

Declassified E.O. 12356 Section 3.3/NND No. 785017

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BACKGROUND 8
RELATIVE TO
SEPT. 1944 - 0

Declassified E.O. 12356 Section 3.3/NND No. 785017

10000/109/801

BACKGROUND & AUTHORITY FOR U. S. ECONOMIC OPERATIONS
RELATIVE TO ITALY
SEPT. 1944 - OCT. 1945

39

for Com - Jul. 1-38 for info. I have underlined
some parts.

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P. 1-38 - C.C. may wish to see

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HEADQUARTERS ALLIED COMMISSION
APO 394
ECONOMIC SECTION

Tel: 550

HC/sc

Ref: ES/20.02

29 Oct., 1945

SUBJECT: Background and Authority for U. S. Economic
Operations Relating to Italy

OCT 30 1945

TO : The Chief Commissioner
Through Executive Commissioner

1-31

1. Attached for your information is a paper on above subject, which summarizes the authority under which the United States Government is now operating the two Italian supply programs with which it is concerned:

- a) "Program of Basic Supplies for Italy", generally known as the FEA 100 Million Dollar Program.
- b) Category "B" Program, involving the expenditure of the funds available to the Italian Government in the Troop Pay Account.

2. The papers attached to this letter represent a complete documentation of the authority on which these two programs are based.

Harlan Cleveland
HARLAN CLEVELAND
Acting Vice President

1 Incl:
Subject paper.

Seen by ExC. *[Signature]*

Seen by 29.40
[Signature]

5048

[Signature]
(CAPT WHITE)

(31)

October 8, 1945

BACKGROUND AND AUTHORITY FOR U. S. ECONOMIC
OPERATIONS RELATING TO ITALY

This paper is intended to explain briefly the background of the two supply operations now being conducted by the Foreign Economic Administration with respect to Italy. It should be read in connection with the memorandum entitled "Disposition of FEA Functions Relating to Italy."

A. BASIC SUPPLY (YB) PROGRAM.

1. During the months of October, November and December, 1945, and January, 1946, the basic requirements of Italy for food, coal, petroleum products and limited amounts of essential raw materials are being met by FEA, using Lend-Lease funds. This is known as the "Program of Basic Supplies for Italy, September-December Loadings, 1945;" requisitions under this program bear the symbol "YB".

2. After VE-Day in May, 1945, it had become apparent that the military responsibility for provision of essential civilian supplies would terminate at the end of August, 1945, and that no military funds would be available to continue the Italian pipeline during the fiscal year 1946. At the same time it was obvious that even with the most fortunate combination of circumstances this pipeline could not be taken over by UNRRA until the end of 1945 - if the necessary funds are in fact made available to UNRRA by Congress by that time. It was, therefore, determined by the War Department, State Department and FEA to request from Congress authority to use a part of the 1946 Lend-Lease Appropriation to maintain an interim supply line through the end of the year.

3. Authority for this Italian program is contained in the following documents:

a. Statement by Mr. Crowley and letter from Mr. McCloy, Assistant Secretary of War, to the House Appropriations Committee, of June 1945 (Appendix "A").

b. Letter from President Truman to the Secretary of War of July 2, 1945. (Appendix "B")

c. Letter from Mr. Clayton, Assistant Secretary of State to Mr. Crowley, of September 4, 1945. (Appendix "C")

4. As a result of Mr. McCloy's letter and Mr. Crowley's statement to the House Appropriation Committee, \$100,000,000 of the 1946 Lend-Lease appropriation was earmarked by FEA as a special fund to purchase essential supplies for Italy from the U. S. through UNRRA.

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December, 1945. The cost of shipping these supplies, estimated at an additional \$10,000,000, is to be paid out of other Lend-Lease funds.

5. Based on the certification in Mr. McCloy's letter, supplies are purchased by procurement agencies of the U. S. Government on T3A requisitions, and are transferred to an agent of the War Department prior to their retransfer to the Italian Government. The actual transfer procedure as agreed between T3A, War Department and War Shipping Administration is set forth in paragraph 5 of CFI 226 (Appendix "D").

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3. ITALIAN GOVERNMENT (YT) PROGRAM.

6. In the fall of 1944, in order to make available to the Italian Government funds for the purchase of essential civilian supplies supplementary to the military relief program, the United States Government decided to place in a special account for this purpose an amount of dollars equivalent to the net amount in lire paid out to American troops in Italy and actually spent by the troops in Italy.

This determination was made as the result of a memorandum submitted to the President by the Secretary of the Treasury, and was confirmed by a statement issued publicly by the President. It was followed by statements of policy and procedure which were transmitted to the American Ambassador in Rome for submission to the Italian Government. The relevant documents are included in LAC 17 and LAC 17/1 (Appendix "E"), documents of the U. S. Liberated Areas Committee. The documents transmitted to the American Ambassador were also sent to the Supreme Allied Commander, Mediterranean, by the Combined Civil Affairs Committee, in TNA Airgram 17 of 26 December, 1944.

7. The arrangement was confirmed by a letter signed by Marcello Soleri, the Italian Minister of the Treasury, on 20 January, 1945, and addressed to the U. S. Secretary of the Treasury (copy attached as Appendix "F").

The procedure followed in debiting this account required the filing by FEA of requisitions which bear the symbol "YT" and which authorize procurement by a U. S. Government purchasing agency (usually the Procurement Division of the Treasury Department).

8. While these requisitions are not initiated except by agreement with the Italian Technical Delegation in Washington, following the receipt of a requirement from the Allied Commission in the MOC cable series, it has nevertheless been the direct responsibility of FEA to spend the "YT" money.

9. FEA is now suggesting that the function of procurement from Troop Pay account be turned over to the Italian Technical Delegation, under appropriate controls, to insure that the funds continue to be used under the restrictions heretofore imposed on their use: namely, that "the dollars made available to Italy will be used by the Italian Government to pay for essential civilian supplies purchased in this country (the United States) for use in liberated Italy."

10. The procedures which have been followed in procuring and shipping commodities purchased under YT requisitions are set out in CLAC(3) 18 revised, and CLAC(3) 18/2, attached as Appendix "G".

APPENDICES:

- Appendix "A" - Excerpts Relating to Italy (from the Hearings Before the Subcommittee on Appropriations of the House of Representatives on the Second Deficiency Appropriation Bill for 1945, June 13-15, 1945)
- Appendix "B" - Letter from President Truman to Mr. Crowley, July 2, 1945.
- Appendix "C" - Letter from Mr. Clayton, Assistant Secretary of State, to Mr. Crowley, September 4, 1945.
- Appendix "D" - Cable, COM 226, Combined Civil Affairs Committee (For CLAC) to Allied Commission in Rome, September 28, 1945.
- Appendix "E" - LAC 17 and LAC 17/1.
- Appendix "F" - Letter dated 20 January 1945, signed by Marcello Soleri, the Italian Minister of the Treasury, addressed to the U.S. Secretary of the Treasury.
- Appendix "G" - CLAC(S) 13 Revised, and CLAC(S) 18/2.

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UNRESTRICTED

HEARINGS
BEFORE THE SUBCOMMITTEE ON APPROPRIATION
OF THE HOUSE OF REPRESENTATIVES ON THE
SECOND DEFICIENCY APPROPRIATION BILL FOR
1945

EXCERPTS RELATING TO ITALY

(June 13-15, 1945)

FOREIGN ECONOMIC ADMINISTRATION
EUROPEAN BRANCH
ITALIAN DIVISION

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Hearings Before the Subcommittee of the Committee on
Appropriations House of Representatives.

On June 13-15, 1945, the Sub-Committee on Deficiency Appropriations of the House Committee on Appropriations held hearings on the F.E.A. appropriations in the Second Deficiency Appropriation Bill for 1945. Some excerpts regarding Italy are reproduced below.

