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WAR CABINET.

NORTH AMERICAN SUPPLY COMMITTEE.

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RECIPROCAL AID.

Note by the Joint Secretaries.

We circulate herewith for the information of the Committee a copy of an informal note written in the Treasury for Mr. Stettinius.

(Signed) W.J. HASLER.

STRATHALLAN.

Great George Street, S.W.1.

27th July, 1942.

Reciprocal aid  
Note by the Treasury for Mr. Stettinius

1. The development of reciprocal aid has been rather topsy-turvy. Negotiations in Washington on the general principles are still not concluded - as four parties are involved they are bound to be slow - but practice has gone far ahead. There were isolated examples of reciprocal aid a year or more ago; but it only became a large-scale operation when U.S. forces started coming to this country. From then on, we have been going full steam ahead, and in spite of the lack of a general inter-Governmental agreement we have been able fairly successfully to settle, and even to formalise, its general principles. For example, it is several months since an Army Council Instruction, laying down for the benefit of the British Army the principles by which they should be guided, was agreed between our War Office and the United States War Department.

2. Financial background. Reciprocal aid is the counterpart of lend-lease, but there are several important reasons why the two vary in scope and method. The first is the fact that the original reason why lend-lease was instituted does not apply to reciprocal aid. Lend-lease was in origin, and still is, a device to get over the British lack of dollars. It has since been found to have many secondary advantages, all of which also apply to reciprocal aid: it facilitates combined procurement, it cuts down unnecessary accounting, it is the natural counterpart in the financial field of the principle of pooling. But the United States have no difficulty in obtaining sterling; on the contrary, each time they pay for any supply or service which might otherwise be given as reciprocal aid, they lighten the financial problem which Lend-Lease was designed to meet.

3. Scope of reciprocal aid. This difference has led to the exclusion from reciprocal aid, by common agreement, of two classes of supplies. The first is raw materials (including foodstuffs) purchased by the United States from the sterling area (other than supplies furnished for the use of the U.S. Forces). This applies whether the method of procurement is purchase by private U.S. importers or by an agency of the U.S. Government. The second is miscellaneous civil supplies, which in the normal course do not pass through Governmental channels of procurement and are partly passed on by the Government to private persons. To give them under reciprocal aid would mean an upset of normal procedure which would only be justified if the prime purpose of reciprocal aid were to minimise U.S. expenditure of sterling, which it is not.

4. Reciprocal aid is therefore not 100% reciprocal and this fact is recognised in the catalogue of subjects of reciprocal aid in the draft exchange of notes. It is primarily a military and governmental affair; its main field is supplies and services of all kinds for the United States forces and shipping.

5. What reciprocal aid has to cover. This leads us on to the next big difference between lend-lease and reciprocal aid. Practically everything which we get on lend-lease is in the nature of what the Army call a "headquarters issue". The requirements of the country as a whole for a given commodity - aeroplanes, steel, dried milk, office machinery, whatever it may be - are centralised in London and forwarded to Washington as a whole. There they are cast into a requisition and filed with OMA; and if the requisition is accepted the procuring department places a contract or contracts, from Washington, for the whole requirement. Everything, by its nature, is centralised. Almost the only exception is shipping disbursements, which inevitably come up piecemeal, and for them a special procedure has had to be devised.

6. There are similar cases under reciprocal aid too (radialocation equipment, barrage balloons, etc. shipped to the United States). But, they are much the least important part of it. The background of reciprocal aid, for us and for the Dominions, is the presence, in various parts of the Empire, of large and increasing numbers of United States troops, whose needs we are anxious to meet as quickly as possible and with the least possible red tape. It is reciprocal aid when we ship to the United States the makings of a shell factory or when we supply the U.S. Army here with 80,000 standards of wood; but it is no less reciprocal aid when something goes wrong with the motor bicycle of a U.S. despatch rider in Northern Ireland and he drops into a British army workshop for a replacement part. The last example may be trivial, but we have to cater for everything between the two extremes; and our object is to have a system so flexible that it will apply to all cases.

