - Photographic	Lbs.	2,464,000	840	Lbs.	1,765,000	600		Req'd for indirect military uses.
26.	" - Alcohols	U.S.Gals.	35,955	36	Var.	Var.	600		Industrial alcohols required for
27.	" - Chrome	-	-	-	L/T	319	600		munitions programme.
28.	" - Miscellaneous	Lbs.	36,020,000	3,000	Lbs.	21,200,000	1,800		For tanning and textile industry -
29.	Miscellaneous - Abrasive grains	Lbs.	4,480,000	600	Lbs.	3,520,000	600		producing direct military require-
30.	" - Carbon Black	Lbs.	17,684,000	1,061	Lbs.	13,440,000	1,200		ments.
31.	" - Plastics	Lbs.	2,646,000	1,560	Lbs.	2,700,000	1,500		General war production usage.
32.	" - Miscellaneous	Var.	Var.	1,271.3	Var.	Var.	700	51,000	Tire Programme.
<u>End Products</u>									
33.	Automotive - Vehicles	Each	11,000	16,100	Each	8,900	7,000		General War Production usage.
34.	" - Spares	\$	-	3,000	\$	-	2,500		
35.	" - Stationary Engines	Each	3,500	1,375	Each	3,117	500		Essential civilian wartime trans-
<u>Agricultural Implements</u>									
36.	- Wheel Tractors	Each	6,200	4,659	Each	6,200	4,900		port and agricultural transport -
37.	- Crawler Tractors	Each	200	300	Each	500	2,100		civilian gasoline rationing
38.	- Spares	\$	-	620	\$	10,000	1,100		extremely rigid.
39.	- All Other	Each	10,489	658	Each	-	900		Required for incorporation in mo-
40.	Coal Mining Machinery (underground)	-	-	-	Each	-	500		bile welding sets, pumping units,
41.	Bearings	\$	-	1,202	\$	-	500		etc. req'd by armed forces.
<u>Remarks</u>									
									Req'd for food programme.
									Required for maintenance of armed
									services' equipment performed by
									civilians. An additional
									\$1,000,000 required for general
									industrial purposes related di-
									rectly to the war effort.

AUSTRALIA: FURTHER PARTICULARS OF THE ADDITIONAL ITEMS LISTED IN THE AUSTRALIAN MEMORANDUM OF 1st NOVEMBER, 1944.

<u>Item</u>	<u>Description</u>	<u>Unit</u>	<u>Quantity</u>	<u>\$1,000 Value</u>
1.	Tobacco Leaf	Lbs.	17,000,000	8,600
2.	Seeds, Essential Oils & Miscellaneous Food	Var.	Var.	1,500
3.	Woodpulp	S/T	12,900	1,000
4.	Paper	S/T	8,900	2,400
5.	Raw Cotton	500 lb. bales	3,413	400
6.	Abrasive Grains & Plastics	Var.	Var.	2,100
7.	Bearings	\$	-	1,000
8.	Business Machines & Office Equipment	Ea.	-	1,200
9.	Cotton Piece Goods	Sq.yd.	15,000,000	4,500
				<hr/>
				\$22,700

TOP SECRET

COPY NO. 70

LEND-LEASE IN STAGE II

I N D I A

Attached below are particulars of the Indian requirements under Lend-Lease in Stage II itemized in greater detail than in previous submissions and giving quantities as well as values wherever possible.

(Signed) A.W. Snelling

Washington, D.C.

4th November, 1944.

(U.S.) CONFIDENTIAL
(BR.) CONFIDENTIAL

Mission: INDIA SUPPLY

November 2, 1944

SUMMARY

ESTIMATES OF LEND-LEASE REQUIREMENTS DURING STAGE 2 (YEAR 1945)

Item No.	Fiscal Code	DESCRIPTION	Unit	Quantity	Value (\$000)	END USE
	240	Automotive			1,200	These estimates have been assembled according to the "Standard List of Items for 1945 Non-Military Requirements of Lend-Lease Countries," also known as "Fiscal Code." This was the code previously used for all Lend-Lease Estimates. The form used is the same as that used for previous estimates, with the exception of the heading.
	610	Agricultural Products - Foodstuffs			3,000	
	620	Agricultural Products - Other than Foodstuffs			2,900	
	630	Machinery, Equipment, Materials and Supplies			40,700	
	640	Metals and Minerals			23,500	
	650	Chemicals			500	
	670	Textiles			1,200	
	680	Lumber Products			4,500	
	690	Not otherwise Classified			6,100	
		GRAND TOTAL			83,600	