Mr. Crowley's formal statement reads partly as follows:

Funds are also included in the appropriation request for supplies which may be transferred to the War Department upon its certification for distribution by the military in Italy to aid in the prevention of disease and unrest during the period of military responsibility. It is expected that this program will terminate at the close of 1945. Representatives of the War and State Departments will be available to testify in support of these programs if the committee so desires. 1/

In relation to the possible use of the Export-Import Bank for rehabilitation of foreign countries during the transition period, Mr. C. Cannon, Chairman of the Committee, asked:

Is there any aid in this set-up covering such class of aid with respect to the Export-Import Bank that has been consummated? Have you anything in here which you propose, to take action in the meantime? 2/

Mr. Crowley's answer follows:

No; there is no provision in the Lend-Lease Act which authorizes the use of funds for rehabilitation during the transition period. There are, however, some problems I would like to talk to the committee about. For instance, we have in here \$_____ for the purpose of financing the procurement of supplies to be transferred to the Army and distributed by them in Italy for the necessities of military activities in the redeployment of our troops to the Pacific. A further need for this program lies in the United States interest in the political and economic stability of this country. Now, the Italian situation, Mr. Chairman, is a very serious one. We are going to have to come to the Congress with

1/ Hearings, Subcommittee of the Committee on Appropriations, House of Representatives, Seventy-Ninth Congress, First Session, on the Second Deficiency Appropriation Bill for 1945, p. 666.

2/ Ibid., p. 692.

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a plan of some kind for Italy. If we are going to do anything for those people to keep them from starving to death and to keep them from freezing to death, there is going to have to be some plan to try to get their industries functioning and to give them some materials with which they might get their employment started.

Now that the rehabilitation and reconstruction of Italy is not anything for which funds are being requested in the appropriation for lend-lease. It is something that must be considered either through the Export-Import Bank or some other vehicle when we get to discussing the question of the assistance we are going to give that country. But the War and Navy Departments, the State Department, and FEA feel that we must have \$_____ for Italy in this appropriation to assist the Army and to begin to meet the problem in Italy through the rest of this calendar year. In addition to let unrest and disease be created while our military is still there would be very, very unwise. That \$_____ will help to avoid disease and social unrest until the latter part of this year. By that time, this Government has got to decide what is going to be their longer-range policy toward Italy — as to whether they want to do anything for them to help them rehabilitate themselves as a country, or whether we want to walk away and leave Italy to deteriorate.^{3/}

After having affirmed the principle that all foreign governments accepting loans from the Export-Import Bank "certainly would expect to pay us," Mr. Crowley added:

I think, however, you do have in the case of Italy a very serious situation. I do not think you can compare a credit extended to Belgium and Holland with a credit to Italy. I think we have to discuss that in a different way when we get to Italy. ^{4/}

On the circumstances necessitating continuation of the use of Lend-Lease funds in Italy, the following explanations were offered by Mr. Crowley and Mr. O. Cox to Mr. Case, Member of the Committee:

Mr. CASE.

Now, this \$_____ that is to be made available to the Army for handling in Italy out of your funds: Does that contemplate establishing a precedent if social unrest develops in some other country?

^{3/} Ibid., p. 692.

^{4/} Ibid., p. 693.

Mr. CROWLEY: I do not think there is quite any other country that is in the same predicament as Italy right at the present time. I think it is in a category by itself.

Mr. CASE: Well, it is the sense that we have troops stationed in Italy; we probably have a little different responsibility there than we do in other countries that have been associated with us. But supposing France gets hungry next winter, or social unrest develops there, then what?

Mr. CROWLEY: I think the question of Italy at this present moment is different from France; if our military withdrew from Italy and no provision was made at all for any transitionary period to take care of their needs, then we would be stepping out of there after occupying it for a long time, and leaving those people to starve. Now, the only thing that the military and the FEA and State Department are trying to do is to get some funds to support our military activities in Italy until this Government can determine what contribution, if any, they want to make to try to rebuild a government in Italy.

I think all of us take the attitude it is very necessary, if we are to have the benefit of whatever comes out of victory in the war, to get a stabilized government in Italy; that it is very much to our advantage in the future peace and things of that nature.

Mr. CASE: Is our problem there similar to the British problem in Greece?

Mr. CROWLEY: I think the problem in Italy is a different and a very, very serious problem. They have no work; they have no fuel; they are hungry, and there has been no stabilization of their government.

Mr. CASE: Under what theory does the \$_____ transfer to the Army?

Mr. CROWLEY: On the theory our military have an interest in there of continuing to provide supplies which benefit our whole military effort and the United States interest in political and economic stability in that country.

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Mr. CASE: If she were in the status of an enemy country occupied by our troops, the feeding of the civilian population would be carried on by the Army directly as part of the administration of the occupied area?

Mr. COX: This is in part a continuation of what was done last year and the basis on which it was done was an original provision in the appropriation act suggested by Mr. Taber that any supplies for which lend-lease funds are procured can be made available to any department or agency of the Government for its own uses if it is deemed to be in the best interest of our national defense to do it. That is section 102.

Last year much the same problem was put up before this committee and this is the same problem except that the actual shooting has ceased; that is, the War Department certifies to us that it is necessary, either as a matter of military necessity or for the protection of the best interests in this country, to transfer certain supplies. At the present time the supplies are limited to those which the Army considers of a character which are necessary to prevent disease and unrest.

We still have troops in Italy. If you should get upheavals there it would affect the redeployment of our troops and our security. It would also, from the standpoint of the United States, affect, as Mr. Crowley has indicated, what you have been fighting the war for, in the sense that you would have an unstable government and the aftermaths of 20 years of fascism.

Mr. CASE: What I am getting at is that you have two basic theories for such a program in Italy. If the War Department was doing it, it could be done as a part of military occupation of a former enemy country; if you are doing it through lend-lease, you must be doing it on the theory that the operation is part of the defense of the United States.

Mr. COX: No; but it was done on a combined basis, during this past fiscal year. The Army asked for certain funds, which was the \$562,000,000 previously referred to. We also asked for certain funds to furnish supplies at the request of the Army when our Army was an army of occupation. It still is an army of occupation in the sense that it participates-----

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Mr. CASE: But you think it should be charged to this fund, rather than to the War Department appropriation?

Mr. COX: You have two practical questions there; one, as a matter of precedent and practice it was done partly that way last year; second, this year, as I understand it, the Army is not asking for funds for this purpose, but has already stated and is willing to state that this is vitally necessary as a matter both of military necessity and national defense or in the interests of this country. 5/

The basis for continuing use of lend-lease funds in Italy was stated by Mr. Crowley as follows:

Before you recess, may I say this about that money for Italy: Our Army and our allies have occupied Italy since 1943. Now, as I understand it, there are no funds available except this \$_____, with the exception of a few million dollars in the military, that will last perhaps during August, for supplies to prevent disease and unrest in Italy.

It gets back to a practical matter, that if this Government does not appropriate some money to take care of this immediate emergency you have there, until this Government and its allies can work out some of the relief programs for Italy, then we have no other choice, as I see it, but to withdraw our troops from Italy and leave them, you might say, stark naked, without food, without clothes, fuel, or anything else. And after occupying their country, since 1943, it seems to me we do have some responsibility, in the interest of the redeployment and security of our troops and the peace of the world, to try and stabilize that government there if we possibly can. As to how much more this Government wants to put in to help stabilize that Government, that will be a matter for Congress to determine when that question is given to them. 6/

Mr. Crowley inserted in the record a statement by Hon. John J. McCloy, Assistant Secretary of War, which reads as follows:

5/ Ibid, p. 725f.