7. Procedure. The obvious need, therefore, is for maximum decentralisation. There would be infinite delay and difficulty of all demands had to be put through a central office; there must be thousands a day, all over the country, and indeed all over the world, since we are responsible for reciprocal aid in the Colonies too. Therefore we have no OLLA. The Treasury makes it its job to see that the general principles are observed; but we interfere as little as possible with their practical application. This is the business of the relevant departments; and they in turn give instructions to the man on the spot, so that the local commanders and the local representatives of the civil departments know what to do and can give reciprocal aid within the limits of their instructions without reference to headquarters.

8. Reciprocal aid and supply. Our guiding principle, in determining whether a given supply or service should be given as reciprocal aid or not, is efficiency of supply. We have as few a priori rules as possible. One of them, which applies also to lend-lease and is not in question, is that the United States Government provides the pay and allowances of its troops. Beyond that, relative efficiency decides. Supplies and services required in this country by U.S. forces are of three kinds:-

- (a) supplies which can most efficiently be imported direct from the United States by the U.S. forces (e.g. most military equipment) and services which can best be rendered by U.S. personnel;
- (b) supplies and services which can most efficiently be rendered by a British Government agency;
- (c) supplies and services which can best be procured on the spot by the local U.S. commanders without the intervention of the British Government.

Our principle is that (a) and (c) should be paid for by the United States, while (b) should be provided as reciprocal aid. But we always try to avoid pushing a given service or supply out of the class into which it naturally falls into another one in order to give, or to avoid giving, reciprocal aid on a priori grounds. Our ideal is that the people who are concerned with supply to the U.S. forces should not have to bother their heads one way or another about reciprocal aid, since they would know that that would follow automatically from their decision.

9. Some governing factors. The tendency is constantly for (b) to increase at the expenses of (a) and (c) - i.e. more and more is being supplied by H.M. Government, and therefore supplied as reciprocal aid. Where the U.S. forces require something - e.g. timber - which we also need to import, it is usually more economical of shipping that we should be the sole importers and should provide what the U.S. forces require. To some extent shipping can be cut out altogether where we can produce locally something which the U.S. forces would normally look to the U.S. to supply - e.g. uniforms, and to some extent fighter aeroplanes. At the other end of the scale local procurement tends to become diminished, in the interest of

efficient supply and the avoidance of competitive buying - though there are some small things which will always be most efficiently bought on the spot.

10. Some failures. The picture painted above is one of general principles and aims to which we are tending. How far have we fallen short in practice? Perhaps our worst failure is that neither we nor, I think, the U.S. Army, quite know how many cases there are where our principles have not been carried right through. The penalty of decentralisation is that there can never be complete knowledge at the centre or complete uniformity of practice at the periphery. Practice lags behind principle in some cases, for two reasons. First, our belief is that too much local purchasing and probably too much direct importing is going on in some places, if only because on a short-term view, as the local commander sees it, it is the quickest way of doing things. We are going over the field and trying to get explicit arrangements to cover as much as possible; already they cover all the really big items.

11. The second failure is the mere administrative difficulty of setting up adequate arrangements readily understandable by all concerned, to cover all the cases; this is closely tied up with the point made in the paragraph above. This failure is most marked in the realm of shipping, where there are immense complications. For disbursements in this country, practically no reciprocal aid is presently being given; not for any lack of good-will, but because it is only within the last ten days that we have managed to fix up with U.S.A. how it should be done. Things should soon improve.

12. This does not claim to be an exhaustive list of shortcomings (or of successes); but we are keeping a constant eye on the overall picture, and in this we have admirable co-operation from the U.S. Army (Services of Supply) and the Harriman Mission, with whom we are in daily touch.