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November 2, 1944

Category: 3

Mission : INDIA SUPPLY

ESTIMATES OF LEND LEASE REQUIREMENTS DURING STAGE 2 (YEAR 1945)

Item No.	Fiscal Code	DESCRIPTION	Unit	Quantity	Value (\$000)	END USE
1	240	<u>VEHICLES (OTHER THAN ORDNANCE)</u>				This estimate falls within the agreed quota of \$30 per truck and \$12 per automobile per year. Distribution is controlled in India under the motor Vehicles Spare Part Control Order. Release of these items is granted only for use on a specific essential vehicle, maintenance of which is permitted because, though operated by civilians, it has been classified as essential to the War Effort. Most of the vehicles so maintained are engaged in work which is actually part of the Military effort such as road-building, making of aerodromes, transport of materials, ordnance factory supplies, etc. For maintenance of power supply in various essential war uses.
	244	<u>Miscellaneous Automotive Supplies</u>				
		Spares For Civilain and G.M. Vehicles	\$		1000	
2		Spark Plugs for Oil and Gas Engines	Each	280,000	200	

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November 2, 1944

Mission : INDIA SUPPLY

Category: 7

ESTIMATES OF LEND-LEASE REQUIREMENTS DURING STAGE 2 (YEAR 1945)

Item No.	Fiscal Code	DESCRIPTION	Unit	Quantity	Value (\$000)	END USE
1.	610	<u>Agricultural Products - Foodstuffs</u> Miscellaneous Foods for the India Canteen Stores (The exact breakdown of various foods for canteen stores has not yet been received from India.)	\$		3000	The Indian Canteen services operate solely to meet the need of the Allied armies within the borders of India. The canteen service is under the control of the Quartermaster General in India. All canteen stores are issued by the canteen services in accordance with a basic scale determined by the military authorities. Distribution is effected only through installations under the control of the Quartermaster General in India
2.	620	<u>Agricultural Products - Other than Foodstuffs</u>				
	623	Leaf Tobacco	L.T.	2450	2800	Required for incorporation with Indian tobacco in the manufacture of cigarettes for the armed forces.
3.	623	Pipe Tobacco	L.T.	94	100	For sale and distribution exclusively to troops in India.

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Mission : INDIA SUPPLY
ESTIMATES OF LEND-LEASE REQUIREMENTS DURING STAGE 2 (YEAR 1945)

November 2, 1944

Category 7

Item No.	Fiscal Code	DESCRIPTION	Unit	Quantity	Value (\$000)	END USE
	630	MACHINERY, EQUIPMENT, MATERIALS, AND SUPPLIES				
	632	Tractors	Each	108	300	For use in reclaiming weed-infested land and breaking new land for cultivation, to help combat famine in India.
	634	Electric Control & Switchgear Spares	\$	--	300	For maintenance of electric power and lighting equipment in the service of the war effort.
	634	Fuse Cut-Outs	Each	46,000	300	" " "
	639	Battery Materials	\$		400	Required for the mfg. of Batteries in India. Entire output controlled by Govt. and will be allocated to the Military and R.A.F. in proportion of 50% and 40%, 10% only for civilian use.
	639	Lighting Carbons	Each	4,000,000	100	End use of these has not yet been received from India.
	639	Edison Batteries	Each	9,000	200	For battery-operated electric machines, systems, and locomotives in essential use.
	639	Renovals for Primary Cells	Each	93,000	900	
	639	Primary Batteries (wet)	Each	55,000	800	
	636	Locomotives and Wagons			30,000	Referred back by U.S. War Dept. for inclusion in non-munitions program.
		Broad-Gauge Locomotives	Each	60		
		Motor-Gauge Locomotives	Each	128		
		Broad-Gauge Wagons	Each	6,000		
		Motor-Gauge Wagons	Each	1,717		

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November 2, 1944.

Mission : INDIA SUPPLY

Category: 7

ESTIMATES OF LEND-LEASE REQUIREMENTS DURING STAGE 2 (YEAR 1945)

Item No.	Fiscal Code	DESCRIPTION	Unit	Quantity	Value (\$000)	END USE
639		Glass Bulbs for Electric Lamp Bulbs manufacture	Each	9,000,000	200	<p>A brief summary of the Lamp position in India is as follows: Approx. annual consumption of General -18,000,000 Lighting Lamps, based on survey in 1940. Local production (maximum capacity, not yet reached). - 9,000,000 Balance to be imported from overseas End use is: - 9,000,000 Military against demand already received - 11% Factories and Mills - - - - - 28% Public Works Dept. of Govt. of India - - 2% Railways - - - - - 5% Ordnance Factories - - - - - 5% Provincial Govt. and Elec. undertakings - 25% Navy - - - - - 1% Civil user under control - - - - - 23%</p>
639		Electric Lamp Bulbs, General Service sizes ranging from 15 to 1000 watts	Each	9,000,000	1600	
639		Electric Lamp Bulbs, Miniature	Each	2,000,000	500	