6/ Ibid, p. 726

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"During the time that military operations were being conducted in Italy, it was a definite military necessity that our lines of communication and supply should be kept intact and free from interference, and that conditions should not be permitted to arise within the civilian population which would require diversion of troops from the fighting front. During this period, purely military reasons dictated the importation into Italy of sufficient supplies to prevent disease and unrest. With the cessation of hostilities, the necessities of the military situation in Italy are no longer such as they were when the operations were in progress. This, however, does not mean that the War Department no longer has a vital interest in the political and economic conditions which prevail in Italy. Under present plans some of our troops will still be in Italy throughout the balance of this year. But apart from this consideration, twice in a quarter of a century political and economic conditions in Europe have in one way or another induced or forced us to make vast military efforts in that area. If basic economic and political stability is not restored to Europe, destruction of the German Army may well foreshadow not peace but disorder and further conflict.

"It is the period immediately following the tactical victory which may determine the pattern of the area for many years to come. Italy's strategic position in the Mediterranean area makes its stability one of the keys to peace in Europe as a whole. Today Italy is economically prostrate and politically feeble. This situation can be cured only with some material assistance from the United States. The War Department is advised that a plan will be promptly formulated by the executive arm of our government, in consultation with the Congress, which will cover our long term interest in Italy's economy. In the meantime, our government's interest is that Italy shall not be permitted to further submerge economically.

"As I have indicated above, it is the War Department view that the necessities of the military situation in Italy no longer support the War Department's primary responsibility for the provision of supplies. Therefore, the War Department has not included any funds for Italy in its 1946 budget estimates.

"As a result of the Army's experience in Italy the War Department has obtained first hand information with respect to the economic and political conditions which prevail there. General McNarney recently advised the War Department that 'Italy will need outside economic aid for some time to come and this aid may well be more important ⁵⁰³⁷ orderly political and economic recovery after the close of the military period than in the early phases when the presence of troops itself is a stabilizing influence. If it is to continue to be United States policy to assist the recovery of Italy and to prevent the political and economic

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Disturbance which would arise if aid was abruptly withdrawn, arrangements should be promptly made so that the continuity of the flow of minimum essential civil supplies will not be broken."

"Other reports which we have received indicate that the industries of northern Italy have not received as great damage as was at first feared, and, that if the necessary raw materials and coal can be provided, a substantial production can immediately be reactivated. On the other hand unless assistance to Italy is continued after the termination of military support, unemployment will continue with rapid deterioration in the already precarious situation.

"Under the plans for redeployment our troops will be continuously withdrawn throughout the balance of this year. It is essential if Italy is to pick up her own economy and practice a maximum of self-help that some steps be taken to provide to her the necessary raw materials and other basic supplies in this immediately critical period. Failure to make this provision may well make inevitable a successful resurgence in Italy of the forces against which we have fought.

"The War Department now has, in its pipeline, supplies which can be provided to Italy, to maintain the present low level of economy until after the 1945 harvest. The Foreign Economic Administration has included \$100,000,000 in its 1946 budget estimates for supplies to Italy. This sum, together with supplies already purchased by the War Department for shipment in July and August, will maintain a flow of supplies into November-December, which, on the basis of our experience and knowledge of conditions in Italy, represents the bare and irreducible minimum of imports calculated to prevent disease and disorder. Further than this it is essential that provision be made promptly under some comprehensive program, not only to continue such supplies through the winter, but to supplement them with certain raw materials and equipment to permit the adjustment of Italy's economy to new conditions.

"As Italy has not been declared eligible for lend-lease, funds appropriated to the FEA can be utilized for Italy only by their transfer to the War Department. The War Department supports the FEA in the request which it makes for funds for use in Italy and will undertake, to the extent that funds appropriated by the Congress for the purpose make it possible, to provide essential supplies to Italy to the amount of \$100,000,000 until December 31, 1945."

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THE WHITE HOUSE
Washington

July 2, 1945

Dear Mr. Crowley:

It is a matter of deep concern to me that the economic situation of Italy be not permitted to deteriorate further. Our policy is to assist in the recovery of Italy as the only assurance against a resurgence there of the forces we have fought in Europe, and progress towards recovery in Italy will require substantial assistance from the United States for many months to come.

I am glad to learn that the War Department and the FEA are in agreement respecting the availability of \$100,000,000 for imports to Italy from 1946 Lend-Lease funds. This should assure our being able to meet minimum supply requirements during the period of redeployment of our forces and into the winter. By that time I expect that additional funds will be available for Italy.

Funds under the new program cannot be available at an early date, and, as a result, all agencies must make every effort to make fully effective such resources as are available. With this in mind it seems important to me that the War Department be alert to declare surplus in Italy property which is economically useful, but of doubtful continuing value to the armed forces, unless it clearly has a substantial disposal value in another area. Also, in the disposal of such property as surplus the problem of prices and terms should be approached in the light of our substantial interest in assisting recovery in Italy.

Another matter which may justify exploration is the possibility of eliminating shipping charges against funds made available for relief in liberated areas including Italy when Government shipping that can be used for relief to such areas would otherwise be a charge against the War Department for the return of American troops to this country.

Very sincerely yours,

/s/ Harry Truman

The Honorable
Leo T. Crowley, Administrator
Foreign Economic Administration

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DEPARTMENT OF STATE
WASHINGTON

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In reply refer to:
A-C

September 4, 1945

Dear Leo:

The President has, as you know, agreed to the continuation of those special lend-lease programs to the fulfillment of which this Government was firmly committed prior to the termination directive of August 17.

It is my understanding that this exception approved by the President authorized the continuation of three programs, the details of which are given below:

Saudi Arabia: The United States has outstanding commitments to the Government of Saudi Arabia to supply \$8,870,000 worth of commodities and \$2,500,000 worth of silver for coinage to that country. The program having been approved both by President Roosevelt and President Truman, the Saudi Arabian Government was informed in writing by Minister Eddy on July 28, 1945, that this Government would share equally with the Government of Great Britain in a joint 10 million dollar supply program, and that the United States would provide Saudi Arabia with a supplementary supply program of six million dollars. This commitment was also given in person in Washington on August 1, 1945, to the Foreign Minister of Saudi Arabia.

Liberia: Under an agreement of December 31, 1943, with the Government of Liberia, the United States undertook to construct a port in Liberia, in return for which the Liberian Government granted to us the right to estab-

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The Honorable
Leo T. Crowley
Administrator,
Foreign Economic Administration,
Washington 25, D. C.

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lish military and naval installations. President Roosevelt on September 14, 1943, authorized the allocation of lend-lease funds for the construction of the port, and the sum of \$12,500,000 was subsequently paid over by the Foreign Economic Administration to the Navy Department as procurement agent. In addition to approximately \$7,500,000 of these funds which have not as yet been either spent or obligated, the Navy Department estimates that a supplementary allocation of about \$2,500,000 will be required to cover increased costs of material and labor. The cost of the port is to be reimbursed to the United States from port revenues.

Italy: In view of the termination with August loadings of combined military responsibility for the provision of civilian supplies to Italy, the civilian authorities of the United States, United Kingdom, and Canada have accepted responsibility for furnishing such supplies over a short period. The sum of \$100,000,000 was made available in the 1946 Lend-Lease Appropriation for financing supplies to Italy, beginning with September loadings. We have repeatedly advised the British of our financial arrangements for the Italian program, and have urged them to make appropriate arrangements. They have agreed to the program proposed and are currently making supplies available.

I shall appreciate confirmation of our interpretation of the President's decision, and advice that the Foreign Economic Administration will fulfill the lend-lease programs noted above.