13. Some examples. For the reasons mentioned above, we have no complete records in the Treasury of the cases of reciprocal aid which are being rendered. But the following examples, jotted down from the writer's memory of what he had heard, give a picture not so much of the extent of reciprocal aid, but of its very miscellaneous nature. A U.S. air squadron comes over to this country. If its men and equipment come in British vessels, freight, passages, unloading etc. are given as reciprocal aid. If they come in American vessels, the ship's disbursements ought to be, but probably are not yet, reciprocal aid. The men and materials are transported under reciprocal aid to an aerodrome provided under reciprocal aid. Accommodation (whether huts, billets, or hotels supplied as running concerns) are given as reciprocal aid. It is not the policy of the U.S. Army Air Forces to employ British administrative personnel, but till their own arrive, we may be providing under reciprocal aid the services of airmen and members of the W.A.A.F. Similarly, they will have the use of store depots handed over entire to the U.S. Army, and manned under reciprocal aid, by British Government civil employees. Their aeroplanes, lorries etc. will be uncrated, assembled and tested (and later repaired) under reciprocal aid (but U.S. technicians at the factory will be paid by the U.S.). British fighter aeroplanes will be provided as reciprocal aid, if that suits all concerned. The pilots will be trained, under reciprocal aid, for the conditions of actual combat in an unfamiliar theatre of operations. Rations will partly be provided as reciprocal aid - more and more, as arrangements are finalised. Petrol and oil are furnished, but that is probably only a return of what we have received under lend-lease. Barbed wire, laundry services, pots and pans and a myriad minor R.A.F. issues will all be furnished as required.

14. This is not necessarily complete; nor may all these supplies and services be needed in each case; nor is word for word accuracy vouched for. But it does show what a variety of things reciprocal aid caters for: it is not only a big wholesaler; it must also be ready to act as a five and ten cent store.

15. Reciprocal aid outside the United Kingdom. What has been said refers to reciprocal aid given in the United Kingdom. Beside this, we give similar aid in the colonies, wherever it is needed; the Dominions make their own arrangements. It is accepted as a principle that we are not responsible for local expenditure of U.S. forces in the non-British countries of the Middle East, but of course such of their needs there as are furnished from British Army and other Government stores are furnished as reciprocal aid, and there are other cases where we give reciprocal aid for special reasons outside British territory (e.g. oil for the U.S. Navy from the refineries of the Anglo-Iranian Oil Company at Abadan). This reciprocal aid outside the United Kingdom is not yet on a very large scale, since the occasion for it is only just arising; but it is important. For example, aeroplanes are flown to China via Africa, the Middle East and India, and reciprocal aid helps all along the route.

16. Some military stores are sent from the United Kingdom to the U.S. In amount, of course, they are insignificant compared to what we have received; but they have been important enough, since they have served to fill gaps in American production. Far more important is the technical information which we have been able to furnish. Three years of successes and failures have taught us many lessons of design and production, all of which is at the disposal of the United States, who can avoid our mistakes and use our achievements.

17. Records. This rough survey of a miscellany of supplies and services furnished all over the world leads us on to a major difficulty - that of the keeping of records. This would not be easy even if everything came through a centralised office; but, as has been shown above, that is out of the question. Our own system of recording and accounting for service issues has had to be drastically streamlined for lack of manpower. We are quite unwilling to divert a single man or machine from more essential work for the production of records or statistics which are not vitally needed. Therefore we can do no more for the recording of reciprocal aid than we can for our own stores. The U.S. Army asks for what it wants on a simple form now being designed (it is a tribute to the cooperation which exists that this form is designed for common use by the U.S. Army, the British Army and the R.A.F. - and it is believed to be the first form for the common use of the British Army and the R.A.F. on which agreement has been reached since the R.A.F. was founded!) And when they get it, a simple receipt is signed, describing the supplies or service provided, but giving no value in terms of money. We cannot furnish such values, even for our own use, though we are attempting for domestic purposes to produce a very rough estimate of the total value of reciprocal aid given each quarter. The unvalued receipts will be accumulated, but we cannot spare the manpower to analyse them during the war; and in any case it is pretty plain that many will be lost en route from the various parts of the world where they will be signed.