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November 2, 1944

Mission: INDIA SUPPLY

Category: 7

ESTIMATES OF LEND-LEASE REQUIREMENTS DURING STAGE 2 (YEAR 1945)

Item No.	Fiscal Code	DESCRIPTION	Unit	Quantity	Value (\$000)	END USE
639		Spares for Receivers, Radio	\$		200	Justification not yet received from India.
639		Radio Set Tubes	Each	258,000	500	
639		Typewriters, Standard and Portable	Each	12,000	1,000	For use by military, Government, and essential war industries only. For use in ordnance factories, shipyards, railway shops, and other essential war industries.
639		Cutting Tools	Each	214,000	900	
639		Woodworking Tools	L.Tons	140	200	
639		Files and Rasps	\$	--	300	
639		Spares for Pneumatic Tools	\$	--	200	
639		Machinery, Equipment Materials and Supplies - Miscellaneous	\$	--	1,800	For war industry.

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November 2, 1944

Mission: INDIA SUPPLY

Category 7

ESTIMATES OF LEND-LEASE REQUIREMENTS DURING STAGE 2 (YEAR 1945)

Item No.	Fiscal Code	DESCRIPTION	Unit	Quantity	Value (\$000)	END USE
	640	<u>Metals and Minerals</u>				
	641	Steel				
1.		Tinplate	L.T.	28,000	3,400	Includes (a) wire rope for collieries, shipping operations, railways, harbours, etc; (b) mill rolls for steel rolling mills; boiler tubes, rails, wheels, tyres and axles for railways; (c) tinplate for foods and medicines for the armed forces; (d) bolts and nuts for use in munitions production, ship repair, construction of rolling stock, military vehicles, army bridges, docks, etc. (e) hoop and strip for baling jute, cotton etc.
2.		Billets	L.T.	40,000	1,400	
3.		Rails and accessories	L.T.	78,000	4,400	
4.		Hoops and strip	L.T.	11,000	1,100	
5.		Tubes	L.T.	5,000	600	
6.		Wheels, tyres & axles	L.T.	32,000	5,700	
7.		Bolts and nuts	L.T.	6,500	1,000	
8.		Tool steel	L.T.	1,300	2,300	
9.		Rolls	L.T.	5,000	1,000	
10.		Rope	L.T.	6,800	2,300	
	648	<u>Other Metals and Minerals</u>				
11.		Ferro-Molybdenum	L.T.	107	100	For use in the manufacture of Mill Rolls and High-Speed Tool Steels.
12.		Chrome Magnesite Bricks and shapes	L.T.	380	200	These are required for use in the production of Steel. 99% of materials asked for are required by Steel Industries in India for maintenance of furnaces. The refractories asked for are not produced in India and no suitable substitutes have yet been found from indigenous sources.

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November 2, 1944

Category 7

Mission: INDIA SUPPLY

ESTIMATES OF LEND-LEASE REQUIREMENTS DURING STAGE 2 (YEAR 1945)

Item No.	Fiscal Code	DESCRIPTION	Unit	Quantity	Value (\$000)	END USE
	650	<u>CHEMICALS</u> Sulphur	L.T.	24,000	500	Required for production of Sulphuric Acid for War Industry.
		(NOTE: Other chemicals would be included in the following groups: 639 Battery Materials 690 Tyre and Rubber manufacturing Materials)				

Regraded Unclassified

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November 2, 1944.

Mission: INDIA SUPPLY

Category: 7

ESTIMATES OF LEND-LEASE REQUIREMENTS DURING STAGE 2 (YEAR 1945)

Item No.	Fiscal Code	DESCRIPTION	Unit	Quantity	Value (\$000)	END USE
	670	<u>TEXTILES AND CLOTHING</u> Rayon and Nylon Fabric and Cord for Tyres	Long tons	900	1,200	For the manufacture of Aircraft tyres for the U.S.A.A.F. in India.
1.	680	<u>TIMBER PRODUCTS</u> Oregon Pine	Long tons	25,000	900	For construction of harbor lighters and small craft and for ship repair generally.
2.	680	<u>PAPER</u> all types	Long tons	20,000	3,300	For use and distribution by the Government exclusively. India Government requirements have been increased 350% by war needs, and rigid controls are placed on the use of paper of any kind.
3.	680	Masonite	Long tons	2,600	300	For construction of bodies and radio boxes for Military vehicles, combat and cargo vessels, pontoons, instrument panels for aircraft, etc.

