

053/c/87-210

~~CONFIDENTIAL~~

5/28/56

UNCLASSIFIED



5/28/56

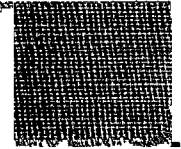
B-1250 4

FILE COPY - COMP. GEN.

REPORT ON EXCHANGE RATES
APPLIED TO
UNITED STATES OFFSHORE PROCUREMENT CONTRACTS
IN ITALY

Declassified pursuant to
review by the Department
of State

BY
THE COMPTROLLER GENERAL OF THE UNITED STATES



~~CONFIDENTIAL~~ UNCLASSIFIED
753107/087808

~~CONFIDENTIAL~~

8

**REPORT ON EXCHANGE RATES
APPLIED TO
UNITED STATES OFFSHORE PROCUREMENT CONTRACTS
IN ITALY**

**BY
THE COMPTROLLER GENERAL OF THE UNITED STATES**

~~CONFIDENTIAL~~



~~CONFIDENTIAL~~

UNCLASSIFIED

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON 25

B-125024

MAY 23 1956

Dear Mr. Secretary:

Herewith is a report relating to the rate of exchange applied to offshore procurement contracts awarded under the Mutual Defense Assistance Program (MDAP) in Italy.

This report indicates that the cost of MDAP offshore procurement contracts is increased by a charge imposed by an agency of the Italian Government for the conversion of dollars to lire. Similar charges are not incurred in connection with other United States transactions in Italy. Based upon the volume of MDAP contracts awarded in Italy during fiscal years 1952 through 1956, this exchange charge may total more than one million dollars. About one half of this amount has not yet been paid.

Our European Branch sought the advice of the American Ambassador at Rome on the practicability of undertaking negotiations to extend to MDAP offshore procurement contracts the same exchange rates that are applied to other United States expenditures in Italy. The officials of the Embassy apparently concluded that negotiations should not be initiated since the exchange charges do not violate existing agreements between the United States and Italy. Nevertheless, because of the potential savings which might result from such negotiations, we believe that this matter warrants further consideration at departmental level.

There may be factors to be considered in undertaking negotiations of this nature which are not treated in the enclosed report. However, based upon the information available to us at the present time, there seems to be adequate reason for initiating negotiations with the Italian Government to eliminate the exchange charges. Therefore, this report is being submitted for your consideration.

Sincerely yours,

JOSEPH CAMPBELL

Comptroller General
of the United States

The Honorable
The Secretary of State

Enclosure

~~CONFIDENTIAL~~

UNCLASSIFIED

UNCLASSIFIED

~~CONFIDENTIAL~~

REPORT ON EXCHANGE RATES

APPLIED TO

UNITED STATES OFFSHORE PROCUREMENT CONTRACTS

IN ITALY

SUMMARY OF FINDINGS

Our review of offshore procurement contracts placed by the military services in Italy under the Mutual Defense Assistance Program (MDAP) disclosed that the prices paid by the United States to Italian contractors included reimbursement of a charge imposed by an Italian Government agency for the conversion of dollars to lire. This exchange charge, which is not incurred by the United States on other transactions in Italy, may amount to about one million dollars on MDAP offshore procurement contracts awarded during fiscal years 1952 through 1956.

We reported this matter to the American Ambassador in Rome and requested the Ambassador's opinion on the practicability of undertaking negotiations with the Italian Government to extend to MDAP offshore procurement contracts the same exchange rates that are applied to other United States expenditures in Italy. In reply, the Minister-Counselor of the Embassy stated that the exchange charge on MDAP offshore procurement was made in accordance with Italian foreign exchange control regulations and could be considered by the Italian Government to be an appropriate charge for a service performed for Italian residents who are receiving exchange payments for exports. We were informed also that the charge did not violate any existing agreements between the

~~CONFIDENTIAL~~

UNCLASSIFIED

UNCLASSIFIED

~~CONFIDENTIAL~~

United States and Italy. However, we were not advised as to the practicability of undertaking negotiations to eliminate this charge. Copies of our correspondence with the Embassy are attached as exhibits 1 and 2 to this report.

Unless there are overriding conditions of which we are not aware, we believe that consideration should be given to our suggestion at departmental level. If deemed feasible by the Department of State, negotiations should be undertaken with the Italian Government to obtain an agreement which would extend to dollar payments on ADAP offshore procurement contracts the same exchange rates that are applied to all other dollar expenditures in Italy. An alternative method would be an agreement which would give the United States the option to purchase lire at the favorable rate of exchange and to pay the contractors directly in Italian currency. At the same time that these negotiations are undertaken, we believe that the possibility of obtaining a refund of the exchange charges that have already incurred should be explored.

