

Supplement to Memorandum re Sale or Retention of
Inventory

Under the Surplus Property Bill in the House, in addition to the right of the owning agency to authorize the contractor to retain or dispose of inventories for the purpose of war production, any owning agency may dispose of "any contractor inventory in its control" and any class or type of surplus property in its control designated by the Administrator.

Under the Senate bill, in addition to the right of the owning agency to permit the contractor to retain or dispose of inventory for war purposes, the owning agency may dispose of surplus property inventory designated by the Surplus Property Board.

Under either bill, therefore, regulations could be issued which would permit the contractor, prior to turning the property over to the Government, to retain or sell inventory as a part of the settlement of his contract with the Government.

Attached are:

- (1) Memorandum re Sale of Inventory**
- (2) Extra copy of S. 1918**
- (3) Extra copy of Addition to Statement
Regarding Extent of Need, etc.**

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 23, 1944

To Chairman Eccles

Subject: Right of contracting agencies
to agree with contractor for sale or
retention of inventory.

From Mr. Vest

Under the Procurement Regulations of the War Department (Paragraph 15-350.3) and under the Uniform Termination Article for Fixed Price Supply Contracts of the contracting agencies, in settling terminated contracts the contractor may be authorized by the contracting officer to sell inventory and material acquired in performing his contract or to retain such property, at a price mutually agreeable. This authority, however, is subject to price regulations prescribed by the Surplus War Property Administrator (Mr. Clayton). The sale or disposition of property can be handled in this way only until such time as it is turned over to the Government, because at that time it becomes technically "surplus" property and is no longer subject to disposition by the contracting agency. I have checked with Colonel Gilmore, Colonel Robert Barker, and Major Wisdom, of the War Department, and the above information is based on my conversations with them and also is in accord with the Joint Contract Termination Board's Statement of Policy on Property Removal and Disposition.

Under the Surplus Property Bill (H.R. 5125) as it passed the House on August 22, property of any Government agency which is declared to be surplus may be sold on credit. The bill provides that a Government agency may dispose of property in accordance with the bill "by sale, exchange, lease, or transfer, for cash, credit, or other property, with or without warranty, and upon such other terms and conditions, as the agency deem proper." An owning agency may permit a contractor to retain or dispose of inventories, for war production purposes; but property declared to be surplus is to be disposed of by "disposal agencies" designated by the Administrator. However, there is no provision in the bill for the financing of sales of inventory. Under this bill all policies of the present Surplus War Property Administrator or any Government agency, now in effect, would remain in effect until superseded by regulations of the new Administrator who would be created by the bill.

Under S. 2065, the Senate Surplus Property Bill which was reported to the Senate yesterday, there is a like provision authorizing the Surplus Property Board, which would be created by the bill, to dispose of property for cash or credit or otherwise upon such other terms and conditions as it deems proper.

Attention is invited to the fact that the Senate bill contains a provision authorizing the Smaller War Plants Corporation to purchase surplus property for resale to small businesses and "for the purpose of carrying out the objectives of this section to make or guarantee loans to small business enterprises in connection with the acquisition, conversion, and operation of plants and facilities, and, in cooperation with the disposal agencies, to arrange for sales of surplus property to small business concerns on credit or time bases."

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