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November 2, 1944

Mission: INDIA SUPPLY

Category: 7

ESTIMATES OF LEND-LEASE REQUIREMENTS DURING STAGE 2 (YEAR 1945)

Item No.	Fiscal Code	DESCRIPTION	Unit	Quantity	Value (\$000)	END USE
690		<u>ALL OTHER COMMODITIES AND ARTICLES NOT OTHERWISE CLASSIFIED</u>				
690		Abrasives	L.tons	650	100	For the mfg. of grinding wheels used in the making of rifles, machine guns, and other ordnance.
690		Carbon Black	L.tons	7,000	100	Carbon Black cannot be produced in India. The requirement will be used for the following purposes, by the indicated percentages: Tyres, (Motor, Cycle, and Aeroplane) 70%, Electrical Cables 5%, Industrial Hose 5%, Railway Fittings 5%, Gas Masks 5%, Army Footwear 4%, Rubber Fabrics 2%, Ind. Sheet Packing 2%, Misc. Item 2%
690		Materials for the mfg. of tyres and other rubber items	L.tons	6,000	5,500	For mfg. of military vehicle and aircraft tyres.
690		Mercuric Oxide, Red and Yellow	L.tons	19	100	Required for embodiment in Antifouling composition used for the underwater protection from marine pests of steamers and transports.
690		Monolite Fast Red, G.N.S. No. 5	L.tons	39	200	Entirely for mfg. of paints and dyes for military use.
690		Miscellaneous	\$	--	100	Small quantities of various essential materials.



BRITISH AIR COMMISSION

1785 MASSACHUSETTS AVENUE
WASHINGTON, D. C.

TELEPHONE HOBART 9000

PLEASE QUOTE

REFERENCE NO.

With the compliments of British Air Commission
who enclose Monthly Report No.14 covering
Aircraft Flight Delivery as at October 31, 1944.

The Honourable Henry Morgenthau, Jr.
Secretary of the Treasury,
WASHINGTON, D.C.

November 4, 1944.

CONFIDENTIAL

REF. NO. D-55

MONTHLY REPORT NO. 14

**LOCATIONS OF U.S. BUILT OCEANIC FLIGHT DELIVERY AIRCRAFT
(COVERING MOVEMENTS THROUGH OCTOBER 31, 1944)**

NOVEMBER 2, 1944

	(1) FORTRESS (BAC-L/L)	(2) LIB. (BAC)	(3) HUDSON (BAC-L/L)	(4) VENT. (BAC)	(5) F. BOAT (BAC-L/L)	(6) VENT. (L/L)	(7) BOST. (L/L)	(8) BALT. (L/L)	(9) B24 (L/L)	(10) B25 (L/L)	(11) B26 (L/L)	(12) TRANSP. (L/L)	TOTAL
UNITED KINGDOM	145	96	(b)807	141	548	58	312	1	409	484	8	(h)544	3973
MIDDLE EAST (a)		5	95			205	69	(f)1115	233		(g)410	218	2390
WEST AFRICA (a)									22			4	26
AUSTRALIA					27								27
SOUTH AFRICA (a)				135		107						45	287
SINGAPORE					9								9
INDIA (a)									395			305	700
ACROSS	3												3
PHANTOM			91										91
OTW'S IN CANADA			210	68		64			53	54		30	479
BOAF					28	1	2		(d) 15	1			47
111 OTW									39	76			115
45 GROUP RAFTC		11	43	13	11				11	8		5	102
En route overseas								2	37	9	1	17	66
Gander, Goose, etc.	1						2		8	11		5	27
Hazam or Bermuda (en route)					1				4		1	1	7
Special duty in Canada			1	2				1		1	1	2	8
Montreal							50		24	12		20	106
CRASHED AFTER EXPORT			52	19	10	9	18	40	6	13	14	11	192
En route export							2		2	6		3	13
At Modification Center					6	1			109				116
En route Modification Center									3				3
Special duty in U.S.		2											2
CRASHED IN U.S.		1	28	6		1	3	15	5	2	11	1	73
DIVERTED TO U.S.		10	21	(a)280e									311
TOTAL	149	165	1348	664	(a)640	116	458	(f)1174	1375	677	(a)446	(h)1231	8773

(a) Including deliveries to Rabat, Accra or Dakar for these destinations.

