

CONFIDENTIAL

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Dr. Robert Sulzer,

As you suggested I will give you here some of the points which I consider should receive serious consideration by the financial leaders of the electrical industry in Italy. These leaders, it seems to me, have one of the most serious questions to decide concerning their investments, or the investments made by other people, based upon the confidence placed by the public in these leaders.

As everyone knows there have been agitations for Government ownership of the industry. It is not up to me to even recommend whether it should be Government or Private ownership in the future, that is for the interested parties to decide. If these financial leaders decide to do all in their power to retain control of the industry, then they must do so with open eyes and face the issue courageously. They will be confronted with many baffling questions.

I am attaching hereto a clipping from the Berner Tagblatt which I cut out when I was in Berne. All I can say is that the statements made there are not new to me. I had heard them discussed on many occasions. Government control is one thing and Government ownership is quite another. Some officials have feared that Government ownership now, or in the near future, would drain the treasury too seriously at a time when Italy must do so much to reconstruct its industrial and public facilities and, as a consequence, some theories had been advanced as to how the Government could obtain ownership, yet invite participation of private capital. The theory of inviting american capital, under some Government guarantee, was advanced, with many queer notions as to how it could be accomplished.

Some of these theories are not reconcilable. We must think objectively. If there is to be Government ownership, then it should be outright ownership with holders of securities in these utilities recompensed for, at least, the value of these facilities as they exist at the time of Government acquisition.



I can not reconcile in my mind the theory that the Government can take control of the industry, take away from the present owners the right to control their properties, without adequate compensation, and at the same time turn over to new owners much larger power than the old owners had and relegate the old owners to a secondary position of minority stock holders. That is particularly wrong because of the fact that it was the brain, initiative, foresight, courage and money of these present owners that did give Italy today its vast electric resources. That is worth a great deal and, in utility valuations in America, with which I had much to do, we evaluate the monetary value of this effort under the term of "Going Concern Value". That does not only include the value of original brains and labor, but also the building up of the industry itself to a point where it stands. That in many cases represents years of labor of Directors and others which is very hard to evaluate, but which is one of the greatest assets of these companies. They are in every sense "Going Concerns", even today with much of the property destroyed.

One must ask the question,- why give control to a new group, before exhausting the possibilities of the old group rehabilitating itself without Government control or permanent Government investment in these properties. I recently had a discussion with Mr. Ferrari of the Meridionale Co., and I gave him some points which had been discussed at a meeting which I attended. I have since destroyed the notes I took at that meeting and can now only speak from memory. They were as follows:

1. The electrical companies are unable today to rehabilitate their properties. Only the Government can do that.
2. We can not deal with 50 or more different companies. We must deal with one party only and that can only be the Government.
3. There must be only one party to deal with also in America. The Government has that in its Ambassador.
4. The companies do not have one single organization with whom we can deal, or even a representative who would have the confidence of the Italian Government, of the Allies in Italy and of American authorities in Washington, as would be needed to obtain results.
5. In the absence of all this everything must be done to carry out this work by whatever means are available.

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6. Then too, the credit set up in America is an Italian Government credit, and even the credit which Col. Jenny reported Switzerland was willing to give, would be a Government credit. Therefore, only the Government can deal with these problems.

The problems cited are not as insurmountable as seemed to some people who advanced these thoughts. I told Mr. Ferrari that, if these electrical companies wanted to do something to retain control they should act quickly. They would have to do 2 things:

- a. Organize themselves into some kind of national society with officers speaking for the whole group and working solidly for the national, rather than the individual interest of one company or another;  
Make a program of reconstruction on a national basis, rebuilding facilities in accordance with the needs of the country and in accordance with available credits.
- b. Appoint some person as a neutral consultant who could act as arbitrator, if need be, regarding facilities to be rebuilt and who could represent these interests (now unified ) in Italy and America.

I also told Mr. Ferrari that these companies should take immediate action to prove their ability to solve their own problems, provided that be the policy of the present owners of these facilities. Lack of united action will be used as a lever by socialistically inclined people to show the need for Government action and control.