Sincerely yours,

/s/ W. L. Clayton

W. L. Clayton
Assistant Secretary

WAR DEPARTMENT CLASSIFIED MESSAGE SERVICE

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CCS CCAC Pentagon 3B936 4376

28 September 1945

Allied Commission, Rome Italy

Supreme Allied Commander, Allied Force Headquarters,
Caserta, Italy

Commanding General, United Kingdom Base Section London England

Number: 5758

This is COM 226 to Allied Commission for action from CCS
cite CCAC for CLAC repeated information AFHQ for PHGEG and UK
Base Section for Cabinet Secretariat.

Provision of essential supplies to Italy.

1. Reference following messages: MOC 226, MOC 281, MOC
292, MOC 289, MOC 295, LAC 1275, LAC 1300, LAC 1302.

2. Will send shortly by COM airgram 3rd revision of
program of basic supplies, which can be regarded as latest
adjusted program of supplies scheduled for shipment to Italy
from United States and United Kingdom during remaining months
of 1945. There are not many changes in quantities from re-
vision II, which was sent to ALCOM through FEA channels.
Please study carefully the notes to each table in revision
III when it reaches you, as these notes indicate clearly
action taken on each item.

3. Supplies which United Kingdom has agreed to supply
are limited to 570 tons of raw rubber and 5,000 tons of wool.
It is understood that the United Kingdom are prepared to ship
these items. Canada is not at present committed to supplying
anything against present program.

4. Accounting. In reply LAC 1275 and LAC 1300, for
United States shipments procedure outlined in para 2 of LAC
MC-OUT-70323 (Sep 45)

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1275 as modified by para 3 of same message is satisfactory, with the understanding that reference in para 3 E of LAC 1275 is to civilian agencies having supply responsibility, and that appropriate United States civilian agencies will cost quantitative records and bill recipient government unilaterally. The accounts for supplies from United States under this interim program will be kept on a United States, not a combined, basis. The United Kingdom have proposed that goods ex United Kingdom be delivered to Italian Government FOB British port (see PAT 160). Under this arrangement cost of shipment to Italy will still be financed initially by United Kingdom. London is being requested to inform you of United Kingdom accounting procedure.

5. Shipping procedure for basic program. For shipments from United States sources under basic program procedure is as follows:

A. Ocean bills of lading will show "War Shipping Administrator as principal for account of FEA," as consignor, and "WSA as agent for United States Army" as consignee.

B. Bills of lading will bear following clause:
"Transfer of property to United States Army will take place at end of ships tackle at destination."

C. One of the original bills of lading will be signed at destination (Italian port) by WSA as agent for United States Army as receipt for transfer of property from FEA to United States Army. This transfer must take place in order to legalize use of FEA funds for this purpose. Receipt is returned to FEA for record.

D. War Department instructing MTOUSA to work out with WSA and ALCOM in field the procedures for turning supplies over to Italian Government. This procedure should include transmittal of Italian Government receipt to ALCOM.

E. Consignments under YB program are being marked "Italy" with no port indication, on assumption that they can be routed from Gibraltar under existing theater procedures.

MC-OUT-70823

(Sep 45)

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Number: 5758

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P. Schedules of loadings each month will be sent to AC in a form similar to COM airmgram 52, which is shipping program for September loading; beginning October loadings these schedules will include information as to specific cargo on each ship to extent possible.

6. Shipping allocations from United States cover not only basic program but also include space for shipment of miscellaneous items being sent to Italy under other programs - that is, category E program (troop pay account-YT requisitions), UNRRA program, Vatican and other relief shipments. In future they will also include any Italian Government purchases through commercial channels.

7. For shipments from United States, administrative procedure does not require any calling forward by AC. Once a requirement is accepted all details of allocation, procurement and shipment are managed in Washington by FEA. Requisition is made up in FEA and bears symbol YE. Under present arrangements the \$100,000,000 FEA appropriation is to be used only for purchase of supplies, and it is expected that shipping costs will come out of other appropriated funds.

8. Coal. (Reference MOC 292 para 3). Source of supply for all civilian coal for Italy is United States for October and November loadings, no allocation having yet been made for December loadings. Quantity is 420,000 tons for October loading, 450,000 tons for November loadings. Quantities being procured are those detailed in MOC 261. Somewhat different figures in a cable numbered FX 38206 of 25 August 1945 from AFHQ to CCAC, are not being used here insofar as they refer to needs for civilian use, since the cable did not come to CLAC from AC in MOC series. United States War Department is meeting from United States sources its direct military requirements including locomotive coal for railroads. British military coal needs, which are still under discussion here are not at present being met from United States supplies, but are being supplied to extent possible from South Africa.

9. POL in monthly quantities and products as set out in MOC 258 of 30 July 1945 has been approved here as a requirement.

NC-OUT-70823

(Sep 45)

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United States have agreed to include in basic program 50 percent of the value of this program from United States sources. It had been previously agreed that POL supply for Italy would be shared equally by United States and United Kingdom Governments under basic program, but now the United Kingdom have given notice of their inability to provide a share. If United Kingdom does not provide 50 percent of POL that share will have to be financed from YT funds available to the Italian Government. Detailed administrative supply arrangements will continue for time being to be handled through PETSEC. This arrangement does not affect termination of combined United States/ United Kingdom military responsibility for provision of civilian petroleum supplies which is effective 1 October 1945. PETSEC will transfer petroleum products to CIP (Comitato Italiano Petrolio) acting for Italian Government. After 1 October please report currently to CLAC in MOC series actual deliveries of petroleum to CIP on behalf of the Italian Government as compared with approved requirements in MOC 258. Any revisions in MOC 258 requirements which are agreed between ALCOM and PETSEC should be notified immediately by ALCOM to CLAC in MOC series.

10. Wheat. Approved monthly requirement is now 150,000 tons. 12,000 tons wheat plus 3000 tons of flour are being requested by FEA from United States for October loading, but it is hoped that some part of the wheat requirement in subsequent months can be supplied from Canada or Argentina.

ORIGINATOR : CCAC (For CLAC)

INFORMATION: ASF
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SECRETLAC 17November 18, 1944Copy No. 42LIBERATED AREAS COMMITTEEStatus of Supplementary Financing of
Civilian Supplies for Italy

On October 10, 1944, the President approved a memorandum from the Secretary of the Treasury recommending a plan for financing supplies for Italy procured in the U.S. aside from those furnished in the military program. This memorandum is attached as Enclosure A. A statement released by the President on the same day, setting forth the general principles of the plan, is attached as Enclosure B. After approval of this plan by the President discussions were held on the drafting of a statement to the Italian Government outlining its provisions. (18)

There is attached as Enclosure C a copy of a statement transmitted to Mr. Kirk in Rome on November 4, 1944, for presentation through the Allied Commission to the Italian Government covering the proposed financial arrangements for U.S. supplies. Word was received from Mr. Kirk that this statement had been presented to the Acting Commissioner of the Allied Commission for transmittal on November 5. Since that date discussions have been held among the State Department, Treasury Department and the Foreign Economic Administration concerning the "detailed procedure" which should be developed to implement the program. As of Thursday, November 16, 1944, agreement had not been reached on the wording of an additional telegram to Kirk setting forth these procedures. In general, however, the discussions involved the submission through appropriate channels to the Combined Liberated Areas Committee by or with the approval of the Italian Government of requisitions for supplies other than those to be furnished by military authorities. Under the procedure, a fund would be established in the Treasury to the credit of the Italian Government. Amounts would be released and would be used to pay for items to be procured in the U.S. as approved by CLAC and other appropriate agencies. (17)

It is believed likely that an agreed telegram will be ready for dispatch within the next two or three days.

ENCLOSURE AMEMORANDUM FOR THE PRESIDENT FROM
THE SECRETARY OF THE TREASURY

As you know, we will pay currently to the Western European countries the dollar equivalent of the local currency which our troops will be spending out of their pay in such countries, it being traditional that the United States should not place the burden of the pay of its troops on friendly countries.