(b) Including 3 removed from British charge and transferred to British W. Ind. Airways, Ltd.

(c) Including 15 returned under Req. BSC 41018 after use by U.S.A.A.F. for training, with 45 off B4-152 also under 41018 after A.A.F. training use. All 60 are included in Col. 6.

(d) Later re-allocated to Canada by H.A.C. (Air), under Req. CA-00076.

(e) Reduced by 21 F2H's, 35 F2H's, and 25 F2H-3B's, returned to U.S. Navy.

(f) Including 72 removed from British charge and transferred to Turkey.

(g) Including 1 removed from British charge and transferred to Turkey.

(h) Including 3 removed from British charge and transferred to Netherlands.

* Reduced by one which crashed at plant and was erroneously considered a diversion.

PLANNING AND AIRFRAME SUPPLY
BRITISH AIR COMMISSION
WASHINGTON, D.C.
NOVEMBER 3, 1944

Regraded Unclassified

MF-262

This telegram must be
paraphrased before being
communicated to anyone
other than a Government
Agency. (SECRET O)

London

Dated November 4, 1944

Rec'd 9:26 p.m.

Secretary of State

Washington

7355, November 4, 10 p.m.

FOR WRB FROM MCCLELLAND

Permission for entry into Switzerland for 155

Sephardic Jews mentioned last paragraph your 3702 was
obtained from Swiss Federal Police some weeks ago by
Saly Mayer.

(Department's 3702, October 30.) Problem is how
to get them out of Bergen Beisen. Swiss would welcome
formal request from Spanish Government concerning this
group as this might permit Swiss to specifically raise
question of their departure with Germans.

HARRISON

JT

302
AMT-352

Paris

Dated November 4, 1944

Rec'd 2:01 p.m., 5th.

Secretary of State,

Washington.

322, November 4, 5 p.m.

FROM J. JEFROYKIN AMERICAN JOINT DISTRIBUTION
COMMITTEE PARIS TO MOSES A. LEAVITT JDC NEW YORK

Yours October 16.

Hicun possesses only 2-1/2 million francs
representing emigrants deposits to be reimbursed to
owners. For this reason and other reasons we have no
interest to use it for relief purposes. View present
critical situation please send funds urgently account
Jules Jefroykin Credit Lyonnais Agence A. G. 2
Avenue Messine Paris. American joint account will
function same bank from December 1.

CAFFERY

WFS

Miss Chauncey (for the Sec'y) Abrahamson, Ackermann, Akzin, Cohn,
Drury, DuBois, Friedman, Gaston, Hodel, Lesser, Marks, Mannon, McCormack,
Pehle, Files.

AIRGRAM SENT
AIRGRAM SENT

A-255

Nov. 4, 1944

2:15 P.M.

American Embassy,

Asuncion.

On October 2, Embassy at Madrid reported that Spanish Government had as yet received no request from Paraguayan Government through the Spanish Legation Paraguay regarding visit to camps.

Please discuss matter with the Foreign Office with a view to clarifying this matter.

Stettinius

Acting

AC

840.48 Refugees/10-244

Swp:HCE/SKL:TAH

11/1/44

CABLE TO AMERICAN CONSULATE, JERUSALEM, FROM WAR REFUGEE BOARD.

Please deliver the following message to Meilech Neustadt, Yehuda Halevi 40, Tel Aviv, from David Wertheim of the Poale Zion Organization:

QUOTE REPLYING YOURS 23rd KUBOWITZKI INFORMS INNERQUOTE CONCERNING SLOVAKIA SUGGEST THEIR COLLEAGUES HERE JOINT DEMARCHE APOSTOLIC DELEGATE NEUTRAL DIPLOMATS BRATISLAVA AND ASKED MASARYK NEGOTIATE EXCHANGE INTERNED JEWS FOR GERMAN CIVILIANS HELD PARTISANS. FOR HUNGARY REQUESTED APOSTOLIC DELEGATE HAVE ALL CHURCHES DECLARED SANCTUARIES FOR JEWS, EIRE SEND SPECIAL REDCROSS MISSION TO BUDAPEST ACT ALONG LINES SWEDISH MISSION. CABLED CHAIRMAN ICRC AND PRINCE KARL STOCKHOLM ASKING APPEAL TO AND WARN CHAIRMAN GERMAN REDCROSS. SWEDISH CONGRESS COMMITTEE NOW ACTIVE IN 93 METRIC TONS FOODPARCEL SCHEME FOR CONCENTRATION CAMPS. End INNERQUOTE. WISE WILL ENDEAVOR EXPEDITE JARBLUM MATTER. UNQUOTE

10:30 a.m.
November 4, 1944

Miss Chauncey (for the Sec'y) Abrahamson, Ackermann, Cohn, DuBois, Friedman, Hodel, Lesser, Mannon, McCormack, Files.