UNCLASSIFIED

~~CONFIDENTIAL~~

UNCLASSIFIED

~~CONFIDENTIAL~~

CURRENT EXCHANGE PROCEDURES

In accordance with an exchange agreement reached with the Italian Government in January 1947, payments on contracts, which are stated in lire, between the United States Government and Italian contractors are generally effected by the United States Disbursing Officer by exchanging dollars for lire at the rate of 625 lire to one dollar.

Under the terms of another agreement reached with the Italian Government on May 19, 1955, the exchange rate is computed in the same manner when the Italian Government pays for agricultural commodities furnished by the United States under the surplus agricultural commodities program. The lire obtained by the United States for the agricultural commodities, equivalent to 18.2 million dollars, may be used in payment of NDAP offshore procurement contracts awarded in Italy after April 20, 1954.

However, NDAP offshore procurement contracts awarded in Italy amount to considerably more than 18.2 million dollars, and the favorable exchange rate of 625 lire to one dollar does not apply to the greater part of this procurement. A report issued by the United States European Command (EUCOM) as of October 31, 1955, indicates that NDAP funds in the amount of 467.84 million dollars have been obligated in Italy for fiscal years 1952 through 1956 offshore procurement programs. Actual expenditures on these NDAP offshore procurement contracts amounted to 262.33 million dollars on October 31, 1955.

Payments to Italian contractors by the United States Government for NDAP offshore procurement contracts stated in dollars are

UNCLASSIFIED

~~CONFIDENTIAL~~

UNCLASSIFIED

~~CONFIDENTIAL~~

made by transmitting dollar checks to the contractors' commercial banks. Fifty percent of the dollars deposited in the contractors' banks is given to the Ufficio Italiano del Cambio, an official organization of the Italian Government, and the contractors are credited with the lire equivalent at the rate of about 621 lire to one dollar. The remaining 50 percent of the dollars is made available to authorized Italian importers and the contractors are credited with the lire equivalent computed on the basis of about 625 lire to one dollar. Thus, the Italian contractors are credited with an average of about 623 lire to one dollar.

Exchange charges that will be imposed by the Ufficio Italiano del Cambio on 50 percent of the 200 million dollars yet to be expended on MDAF offshore procurement contracts will amount to over \$500,000. A proportionately larger amount has been charged on the 262 million dollars expended prior to October 31, 1955.

UNCLASSIFIED

~~CONFIDENTIAL~~

UNCLASSIFIED

~~CONFIDENTIAL~~

FEASIBILITY OF PAYING CONTRACTORS IN ITALIAN CURRENCY

The Minister-Counselor of the Embassy stated in his letter of June 20, 1955, that the United States Government is bound by a contractual obligation to pay the contractors in dollars, since all offshore procurement contracts let in Italy to date have been denominated in dollars. Nevertheless, under the Agricultural Products Agreement, the lire equivalent of 15.2 million dollars will be used in payment of offshore procurement contracts let in Italy after April 20, 1954. In addition, offshore procurement contracts, although denominated in dollars, are paid for by transmitting dollars to commercial banks which credit the contractors with the lire equivalent of the dollars. We therefore believe that arrangements could be made to pay these contracts in lire if the Department of State considers this to be the better method of approaching this problem. Belief has been strengthened by discussions we have had with the Disbursing Officer at Rome, who recently informed us that offshore procurement contracts would be amended to include the following clause:

"The United States Government retains the option of paying the amount specified in this contract, in whole or in part, in Italian lire instead of United States dollars, when these lire are derived from special agreements between the two governments and earmarked for this purpose. It is agreed that if the United States Government chooses to exercise this option the lire amount payable shall be the lire equivalent of the dollar amount due, calculated at the effective dollar/lire conversion rate for U.S. Treasury checks offered by the contractor's bank on the date of the payment order."

UNCLASSIFIED

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

UNCLASSIFIED

EXHIBITS

UNCLASSIFIED

~~CONFIDENTIAL~~

UNCLASSIFIED

~~CONFIDENTIAL~~

EXHIBIT 1
Page 1

C O P Y

UNITED STATES GENERAL ACCOUNTING OFFICE
EUROPEAN BRANCH
Paris, France

Office of the Director

FEB 15 1955

Honorable Clare Booth Luce
The American Ambassador
American Embassy
Rome, Italy

Dear Madam Ambassador:

Our recent examination of certain aspects of the offshore procurement program in Italy disclosed the following matter which we would like to call to your attention.

Under established procedure, payments to Italian contractors by the United States Government for deliveries of military end-items produced under the offshore procurement program are made by transmitting dollar checks to the contractors' commercial banks. In accordance with the fifty percent foreign exchange system in Italy, fifty percent of the dollars deposited in the contractors' banks is given to the Ufficio Italiano del Cambio and the contractors are credited with the lira equivalent, on the basis of about 621 lire to the dollar. The remaining fifty percent is made available to authorized Italian importers and the contractors are credited with the lira equivalent, computed on the basis of about 625 lire to the dollar.