18. This may sound defeatist about the possibility of keeping worthwhile records, but we are very clear that this is not an object to which we can divert manpower. In any case, does it matter? Our belief is that it does not. The only purpose of keeping exact records, with details in pounds, shillings and pence, would be to strike a balance between lend-lease and reciprocal aid. This does not seem to us a useful end. It tends to reintroduce the dollar sign, by drawing attention to the net balance between the two figures. It purports to value in money terms things which cannot be valued - information is the most striking example of this. Neither side is trying to get or give money's worth; each is trying to supply what the other needs to help in the common purpose. We do not want it to be known that we have given the U.S. so many million pounds' worth of supplies; we do want it to be known that we have given them what we could and what they have asked for. The irony of exact accounting in this field is obvious when one considers that we are debited if the U.S. send to England an aeroplane for us to fly; but if they send a plan complete with pilot, not only are we not debited, we are credited for the aerodrome, the pilot's rations and so forth.

19. The public showing. The main importance of our records, or the lack of them, is in the showing which we make of reciprocal aid when we talk of it to the public. Let it be admitted at once that it might be easier to make a story which the public on both sides of the Atlantic could appreciate if we had figures available comparable to those which OLLA is legally bound to keep, and which the President publishes in his report. But one cannot say more than that it might be easier. The figures, reduced to dollars and cents, would at present show such a disparity between the two contributions that the story might not work the way we both want it to. Later on, when the U.S. forces in British territory reach a really high number, the current disparity will be less; but we cannot talk about that in advance.

20. The whole question of the extent to which we should release news about reciprocal aid has given us a good deal of thought. The Washington Post, in a recent editorial, has pointed out how little the public know of it and how advantageous it would be if they knew more. With that we agree, though as stated above we are not at all anxious to put it in the forefront as a kind of rivalry of generosity, with ourselves trailing behind as a contributor. What we want to be known is that the principle of pooling is carried out in the financial field as well, and that in the unprecedented effort which the forces of our two countries are making to work in together and to treat their combined resources as one, reciprocal aid is helping to remove any possible friction and red tape on the accounting side. It is perhaps, significant that the writer, who had always regarded reciprocal aid as a very ancillary part of the pooling arrangements, was told the other day by an R.A.F. officer who is concerned with the details of coordination with the U.S. Army Air Forces, that he regarded reciprocal aid as the cornerstone of our arrangements.

21. But in making the position clear to the public we are constantly up against the bar of military security. The examples given in paragraph 13 would make an admirable story; but almost all of them have been banned for publication on security grounds. The picture is not quite the same as in the case of lend-lease. There is no secret about the limitless requirements of the United Kingdom; but the fact that there is a programme to bring here a really large United States force is a secret. This means that not only the scale, but also the directions in which reciprocal aid is developing, cannot be talked about. We are confined to generalities, more's the pity.

22. Conditions and limitations of reciprocal aid. The limitations imposed by finance have been dealt with above. Other limitations and conditions exist, but are not serious. Our position vis-a-vis Parliament is not at all the same as OLLA's vis-a-vis the Congress. We are acting not under a fairly precise Act, but under very broad statutory powers. We do not have to defend specific appropriations; reciprocal aid is simply one of the many forms of expenditure for the prosecution of the war which are met from the Votes of Credit which are periodically voted en bloc by Parliament. Above all, there is no element in Parliament which would ever criticise a wide and generous extension of reciprocal aid. All other reasons apart - and they are many - lend-lease is not forgotten or unappreciated.

23. We therefore have fewer limiting factors than OLLA meets with as regards lend-lease. There are a few simple conditions which we must make, none of which are in dispute. For example, in certain circumstances (issues to U.S. Government contractors, payment of ships' disbursements which are for account of owners other than the W.S.A.) we provide benefits which might, unless arrangements were otherwise made, go to the profit of private individuals. We naturally ask for the assurance of the U.S. Government (on the lines of the latter part of the White Paper) that they will secure all benefits from such transactions for themselves alone.