RDrury 11-7-44

CABLE TO MINISTER JOHNSON, STOCKHOLM, FOR OLSEN, FROM WAR REFUGEE BOARD.

Please deliver the following message to Laura Margolis, Hotel Continental, Stockholm, from Joseph Schwartz of the American Jewish Joint Distribution Committee:

QUOTE ANSWERING YOUR CABLE CONNECTION 115 FINNISH STATELESS REFUGEES APPROVED TOTAL \$20,000 AGAINST WHICH REMITTED \$15,000 NOW REMITTING BALANCE \$5,000 UNDER LICENSE NUMBER 642081-R. BEHALF DANISH REFUGEES FIRST \$25,000 REMITTED OCTOBER 11, 1943 ADDITIONAL \$25,000 TRANSFERRED DECEMBER 29. \$1,000 MONTHLY APPLICABLE GENERAL BUDGET. SUGGEST YOU CONSULT IVER OLSEN LICENSE 648481. WHILE HUGO ROTHENBERG WAS HELPFUL TO US IN PAST VIEW HIS PRESENT STATUS AS REFUGEE BELIEVE IT WOULD BE BEST NOT HAVE HIM CLOSELY IDENTIFIED OUR WORK. PLAN RETURN LISBON ENROUTE LONDON EARLY NEXT WEEK. UNQUOTE

THIS IS WRB STOCKHOLM CABLE NO. 235.

10:30 a.m.
November 4, 1944

Miss Chauncey (for the Sec'y) Abrahamsen, Ackermann, Cohn, DuBeis, Friedman, Hedel, Lesser, Mannon, McCormack, Files.

RD:ry 11/3/44

CABLE TO MINISTER JOHNSON, STOCKHOLM, FOR OLSEN, FROM WAR REFUGEE BOARD.

The War Refugee Board requests that the following message be transmitted to Mr. Fritz Hollander, Congress Committee, Postbox 7306, Stockholm, from Dr. Kubowitzki, World Jewish Congress:

QUOTE Thanks your message 30/10 will advise you next days.
Kindly have foodparcels forwarded following Bergenbelsen inmates:
Hans, Lotte and Susi Andorn, Rosa Berger, Izak Lina and Franciszka
Birnbaum, Benno and Dorothea Both, Henry and Rebecca van Esso,
Robert and Louisjacobi Helbing, Goldo and Uridan Kohn, Max and
Dora Lauinger, Blumegross Liebermann and daughter, Kurt Herta and
Evi Neumann, Claire, Martin, Jacques and Ralph Perlberger, Dora,
Felicia Maryannorbert and Hendrykjozef Reich. UNQUOTE

THIS IS WRB STOCKHOLM CABLE NO. 236.

1:45 p.m.
November 4, 1944

November 4, 1944

Midnight

AMLEGATION

STOCKHOLM

2224

The cable below for Olsen is WRB 233.

Reference your 4432, October 31 and terminology "unassimilated persons in concentration camps." The Geneva Convention on Prisoners of War has, by agreements between certain powers, been applied to civilian nationals detained by the enemy and who are said to be thereby assimilated to the status of prisoners of war thereby obtaining the same rights and privileges as military prisoners of war. Such civilians so held in special civilian internment camps are reported through Intercross to countries of their nationality and are accorded rights and privileges described in the convention such as despatch and receipt of mail, receipt of food parcels and clothing and visits by Intercross delegates. Persons detained by enemy governments in concentration camps such as Belsenbergen, Westerbruck and Krakow are not covered by these agreements and therefore are commonly referred to as "unassimilated persons." It is to this category of detained persons that the Board's parcel program, 93 ton program from Sweden and similar undertakings are directed in keeping with Berle-Foot agreement authorizing programs of this nature.

Please convey Board's appreciation to Whisler for his work in restoring our parcels for forwarding.

STETTINIUS
(Acting)

WRB:LMV:kg
11/3/44

SWP

NOE

Miss Chauncey (for the Sec'y) Abrahamson, Ackermann, Akzin, Cohn, Drury, DuBois, Friedman, Gaston, Hodel, Lesser, Marks, Mannon, McCormack, Pehle, Files.