In the case of Italy, however, we have not been paying the Italians the dollars representing our troop pay. Instead, we have been placing these dollars in a special account in the Treasury, holding them with the thought in mind that they might eventually be turned over for the use of the Italian people.

In view of the present situation in Italy I suggest that Italy should now be accorded arrangements similar to those in effect with the Western European countries except that we reserve all rights in the final settlement of accounts with Italy.

I recommend, therefore, that the dollars which we have set aside in this special account representing troop pay be made available to the Italian Government and that from now on dollars representing the pay of our troops spent in Italy be made available currently to the Italian Government.

This step is particularly significant at this time because of the need of Italy for foreign exchange with which to pay for the necessary civilian supplies for its people which have heretofore been paid for out of Army appropriations.

The British are entirely agreeable to this method of financing U.S. supplies, and will continue to provide their part of the supplies for Italy under their own financial arrangements but will not use troop pay. Changes in the present scope of the supply program will be the subject of further agreement.

The attached press release should not be issued until the Italian Government is informed, which will be done as soon as you approve the arrangement.

The Secretary of State, the Secretary of War and the Foreign Economic Administrator are in agreement with this proposal.

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ENCLOSURE BSTATEMENT BY THE PRESIDENT

I have today approved the recommendation of the Secretaries of State, Treasury and War, and of the Foreign Economic Administrator, that the U.S. Government currently make available to the Italian Government the dollars equivalent to the Italian lire issued up to now and hereafter as pay to U.S. troops in Italy.

The dollar proceeds of remittances made by individuals in this country to friends and relatives in Italy are also being made available to the Italian Government as are the dollar proceeds of any products exported by Italy to this country.

It has been our intention to make available to the friendly Western European countries dollars equivalent to the local currency issued as pay to American troops in their territory. This policy differs from that to be applied in the case of Italy since in the latter case it is subject to special restrictions reserved to the United States in connection with the final peace settlement.

The dollars made available to Italy will be used by the Italian Government to pay for essential civilian supplies purchased in this country for use in liberated Italy. The U.S. Army has supplied substantial amounts of certain essential civilian goods such as food, clothing and medical supplies as a necessary part of military operations in Italy. The funds which I am now making available will enable the Italian Government under control of appropriate Allied authorities to obtain in this country other essential civilian supplies and to continue to obtain essential supplies after the U.S. Army program ceases.

This step has been taken after consultation with the British Government which has also been providing essential civilian supplies to the Italians and will continue to provide its share of an agreed program of such supplies, but under different financial arrangements.

The Fascist dictatorship which led Italy into war against the United States and the other United Nations has been overthrown. Today, the Italian people are cooperating with the United Nations forces in driving the Germans from Italy. Our soldiers, sailors and airmen are welcomed and assisted by the civilian population in Italy wherever they go. Italian troops are joined with our forces at the front. And behind the German lines, Italian partisans are heroically giving their lives in the struggle.

It is to our interests that Italy be able to contribute as fully as possible to the winning of final victory. While the ⁵⁰²⁶establishment of Italy as a free independent and self-supporting nation must be primarily the responsibility of the Italian people themselves, it is also to our interest that the Italian people be given the opportunity to obtain and pay for the necessities they need from us if they are to be able to help themselves.

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ENCLOSURE C

STATEMENT ON AMERICAN POLICY REGARDING
FINANCING OF CIVILIAN SUPPLIES FOR ITALY

1. The United States Government has decided to make available to the Italian Government the dollar equivalent of the net amount of Italian lire heretofore expended by American troops in Italy out of their pay and allowances, as well as the dollar equivalent of future lire expenditures of this character.

2. In addition to the dollars made available to the Italian Government pursuant to the arrangements described in paragraph one, there have been made and will continue to be made available to the Italian Government the dollar funds resulting from remittances to Italy from or through the United States and the dollar proceeds of Italian exports to the United States.

3. The action of the United States described in the previous paragraphs does not prejudice or change in any form whatsoever the terms fixed by the agreement of armistice with the Italian Government and of other agreements, technical or political, and the status pertaining to claims on the Italian Government and Italian citizens by the Government and citizens of the United States.

4. The U.S. Government will shortly inform the Italian Government of the approximate dollar equivalent of such net lire expenditures heretofore expended by American troops out of their pay and allowances.

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5. The dollars made available to the Italian Government under paragraph 1 may be used only for the procurement of essential supplies in the US. The US Army, together with the British Army, is supplying essential civilian goods (such as food, clothing, medicines and fuel) as a necessary part of military operations in Italy. The duration of this responsibility is necessarily dependent upon future military developments. During the period when such supplies are being provided by the US Army the funds made available to the Italian Government, under paragraph 1, may be used to procure such other essential civilian supplies as are not provided under the military program. These funds will also be available to the Italian Government for the purchase of essential supplies after the cessation of the U.S. Army program.

6. The program of essential civilian goods not provided under the military program and which is to be procured by the Italian Government out of the funds made available to it under paragraph 1 above, will be drawn up by the Italian Government and will be subject to review and approval of the Allied Commission and other Allied agencies concerned with the allocation of goods in short supply and of transportation and port facilities.

7. The detailed technical procedures, by which the dollar equivalent of troop pay made available under paragraph 1 above will be made available to the Italian Government and expended by it, will be worked out by the appropriate agencies of the United States Government in consultation with the Italian Government.

8. The dollar funds from the proceeds of Italian exports to the United States and of remittances from or through the United States are

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available for expenditures by the Italian Government for the maintenance of its diplomatic and consular establishments in foreign countries, for expenditures to maintain Italian vessels in foreign ports as well as for the purchase of supplies within the scope of programs approved by the appropriate Allied agencies. Expenditures from these accounts are subject to review by the Allied Commission and to license by the United States Treasury Department.

9. The United States Government has adopted the present program after consultation with the British Government. The British Government has provided and it is understood will continue to provide its share of an agreed program of essential civilian supplies, but under different financial arrangements.

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RESTRICTEDLAC 17/1December 7, 1944Copy No. 64LIBERATED AREAS COMMITTEEMemorandum by the Secretary 11

The statement attached as Enclosure A was sent to Mr. Kirk on December 2, 1944, as an explanation of the procedures to be followed in the use of the dollar equivalent of the lire expended by American troops in Italy out of their pay and allowances. It supplements the statement of November 4, 1944, to Mr. Kirk which was distributed to the Liberated Areas Committee as LAC 17 under date of November 18, 1944.

John E. Orchard
Secretary

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ENCLOSURE A

Statement Sent to Mr. Kirk, December 2, 1944, on Procedures to be Followed
in Use by Italian Government of Dollar Equivalent of U. S. Troop Pay
Expended in Italy

The procedures outlined below are intended to provide a temporary operating mechanism until such time as conditions permit other arrangements which may then be worked out in consultation with Italian authorities.

The exact amount of lire expenditures to date has not, as yet, been determined but the Italian Government may be informed that the amount is now estimated to be somewhat in excess of \$100 million.

The scope of the military program, as now defined may be subject to change. From this it follows that the type and quantity of essential supplies which the Italian Government may desire to purchase with these funds may vary accordingly, even before the military program ceases. Furthermore, upon cessation or reduction of the military program the Italian Government may have to plan on the use of these funds for purchases of the types of supplies now furnished by the military. It is realized that in the absence of a definite specification of the content and duration of the combined US-UK military program effective planning of the use of the troop pay dollars is most difficult.

The statement of procedures follows:

I. Procedure for Submission of Requests by the Italian Government.

(a) Upon the approval of this procedure the Italian Government may submit requests for essential supplies other than those to be furnished by the military. These requests shall be formulated with the approval and assistance of the AC as long as such approval or assistance is required.