Our examination disclosed that the prices paid by the United States on certain offshore procurement contracts in Italy are computed on a basis which includes the exchange charges made by the Cambio, an official organization of the Italian Government.

In January 1947, the United States reached an agreement with the Italian Government for the establishment of an equitable rate of exchange. In a memorandum for the Italian Minister of the Treasury, the United States Embassy stated:

"On behalf of the United States Government, the U. S. Treasury Representative pointed out during the course of these conversations and exchange of views that the United States Government considers that the fifty (50) percent foreign exchange system, applying to foreign trade transactions, provides a multiple rate structure which discriminates against United States Government expenditures, including disbursements of military and civilian personnel, as well as American citizens

UNCLASSIFIED

~~CONFIDENTIAL~~

UNCLASSIFIED

CONFIDENTIAL

EXHIBIT I
Page 2

undertaking dollar transactions, such as remittances other than those relating to foreign trade. The United States Government, therefore, is pleased to know that the Italian Government appreciates the desirability of granting a more favorable rate of exchange to the categories of expenditures described in this paragraph."

In accordance with the exchange agreement the payment of contracts entered into between the United States Government and Italian contractors which are stated in lire are affected by the United States Disbursing Officer exchanging dollars for lire at the rate of 625 lire to the dollar. In the case of "EAP off shore contracts, however, the contractor obtains, in effect, a rate of exchange averaging only about 623 lire to the dollar, thus tending to increase the price to the United States.

In addition it should be noted that the four lire deducted on such transactions by the Cambio, an instrumentality of the Italian Government, represents income to the Italian Government and may be contrary to the "no-profit" provision of the offshore procurement bilateral agreement between the governments of Italy and the United States.

In view of the fact that substantial sums may be involved in this exchange differential on payments made and to be made on offshore procurement contracts, we would appreciate your comments on the practicability of undertaking negotiations to extend to "EAP-OSP contracts the same exchange rates as are applied on all other expenditures in Italy by the United States.

Sincerely yours,

(Signed) C. E. BAILLY

Director

UNCLASSIFIED

CONFIDENTIAL

~~CONFIDENTIAL~~

C O P Y

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

UNCLASSIFIED

OFFICIAL-INFORMAL

American Embassy,
Rome, Italy,
June 20, 1955

UNCLASSIFIED

Dear Mr. Bailey:

The Embassy has carefully considered your letter to the Ambassador dated March 15, 1955, regarding certain charges applied at the time US dollar payments on Offshore Procurement contracts are converted into lire.

With regard to the applicability of the agreements with the Italian Government dated January 25, 1947 and April 15, 1948 on the exchange rate governing United States Government expenditures in Italy, the Embassy does not believe that the conversion of dollar payments on Offshore Procurement contracts into lire fall under these exchange rate agreements. All Offshore Procurement contracts let in Italy to date have been denominated in dollars, thus binding the United States Government to a contractual obligation to pay the contractor in dollars. However, under Italian foreign exchange control regulations these dollar payments are not actually sent to the contractor but to a bank designated by him. Thus, payment to the contractor's bank in the name of the contractor fulfills a contractual obligation to the latter, and the requirements of Italian exchange control regulations merely govern the mode of payment. Accordingly, the conversion of dollars into lire, which is effected by the contractor's bank and on which transaction certain charges are applied, is made on behalf of the contractor and not on behalf of the United States Government. In this connection, it should also be noted that the denomination of CSP contracts in dollars has been made at the behest of the United States Government. Since contracts could be stipulated in either lire or dollars, presumably these contracts denominated in dollars have allowed for the additional charges to be borne by the contractor in converting his dollars into lire.

Mr. C. M. Bailey,
Director, European Branch,
United States General Accounting Office,
Paris, France.

~~CONFIDENTIAL~~

UNCLASSIFIED

UNCLASSIFIED

~~CONFIDENTIAL~~

You have also stated that the portion of the charges applied in converting Offshore Procurement dollar payments into lire which accrues to the Italian Government represents income to the Italian Government and may thus be in violation of the "no profit" clause of the bilateral agreement on Offshore Procurement. The Embassy does not feel that it has sufficient evidence on which to base a claim against the Italian Government for reimbursement under this clause. It would seem unrealistic to endeavor to prove that a profit accrues to the Italian Government on exchange transactions of this nature which the Italian Government can well consider as an appropriate charge for a service that it performs for Italian residents who are receiving foreign exchange payments for exports. The United States Government applies a similar charge on gold transactions.

In view of the foregoing, it is the Embassy's conclusion that the charges on conversion of Offshore Procurement dollar payments into lire are not in violation of any existing agreements between the United States and Italian Governments.

Thank you for bringing your views on this matter to our attention.

Yours very truly,

/signed/
Sibridge Durbrow
Minister-Counselor

UNCLASSIFIED

~~CONFIDENTIAL~~

UNCLASSIFIED

~~CONFIDENTIAL~~

UNCLASSIFIED

~~CONFIDENTIAL~~