ORIGINAL TEXT OF TELEGRAM SENT

FROM: Secretary of State, Washington
TO: American Legation, Bern
DATE: November 4, 1944
NUMBER: 3769

SECRET

To Minister Harrison and McClelland.

Reference is made to your 7163 of October 28. Department and B card fully agree with action suggested by Grasali. Should you not yet have done so, you are requested to approach Swiss authorities accordingly without delay. In connection with claimants to citizenship of United States and other American Republics, whether with or without documents, reference is made to Department's 1269 of April 13, 1921 of June 6, and 2149 of June 24.

This is WEB Bern cable No. 258.

STETTINIUS
Acting

Miss Chauncey (for the Sec'y) Abrahamson, Ackermann, Alsin, Cohn,
Drury, DuBois, Friedman, Gaston, Hodel, Lesser, Marks, Mannon,
McCormack, Pehle, Files.

GEK-79

This telegram must be
paraphrased before being
communicated to anyone
other than a Government
Agency. (SECRET O)

Bern

Dated November 4, 1944

Rec'd 1:30 p.m.

Secretary of State,

Washington.

7323, November 4, 9 a.m.

FOR WRB FROM MCCLELLAND

Information concerning Elchanon Wassermann is not
authentic. Our search for these personalities which
began long ago has remained unsuccessful.

According last information Rabbi of Neutra
hidden somewhere in Slovakia. See Legation's 7324 today
for balance this message which is for Union Orthodox
Rabbis from Sternbuch.

HARRISON

LMS

Dated November 4, 1944

Rec'd 2:33 p.m.

Secretary of State,
Washington.

7324, November 4, 10 a.m.

Griffel cables that Hestadrut Poalin (Zionist Labor Party) arranged with Sochnut for large scale emigration from Rumania and has already purchased steamer. If emigration is to depend on Hestadrut and Sochnut it will handicap chances of unaffiliated and Orthodox. Petrusca and colleagues warn that collaboration with Sochnut is a dangerous precedent as Sochnut considers emigration as an aliyah rather than as rescue work. About one million dollars will be necessary to carry out rational emigration plan. Advisable purchase steamers as chartering apparently expensive, although both can be done. Urgent action necessary as it is confidentially understood danger all certificates issued may be annulled. Also necessary separate all assistance to Orthodox in countries where hostilities have ceased to avoid profanizing religion and anti-religious propaganda among children aliyahs. For rescue work in Bulgaria propose Rabbi Daniel Zion in Sofia and for Greece, Rabbi Barzilai at Athens. Assume program our organization includes these countries.

Griffel also requests \$70,000 purchase steamer for Rumanian emigration.

Petrusca closed contract for 500 departures from Rumania to Turkey; further 1,000 will follow. He requests 100,000 Swiss francs for each 300 departures.

Our French delegate forwarded urgent appeal of Rabbi Soil at Aix Les Bains for 6,000 Swiss francs necessary support for three months 100 children living under wretched physical and spiritual conditions with French peasants. Please wire instructions.

HARRISON

JT

Miss Chauncey (for the Sec'y) Abrahamson, Ackermann, Aksin, Cohn, Drury, DuBois, Friedman, Gaston, Hodel, Lesser, Marks, Mannon, McCormack, Pehle, Files.

AMT-372

PLAIN

Bern

Dated November 4, 1944

Rec'd 3:05 p.m., 5th.

Secretary of State,
Washington.

7334, Fourth.

FOR WRB FROM MC CLELLAND

For Leavitt of Joint Distribution Committee from
Saly Mayer.

"Would you kindly cable me what Joe Schwartzs
plans are." 505

HARRISON

RR

Miss Chauncey (for the Sec'y) Abrahamson, Ackermann, Akzin, Cohn,
Drury, DuBois, Friedman, Gaston, Hodel, Lesser, Marks, Mannon,
McCormack, Pehle, Files.

PARAPHRASE OF TELEGRAM RECEIVED

312

FROM: American Legation, Bern
TO: Secretary of State, Washington
DATED: November 4, 1944
NUMBER: 7344

SECRET

The following is from Riegner for Kubowitzki of World Jewish Congress. From McClelland for WRB.

On the basis of report received from Swiss Legation, ICRC transmitted following information to us in confidence with regard to situation of Jews in Budapest.

1. Hungarian officials recognized Swiss protection papers.
2. Recognition was not accorded Swedish protection papers.
3. Deportation was not made of male Jewish population; they were sent for outside work on fortification.
4. It is said this measure is general, applying to non-Jews also.
5. In Budapest, Jewish invalids, old persons, women and children have been left in their houses.
6. Foodstuffs and clothing for category 5 have been requested urgently from ICRC.