(b) Such requests should be submitted through the appropriate channels to the Combined Liberated Areas Committee which will screen them. US, UK and Canada will then allocate the procurement responsibility for approved items among themselves by a procedure to be agreed upon shortly.

(c) In cases where the U.S. procurement responsibility has been agreed upon, FEA will then proceed with the procurement and delivery of supplies against such requests.

II. Financial Procedures

(a) The dollars equivalent to the net troop pay in Italian ⁵⁰²¹ will be paid into an account in dollars to be established in the US Treasury for the account of the Italian Government.

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(b) It is proposed that an initial credit of \$50 million will be made to the account and that additional credits will be made from time to time as the US Treasury receives from the US War and Navy Departments certified statements as to the amounts of net troop pay disbursed in Italian lire. The U.S. Treasury should receive from the Italian Government a blanket authorization to credit this account automatically as outlined above and to debit the account automatically as outlined in paragraph (c) below. The text of a suggested letter from the Italian Finance Minister to the Secretary of Treasury which indicates the requirements of such an authorization is being sent in the immediately following telegram.

(c) As soon as FEA certifies to the US Treasury that either (a) FEA is procuring or has authorized the procurement of essential supplies requested by the Italian Government as outlined in I-(c) or (b) FEA has obtained the agreement of the Italian Government to pay out of the account for supplies procured or to be procured from US sources, the Treasury will make available to FEA or as directed by it, funds to cover such procurement and incidental expenses or such agreement to pay and will automatically debit the account therefor. Appropriate adjustments will be made to the account on the basis of detailed vouchers which FEA will submit to the Treasury Department and to the Italian Government certifying the amounts and prices of the items which it has procured. Other adjustments will be made to the account as may be mutually agreed upon between FEA and the Italian Government.

(d) These funds are not to be used to pay for any goods delivered to Italy prior to the date of the opening of the account.

You should consult the Italian Government through the AC and obtain its agreement to the proposed procedures.

Text of Suggested Letter to the Secretary of the Treasury
from the Italian Ministry of Finance

It is the desire of the Italian Government that the necessary procedures be put into operation to implement the policy announced by the President of the United States on October 10, 1944, whereby the dollar equivalent of the net troop pay lira disbursements of the armed forces of the United States in Italy will be made available to the Italian Government for the procurement of necessary civilian supplies in the United States. It is understood that the United States Government is making such dollar credits available without prejudice to any claims it may have against the Italian Government, for troop pay or otherwise, in the final peace settlement.

Accordingly, the Italian Government requests that a special deposit account be established in the Treasury of the United States in the name of the United States Secretary of the Treasury for the account of the Italian Government and that this account be credited from time to time with the dollar amounts to be made available for the benefit of the Italian Government from the net troop pay disbursements of the armed forces of the United States in Italy.

The United States Treasury is authorized, pending further advice from the Italian Government, to charge this account currently with the dollar amounts certified by the Foreign Economic Administration of the United States Government to be required for the procurement of civilian supplies, approved by the Italian Government. It is understood that the amounts certified by the Foreign Economic Administration may be adjusted either on the basis of ordinary incidents of procurement or as may otherwise be mutually agreed to by the FEA and the Italian Government, and that appropriate charges or credits will be made in the account without further authorization to reflect any such adjustments.

The United States Treasury is further authorized to charge or credit the account as necessary to reflect any adjustments in the certifications of the United States War and Navy Departments as to the net amount of troop pay when such adjustments are indicated as a consequence of audits or other revisions in the accounts of disbursements for troop pay.

785017

Rome 20th Jan 1945

My dear Mr. Secretary:

It is the desire of the Italian Government that the necessary procedures be put into operation to implement the policy announced by the President of the United States on 10 October, 1944 whereby the dollars corresponding to the amount of lire paid to civilians by American troops in Italy out of their pay will be made available to the Italian Government for the procurement of necessary civilian supplies in the United States. It is understood that the United States Government is making such dollar credits available without prejudice to any claims whatsoever it may have against the Italian Government in the final peace settlement.

Accordingly the Italian Government (Ministry of Treasury) requests that a special deposit account be established in the Treasury of the United States in the name of the United States Secretary of the Treasury for the account of the Italian Government (Ministry of Treasury) and this account be credited from time to time with the dollars corresponding to the amount of lire paid to civilians by American troops in Italy out of their pay, which are to be made available for the benefit of the Italian Government.

The United States Treasury is authorized, pending further advice from the Italian Government - Ministry of Treasury - to charge this account currently with the dollar amounts certified by the Foreign Economic Administration to the United States Government to be required for the procurement of civilian supplies approved by the Italian Government. It is understood that the amounts certified by the Foreign Economic Administration may be adjusted either on the basis of ordinary incidents of procurement or as may be otherwise mutually agreed to by the FEA and the Italian Government - Ministry of Treasury - and that appropriate charges or credits will be made in the account without further authorization to reflect any such adjustments.

The United States Treasury is further authorized to charge or credit the account as necessary to reflect any adjustments in the certifications of the United States War and Navy Departments as to the dollars corresponding to the amount of lire paid to civilians by American troops in Italy out of their pay when such adjustments are indicated as a consequence of audits or other revisions in the accounts of disbursements.

/ s/
Marcello Soleri
Minister of the Treasury

The Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury
United States Treasury Department
Washington 25, D. C.

CONFIDENTIAL

CLC(S) 18 Revised

April 19, 1945

PROCUREMENT OF CIVILIAN SUPPLIES FOR ITALYI. Procedures which affect all Civilian Supplies, Category "A" and "B".1. Definition of Civilian Supplies.

Civilian supplies for Italy are classified in two categories by the directive from the Combined Chiefs of Staff to the Commander of the Mediterranean Theater dated January 30, 1945 which implements the joint statement by the President and the Prime Minister of September 26, 1944.

Category "A" - Supplies for which the combined military authorities of U.S. and U.K. are responsible comprise the following:

a. Those quantities of food, fuel, clothing, medical, sanitary and other agreed essential supplies necessary to prevent disease and unrest prejudicial to military operations.

b. Those supplies such as fertilizer, raw materials, machinery and equipment, the importation of which will reduce military requirements for the import of essential civilian supplies for the purposes referred to in this paragraph. As the time when combined military responsibility will terminate will not be known when requisitions are being prepared and considered, the importation of supplies under this sub-paragraph will not be excluded merely because the effect of such imports may not be felt during the period of combined military responsibility.

c. Those supplies necessary for the restoration of such of the Italian power systems, transportation and communication facilities which will further the military effort against Germany and Japan.

Category "B" - Consists of essential civilian supplies particularly designed for the rehabilitation of the Italian industries, in addition to those to be provided under category "A".

2. Preparation of Requirements and Integration of the two Categories of Supplies.

The integration of the two categories of supplies is absolutely necessary because of the overlapping and difficulties which will be incurred by attempting a clear-cut division. It has been found necessary that all requirements for Italy which are essential to the support and rehabilitation of the Italian economy should be drawn up at the same level because they are very closely interconnected. This procedure was therefore been accepted by the military and the civilian combined agencies as the most workable one:

a. The Allied Commission in consultation with the Italian Government will draw up all requirements, which are justifiable

under both category "1" and "3" of the directive, as a joint and complete program.

b. This joint program will be submitted to the Theater Commander for consideration and approval of items of military responsibility.

c. Those items which the Theater Commander determines to be military responsibility will be declared category "A" and procured and financed according to procedures which apply to it. The balance of the submitted requirements will be treated as category "B" and procured and financed in a different way.

The Theater Commander is directed to add to the category "A" share of the AC-Italian Government requirements, his own requirements for the areas of Italy which are under Allied Military Government near the battle zones since Italy, even if administratively divided, should be treated as a unit for military and economic reasons.