24. We have not come across many cases of divergence of view as to what should be covered by reciprocal aid. Here again, the only limitations (within the broad framework of policy which will be laid down by the exchange of notes) are those imposed by common sense and a reasonable political view. A case came up the other day which will serve as an example. It was suggested that we should deal under reciprocal aid with claims for damage by residents in this country against members of the U.S. Army. This seemed to us unsound; a tortious act is not a defence article like a machine gun, and nothing but criticism could come to both of us if we were to foot the bill for any act of negligence by a U.S. soldier. We discussed the matter further with the U.S. Army, and we believe they now share our view. We anticipate no difficulty from similar divergencies of view in the future: they are marginal, and can easily be settled.

25. Lend-lease articles. Some of the things which the U.S. forces require in this country will have been supplied to us under Lend-lease. Oil is the most striking example. This offers no difficulty: we simply hand it back as reciprocal aid. On the other hand, local purchasing officers may find that they have bought some lend-lease articles by chance (e.g. a few tins of Spam). This cannot be helped, since lend-lease food is everywhere, but we believe that it will be wholly unimportant, since nearly all articles of types which we get under lend-lease are equally of types which the U.S. forces will get from us not locally but from H.M. Government, which means that they will get them as reciprocal aid. This point has been under discussion in Washington, and should give rise to no difficulties.

26. Supplies from other countries. Some of the supplies which we give as reciprocal aid will have been imported from, or will have to be replaced by further imports from other countries. We have told the Harriman Mission that we do not intend to restrict reciprocal aid by reference to this fact. If at any time it lands us in financial difficulties, we may have to discuss those difficulties with the United States. But there is no reservation which we wish to make now, except in the case of Canada. Supplies from the United States offer no problem, since presumably they will come under Lend-lease. Supplies from the sterling area we can manage. Supplies which we have to pay for in dollars or gold are covered by our general financial arrangements with the United States - they are only a small part of our dollar problem. Supplies from those countries (South American countries in particular) who accept payment in special account sterling are a genuine burden to us, but one which we can carry at present.

27. Canada presents a problem of a different order. When we provide Canadian wheat to the U.S. forces as reciprocal aid we are giving to the United States something which Canada - not a country within the lend-lease system - has given to us for our own use by means of the billion dollar contribution. This is obviously a point which cannot, in honesty to the Canadian Government, be passed over in silence, and we are therefore bound to make this reservation pending discussion between our three Governments. In terms of money, the problem is not a very large one.

28. Return of articles furnished as reciprocal aid. This is a question which we consider can very well be kept over to be decided on common sense grounds at the end of the war. We are handing over, as quickly as possible, without delaying matters to consider questions of legal title, everything from rations destined to be consumed at once to buildings whose title is retained by the original owner and are simply requisitioned by us. What is consumed, lost or destroyed we do not expect to see again, and we have affirmed our willingness to dispense with "property accountability" - the system by which in peacetime a U.S. officer is made personally responsible for official property of which he takes custody - in respect of articles and facilities furnished as reciprocal aid. Our general feeling is that, the fewer strings we attach to what we furnish to the U.S. forces, the better use they will be able to make of it.

29. Conclusion. The foregoing is a very general and discursive sketch of reciprocal aid as we see it at present. For the most part, it just grewed like Topsy; and in fact is still growing so fast that it is difficult to give a full or precise picture of it. We believe that its growth is on sound lines, and are above all anxious that any faults which anyone on the United States side can find with it should should at once be brought to our notice. Our general principle is that, if it works perfectly, it should not even be noticed. It is simply a lubricant to the machinery that has got to win the war.

Treasury Chambers, S.W.1.  
20th July, 1942.