You are requested to telegraph if you are inclined to take part in such relief and what quantity you have on hand.

HARRISON

DCR:GPW

11-10-44

Miss Chauncey (for the Sec'y) Abrahamson, Ackermann, Aksin, Cohn, Drury, DuBois, Friedman, Gaston, Hodel, Lesser, Marks, Mannon, McCormack, Pehle, Files.

BAS-269

This telegram must be paraphrased before being communicated to anyone other than a Government Agency. (SECRET O)

Bern

Dated November 4, 1944

Rec'd 9:42 p.m.

Secretary of State,

Washington.

7347, November 4, 8 p.m.

FOR WRB FROM MCCLELLAND.

Department's 3657, October 26 and 3729, October 31.

As stated in Legation's 6837 October 13, Krier and Clement have gone to Luxemburg for indefinite period and I have no reliable irregular or regular means of communicating with them. I shall attempt however received details from them as to specific relief needs in Luxemburg from which these funds could be profitably used also possible channels of relief if any for Luxemburg deportees labor and otherwise in Germany.

To my knowledge neither Krier nor Clement have developed any plans for using either Dutch or Belgian funds at present here in enemy territory. They are primarily interested in relief for their own country.

We are attempting secure information from Oldenbruck in London whether equivalent of \$90,000 was ever made available to labor groups in Holland (Department's 3655, October 26). If so will pay Dutch Minister here as instructed.

On November 1, I received 213,336 Swiss francs net from Queen Wilhelmina fund through Swiss National Bank.

As it is exceedingly difficult it not largely impossible to spend money already in hand in accordance with terms of original license and in absence of other instructions I strongly recommend that no (repeat no) further remittances from any of these three organizations should be made to Bern as money is merely accumulating in bank and serving no useful purpose apparent to me.

HARRISON

RFS

Ankara

Dated November 4, 1944

Rec'd 4:15 p.m., 5th

Secretary of State

Washington

2114, November 4, 3 p.m.

FROM KATZKI TO PEHLE WAR REFUGEE BOARD

ANKARA'S NO. 177

For your information on November 3 a group of 80 persons proceeding to Palestine arrived in Istanbul by rail from Bulgaria. They insisted 24 men who escaped to Sofia from the Bor mines Yugoslavia, 50 children under the "children's scheme" and 6 adults escorts for the children. It is planned that they depart for Palestine during the next few days.

STEINHARDT

WMB

SECRETCOPY NO 4NOT TO BE RE-TRANSMITTEDOPTEL No. 358

Information received up to 10 A.M. 4th November 1944.

1. NAVAL

On 1st/2nd. Motor Torpedo Boats met a force of two trawlers four LCT's and three E-Boats off HOOK OF HOLLAND; one trawler believed sunk.

2. MILITARY

Western Front 7th U.S. Army has made further local gains VOSGNE sector on 25 mile front. U.K. and U.S. Forces continue to advance slowly south of DEURNE and are now within one mile of MEIJEL. North of BREDA we have secured three bridgeheads over DINTEL MARK CANAL. South of SCHELDT all German resistance now ceased; north bank we hold coast line WALCHEREN ISLAND from DOMBURG to FLUSHING and have captured all coastal positions and guns commanding Estuary. ANTWERP approaches thus free from interference and minesweeping has started. During 2nd/3rd, successful assault crossing made two miles south of the causeway to WALCHEREN ISLAND; troops from this bridgehead are moving northwest.

Eastern Front Between TISZA and DANUBE, Russians have now advanced to within 12 miles of BUDAPEST.

3. AIR OPERATIONS

Western Front 2nd/3rd, DUSSELDORF. 4,473 tons including 501 4,000 lb. bombs and 704 tons incendiary; clear weather with good visibility and very good results; one particularly impressive explosion reported; considerable fighter opposition, five jet-propelled and two other aircraft claimed destroyed. 20 Mosquitoes successfully attacked 21 trains.

3rd. 145 medium bombers attacked railway bridges WESTERN GERMANY with unobserved results. 866 fighters and fighter bombers (11 missing) operated over battle area.

3rd/4th. 53 Mosquitoes attacked BERLIN through cloud; eight were sent to HERFORD, 8 miles Northeast BIELEFELD. All returned safely.

Mediterranean 2nd. Operations severely restricted by weather.

3rd. 47 Heavy bombers made light attacks by Pathfinder technique on objectives SOUTHERN GERMANY and AUSTRIA.