3. Forwarding of Requirements to Washington.

Approved requirements are forwarded to Washington.

a. Those sponsored by the military, category "1", to the Combined Civil Affairs Committee (Supply Subcommittee).

b. Those falling under category "B" to the Combined Liberated Areas Committee (Supply Subcommittee).

4. Screening of Validity by Combined Committees.

Each committee screens the requirements submitted to it for validity. The Combined Civil Affairs Committee will rule that some requirements do not fall under its jurisdiction because of difference of interpretation of the directive by the committee and the Theater Commander. Such requirements will be returned to AFHQ without action. They may eventually be resubmitted by AFHQ with stronger justification to CCAC(S) or submitted as category "B" by AC to CLAC(S). When a requirement has been approved, the originating body, either AFHQ or AC, is so informed.

The Italian requirements for category "A" supplies are identified by a prefix "N-" by CCAC(S). CLAC(S) identifies "B" requirements with an "I" prefixed to the number. CLAC(S) assigned to AC a block of numbers from 00 up so that a requisition for category "B" supplies filed by AC directly will be known under only one number and not many as it happens for category "A" supplies.

II. Processing of requisitions for "B" Supplies after being Confirmed by CLAC(S).

(References to category "1" supplies are for information comparison only.)

1. Determination of Source of Supply and Supply Responsibility.

Supply responsibility is determined through the machinery of the Combined Boards (Combined Raw Materials Board, Combined Food Board,

Combined Production and Resources Board) or through the National Supply Agencies of the various governments according as items considered appear or not on the current Reserved Commodity List. (S)

The F.E.A., the British members of C.I.A.C.(S), and the Commercial Counselor of the Canadian Embassy will investigate availabilities, both spot and potential, and prepare administratively a recommendation as to sources of supply for all items not on the Reserved Commodity List.

For items on the Reserved Commodity List, the procedure as outlined in CLAC(S)1/4 (Revised) will apply. Where the quantities involved are small, special clearance under a dominimis procedure by the Combined Board concerned shall be arranged.

The main purpose of these investigations is to determine in which country the materials are going to be purchased after taking into consideration production schedules, supply and shipping problems. When complete agreement is obtained, AC is so advised and procurement initiated.

2. Procurement and Financing of Supplies.

A. Procurement Responsibility.

The procurement responsibility rests with the U.S., U.K. and Canada as follows:

- | | |
|--------|---|
| U.K. | Under the coordination of the Committee for Supplies to Liberated Areas (SLAO) purchases are effected, after British Treasury clearance, by the appropriate British Supply Departments. |
| Canada | Canadian Export Board, Department of Trade and Commerce. |
| U.S. | FEA has full and sole responsibility. |

(Category "A" supplies are handled as follows:

- | | |
|--------|------------------|
| U.K. | War Office |
| Canada | Mutual Aid Board |
| U.S. | War Department |

In U.S. the War Department calls from time to time on the Foreign Economic Administration to procure and make available to them, against requisitions received from the Theater Commander, supplies which are considered essential civilian supplies justified by military necessity and certified as such by the War Department.)

B. Financing.

Category "B" supplies are to be financed entirely out of funds belonging to the Italian Government or against opening of credits by U.S., U.K. or Canadian Government:

- | | |
|------|---|
| U.K. | The Italian Government will be allowed to finance these rehabilitation supplies by drawing on its post-liberation sterling funds. |
|------|---|

The U.K. Government proposes to pay over to the Italian Government the cash proceeds of Italian exports to the U.K. in order to provide more post-liberation sterling for this purpose.

At November 30th, 1944, the amount payable to the Italian Govt. was approximately 1.7 million pounds. This will be subject to a deduction for repayment to U.K. Government of advances for Italian diplomatic and shipping expenses in various countries, since these advances were made at the request of the Italian Government and are chargeable to Italian post liberation sterling funds. Payments for Italian exports will in future be made currently and the Italian Government will therefore know what funds will be available for rehabilitation at any particular time, and they will be able to estimate their future income as contracts are placed.

Canada At present only a very limited amount of funds is available. Supply of individual items will be treated on an ad hoc basis.

U.S. Dollar funds available to the Italian Government are:

1. A special deposit account with the Treasurer of the U.S. in the name of the Secretary of the Treasury, called Procurement of Civilian Supplies for Italy, 891-857, established under the policy announced by the President of the U.S. on October 10, 1944 whereby the dollars corresponding to the dollar equivalent of the lire expended by American troops in Italy out of their pay and allowances has been deposited. Such fund has been earmarked for the purpose of paying for essential civilian supplies as certified by the Foreign Economic Administration. The Treasury will make available dollar funds either to FEA or as directed by it.

The Italian Government has agreed fully to the procedure for the utilization of the troop pay account with letter of January 20, 1945 from the Minister of the Treasury to the U. S. Secretary of the Treasury. This account is set up to work automatically.

2. Proceeds of exports, remittances, etc. Other dollar funds at the disposal of the Italian Government will have to be made available on specific request of FEA and on ad hoc arrangements when troop pay dollars cannot be used.

(Funds for the procurement of the supplies falling into category "A" are made available as follows:

U.K. War Office.

Canada Special Appropriation.

U.S. a) A special appropriated fund to the War Department for relief in liberated areas during the period of military responsibility.

b) Under arrangements between the War Department and FEA part or all of this financing will be covered by FEA funds transferred to the War Department against certification that the commodities are essential civilian supplies (RA-requisitions).

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"A"

1. Origin of Requirement
2. Determination of "A" and "B" Category

3. Requisition Transmitted to

4. Validity Screening

Membership Countries

U.S. Agency Represented
(o) Chairman

5. Determination of Source of Supply

6. Confirmation of Procurement Responsibility

7. Procurement

8. Shipping

9. Delivered in Italy to

10. Financing

AC-Italian Government

AFHQ

to

to AC for

CCAC(S)

CCAC(S)

U.S.

U.K.

Canada

War(o) State

U.S.

FEA(o) Tree

Combined Boards
and National
Supply Agencies

CCAC(S)

U.S.

U.K.