I also stated to him that the question of Government credit might be solved satisfactorily. I fully agree that, at present, Government credit must be used in America and Switzerland. However, I suggested to him that the present owners might make satisfactory arrangements with the Government to have a certain percent of the credit allocated to the use of the electric industry to be used as a loan to the industry and to be repaid as soon as possible. This might even be made a sort of revolving fund, by these companies repaying the Government at certain periods .

If the present owners should lose control of the property, by giving up say 55% of the stock in these companies, they might well ponder the question of whether or not it would be better in taking merely a loss due to war action, reactivate and re-invigorate the industry by the same

courage and foresight they showed when they started these enterprises and thereby retain control of their property. That is the serious question which must be decided by the top leaders. Then too loss of control would mean loss of liberty to obtain plant and equipment in whatever country they find it most suitable to do so. If the control should go to American interests, Switzerland and its manufacturers would be the losers. That too needs very serious consideration.

Aside from these questions there are two other very important questions which must be solved as soon as possible, they are the questions of possible Government refund of war damages and utility tariffs. I also discussed these points with Mr. Ferreri. As I see them they are as follows:

War Damage There is a law in Italy under which the Government is to pay to owners of property the losses sustained due to war damage. But, like in so many other things, the law is merely an acknowledged obligation without anything to back it. To make such a law operable it would have been necessary to set up some kind of insurance fund wherein the owners of property would contribute a certain percent and the Government the balance. When we arrived here, we found only an empty act, but no funds. We got the Government to appropriate 500 million lire to help reconstruct the electrical industry, in accordance with the principle of that act. However, when we asked for the second 500 million lire appropriation that was made as a loan instead of a grant, on the theory that these companies were rich and could afford to repay this.

Now alongside of this, 2 billion lire were appropriated to assist owners of private houses in the reconstruction making Government contributions of 50% up to a cost of 15'000 lire for reconstruction and 33% above that sum. However, that Decree had a queer clause in it. It stated that, if in the opinion of the Italian engineers, a man was considered rich enough to rebuild his house without Government aid, he was to be refused such aid. We objected to this as being class legislation, but it is now in the Decree.

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The question may well be asked, if the Government acknowledges its obligation to help one type of private investor, why would not that principle apply to all private investors.

That question is so broad and so important that no one single industry can afford to make a fight for its rights. All industries, including the water, gas and electric utilities, must combine, engage the foremost lawyers, financiers and operators to represent industry as a whole and present a united front before the Government. Then no single industry will be considered as opposing the Government and be made the buffer of attack by Government ownership proponents. All will be treated alike and they will all get either nothing or a similar share of the cost of reconstruction.

Tariffs Like the problem of war Damage the utility rates or tariffs must be reviewed and discussed by combined effort and not by individual effort. Of the three utilities, Gas, water and electricity, the latter has the most appeal to schemes of socialization as it is more a national industry than the others which are purely local industries. That is the more reason why the electric utility can not fight this question alone. There must be concerted action.

Whatever fair basis may be established in the future these utilities, if they want to retain control of their own affairs, must have Government approval and guarantee that future rates or tariffs will be sufficiently high to cover interest and amortization of the value of the property as already exists, including rehabilitation already accomplished, plus such new capital as may be needed to reconstruct the balance of the property and future new expansion of that property. A war damage loss must be taken by all industries.

Such a law would then greatly facilitate the obtaining of funds from private bankers and mean to return to the old principle of private enterprise, privately arrived at and carried out.

None of these things can be accomplished by individual action. All require concerted action and a long courageous struggle. But it is the struggle for the preservation of private initiative. Only those people who have a vital share in this field can determine what course they wish to take. All I have been able to do here is to point out some vital facts which must be weighed carefully by those who now control these properties and who have a vital interest in the free trade in goods manufactured within certain countries. It is an extremely broad question and must be viewed in that light and not in any light of slight immediate advantage. It is a basic problem of long range.

This problem must be solved in steps. It cannot be done at once. The points brought out under items 1 to 6 need first attention and action should be taken on them without delay. United action and united representation at focal points are prime requisites.

L.A.Jenny