Canada

War-FEA

War

Mutual Aid Board

War

War

U.S. War

AC-AMG

Appropriated Funds

War-FEA

War

Special Fund

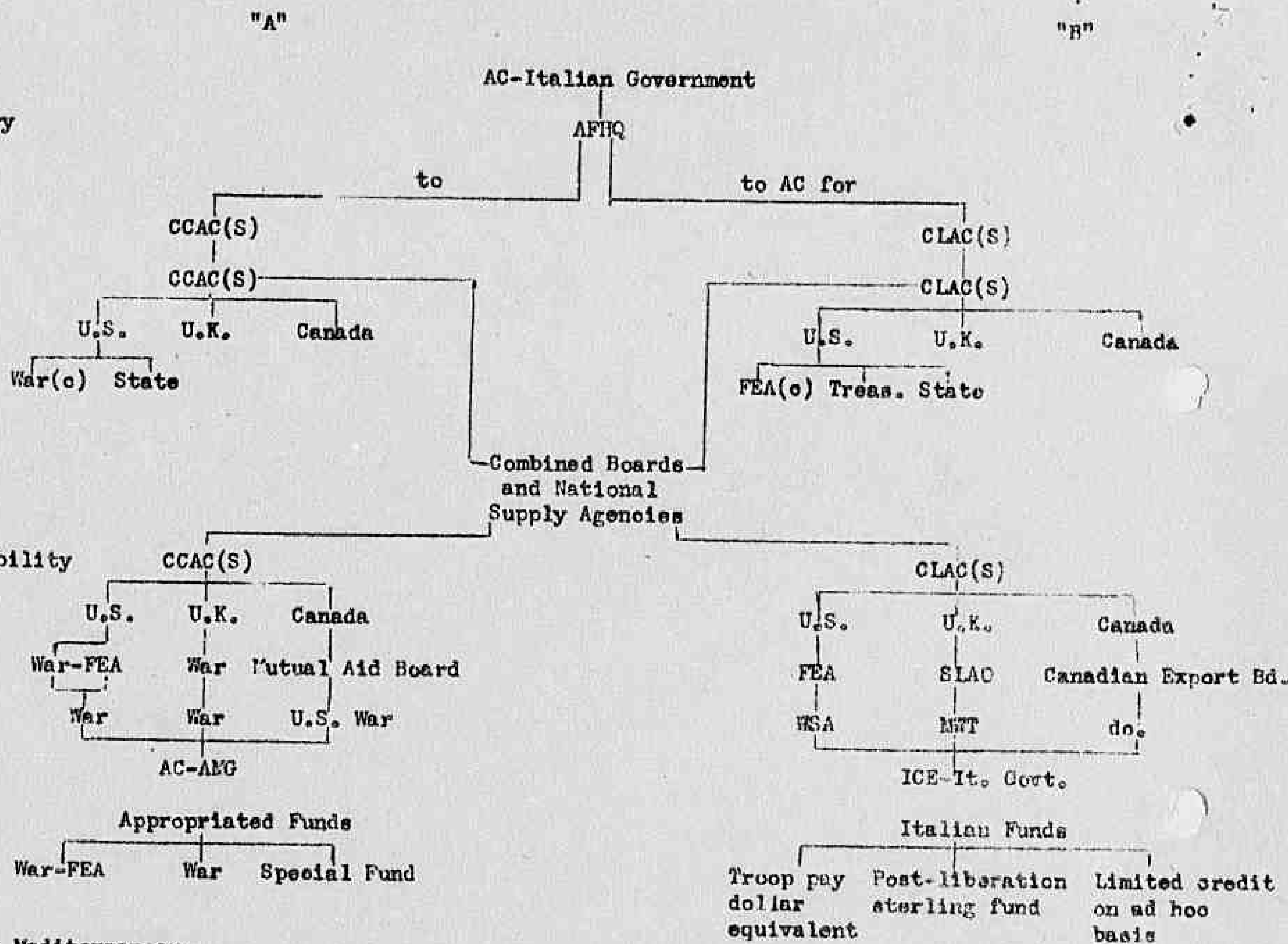
U.S.

FEA

FEA

Troop pay
dollar
equivalent

AC Allied Commission (Italy)
 AFHQ Allied Force Headquarters in the Mediterranean
 AMG Allied Military Government
 CCAC(S) Combined Civil Affairs Committee (Supply Subcommittee) - Military
 CLAC(S) Combined Liberated Areas Committee (Supply Subcommittee) - Civilian
 ICE Istituto Commercio Estero (Italian Agency handling foreign trade)
 SLAO Committee on Supplies for Liberated Areas and Occupied Territories (British)
 MWT Ministry of War Transport (British)



on (Italy)
 Headquarters in the Mediterranean
 Government
 Affairs Committee (Supply Subcommittee) - Military
 Areas Committee (Supply Subcommittee) - Civilian
 Pio Estero (Italian Agency handling foreign trade)
 Supplies for Liberated Areas and Occupied Territories (British)
 Transport (British)

CLAG(S) 18/2
April 19, 1945

PROCUREMENT OF CIVILIAN SUPPLIES FOR ITALY

Memorandum from U.S. Members

2

I. Procurement Procedures ex U.S.

FEA has full responsibility for procurement, this responsibility having been given to it by the Liberated Areas Committee of the U.S. Government when on December 7, 1944 it approved a paper called Statement of Procedures for Civilian Supplies for Italy, LAC 17/1, and later confirmed by the Italian Government.

1. Procurement Responsibility.

"In cases where the U.S. procurement responsibility has been agreed upon, FEA will then proceed with the procurement and delivery of supplies against such requests." (LAC 17/1)

2. Shipping Responsibility.

It follows from this that FEA is responsible for making all arrangements for procurement for account of the Italian Government. For the time being shipping arrangements will have to be coordinated with the military so that USA can make shipping space available to FEA. Shipping charges to be properly paid by FEA out of Italian funds.

3. Financing.

"The dollars equivalent to the net troop pay in Italian lire will be paid into an account in dollars to be established in the U.S. Treasury for the account of the Italian Government." (Account opened February 26, 1945, see above II, 2, B.)

"As soon as FEA certifies to the U.S. Treasury that either (a) FEA is procuring or has authorized the procurement of essential supplies requested by the Italian Government or (b) FEA has obtained the agreement of the Italian Government to pay out of the account for supplies procured or to be procured from U.S. sources, the Treasury will make available to FEA or as directed by it, funds to cover such procurement and incidental expenses or such agreement to pay and will automatically debit the account therefor. Appropriate adjustments will be made to the account on the basis of detailed vouchers which FEA will submit to the Treasury Department and to the Italian Government certifying the amounts and prices of the items which it has procured. Other adjustments will be made to the account as may be mutually agreed upon between FEA and the Italian Government."

"These funds are not to be used to pay for any goods delivered to Italy prior to the date of the opening of the account." (LAC 17/1)

A letter has been received from the Italian Government addressed to the Secretary of the Treasury which authorizes the opening of this account and "pending further advice from the Italian Government to charge this account currently with the dollar amounts certified by the Foreign Economic Administration of the United States Government to be required for the procurement of civilian supplies, approved by the Italian Government. It is understood that the amounts certified by the Foreign Economic Administration may be adjusted either on the basis of ordinary incidents of procurement or as may otherwise be mutually agreed to by the FEA and the Italian Government, and that appropriate charges or credits will be made in the account without further authorization to reflect any such adjustments."

-2-

Under agreement entered into between FEA and the Treasury Department, this latter will transfer to FEA, at FEA's request, funds prior to procurement so that these funds may be properly committed to procurement agencies.

At the present time \$100,000,000 has been deposited into this account with Treasury, and FEA expects to make requests as the requisitions are submitted to it. An initial transfer of \$10,000,000 to FEA has taken place.

II. Processing of Requisitions by FEA.

1. The European Branch of FEA has the responsibility of transforming into requisitions all the requests which have already been handled by the Foreign Economic Administration as requests of the Italian Government, certified by the Allied Commission and screened as to validity by the Combined Liberated Areas Committee (Supply Subcommittee). A great many of these requisitions are not received in perfect form and considerable work has to be done in order to obtain unequivocal specifications and see that proper allocations are being set up and eventually proper ratings are received for each procurement.

2. The procedure used by FEA for procurement of supplies for lend-lease countries is followed with slight modifications to make it adaptable to the peculiarities of the Italian program. Supplies are purchased through the Treasury Department, Procurement Division, Department of Agriculture and other procurement agencies of the U.S. Government.

The symbol "YT-" is used to denote procurement of Italian essential supplies and covers requisitions, commitment letters, export declarations, bills of lading, and all other pertinent documents.

3. Complete detailed accounting is kept by FEA since this procurement has to be carried out on an actual cost basis. All charges, including administrative ones, are properly debited against Italian funds and no settlement is made on the basis of estimated costs. However, a fund equal to 2% of procurement is earmarked at time of procurement for settlement of all pertinent charges.

4. Upon notification that goods are available, the European Branch of FEA will notify the Allied Commission which will make arrangements for shipping space with AFHQ. After receipt of allocation of space by AFHQ, the Shipping and Storage Branch of FEA will make proper arrangements with FEA for lifting the goods which are to be delivered in Italy to the Istituto Commercio Estero (ICE), an Italian Government agency handling foreign trade. The risk of loss and damage is borne by the Italian Government at all stages of procurement.

All goods to be marked with customary lend-lease markings as per War Department regulations and will bear the CIAC 1- number of the requisition and the YT- number of U.S. procurement.