

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

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10000/109/858
(VOL. I)

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

10000/109/858
(VOL. I)

NEW DEAL, FINANCE POLICY
FEB. 1945 - JAN. 1946

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

FILE CLOSED

SEE VOL II

2483

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

(88)

89

88 for info AFA sleep in room through under
AFAH 14/1

(90)

BF for info of Ex. Com. 15/1

250. Please see 5 91 95 for info

BF 26/1 to Ex. Com. for info 15/1 staff 15/1/40

97

Info 94 seen by Major Holmes & 250 for info New 1/7 11/

Ex. Com.

100

250. Please see 5. 98 & 99 for info.

11/12

15/1

staff 3/1/40

2-82

785017

75

Executive Committee

7/10

For info press 73 in reply to CC's letter re plan

6/1

7/10

7/10/85 5:50 PM

25/9

no new developments yet. Document on new development will be coming through shortly in exchange notes. (Emil)

King HC Ref 130124F & 22 Sept in file 4613/EC covers this. See by CSD & EC (Emil)

(7)

Ex-lam.

ESD

Re the (7) for info: regarding Italian Govt as issuing authority for all currency incl. AMG. subject to Swiss restrictions. (Emil)

7/10

6/11 notes. 2

81.

Ex-lam.

80 10 info.

8/1 27/11

EB 27/11

2483

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no new developments until document on new development will be coming through shortly in exchange notes.

Emu

Fin. Sec. Ref 130124F of 22 Sept in file 4613/EC covers this. See by CSD 4 EC

Emu

(A)

Ex. Com.

ESD

Re see (11) for info: regarding when put as issuing authority for all currency incl. AMG. subject to Swiss restrictions. CSD 3/11

Am. of

6/11 notes. 2

Ex. Com.

80 Jo info.

81.

82. 27/11.

EB 27/11

2481

Am. of

84

Fin. Sec. Ref 130124F of 22 Sept in file 4613/EC covers this. See by CSD 4 EC

Ex. Com.

87

Re see (11) for info: regarding when put as issuing authority for all currency incl. AMG. subject to Swiss restrictions. CSD 3/11

Am. of

88

C.S.O.

58

FAN 53

At this place no prepared copy, as per 55 & 56
also per 57, from Fin 54. & C.C. explaining some of the more
salient features of FAN 583 & its implementation; also please C.C. memo
to Fin 54 & 60.
C.C. 10/3/55

61.

Ex Com.

Paraphrase of FAN 583 which
is the lay-man's version of
direction Supplementing to
FAN 487 & at 56. Finance
Spec covering letter & at 57.

MS (167)

5. 16/7.

2480

65

~~Exec~~ Executive Communication.

Please see para 64 for info.

10/12

BLO CSO

24/7

10

785017

61.

Ex Lome.

Peraphone 9 FAN 583 What
is the lay-out of the Financial
Administration Supplementing to
FAN 487 4' at 56. Finance
Spec' covering letter 4' at 57.

MS 16/7
5/16/7.

2483

65

Executive Commission

Please see page 64 for info.

MS 14/7

MS 14/7

69

Encl.

For info. please see pages 67 & 68

MS 26/7

24. 21/7

See by

MS 26/7

19 March 1945

46.

TO : Chief Commissioner

1. The draft signal at 43 is not considered advisable for the following reasons:

It states a reluctance to have negotiations undertaken at this time and the disagreement of the Supreme Commander's advisers as to the effect of presently undertaking negotiations but fails to state the reasons for the reluctance and for disagreement. These reasons are certainly reflected in the minutes of the conference at 41 and to my mind are well stated in para. 3 of the draft signal at 36. I do not feel that Mr. Morgenthau's reiteration of the Armistice obligations has had a sufficient effect on the local Italian situation to change the point of view expressed in the draft reply at 36 and I would recommend that we return to that draft using paragraphs 1, 2 and 3 to replace paragraphs 1 and 2 of the draft at 43. With reference to paragraph 3 of the draft at 43, I recognize that this attempt to avoid making a definite recommendation is in accord with the policy of the Deputy Commander. With all due deference to his opinion I do not feel that the matter is at all "one of the highest financial policy". That view can be taken only if the basis of the original draft reply is lost sight of. The Theater reply should be based not on a question of opinion of financial policy. In the draft at 36, for example, the Theater states its agreement with the financial policy involved but bases its reply entirely on the question of timing in view of military operations. Since the question involved is a possibility of prejudicing military operation, which is admitted in para. 2 of the draft at 43, it is submitted the Theater cannot refrain from making a recommendation as it attempts to in para. 3 of that draft. I suggest that para. 3 of the draft at 43 be replaced by paragraphs 4 and 5 of the draft at 36.

J. J. Kaulin
U.S.C.G.R.

Joint Director,
Finance Sub-Commission

48

19 March 1945

States a reluctance to have negotiations undertaken at this time and the disagreement of the Supreme Commander's advice as to the effect of presently undertaking negotiations but fails to state the reasons for the reluctance and for disagreement. These reasons are certainly reflected in the minutes of the conference at 41 and to my mind are well stated in para. 3 of the draft signal at 38. I do not feel that Mr. Morgenthau's reiteration of the Armistice obligation has had a sufficient effect on the local Italian situation to change the point of view expressed in the draft reply at 38 and I would recommend that we return to that draft using paragraphs 1, 2 and 3 to replace paragraphs 1 and 2 of the draft at 43. With reference to paragraph 3 of the draft at 43, I recognize that this attempt to avoid making a definite recommendation is in accord with the policy of the Deputy Commander. With all due deference to his opinion I do not feel that the matter is at all "one of the highest financial policy". That view can be taken only if the basis of the original draft reply is lost sight of. The Theater reply should be based not on a question of opinion of financial policy. In the draft at 38, for example, the Theater states its agreement with the financial policy involved but bases its reply entirely on the question of timing in view of military operations. Since the question involved is a possibility of prejudicing military operation, which is admitted in para. 2 of the draft at 43, it is submitted the Theater cannot refrain from making a recommendation as it attempts to in para. 3 of that draft. I suggest that para. 3 of the draft at 43 be replaced by paragraphs 4 and 5 of the draft at 38.

J. J. Zander
Cdr. U.S.C.G.R.

Joint Director,
Finance Sub-Commission

48

49 March 1945

1. On receipt of 47 discussed I wrote the Chief Commission under agreed as long as the final clause of the first sentence of para 2 is deleted.

2. Telephone above to Cdr. I outlined in above of 6 in. Spofford. Cdr. Smith said that sentence was dictated by Mr. Macmillan. G-5 would have no objection to C.C.'s change & he expected Reamier would also agree.

J. J. Zander
Cdr. U.S.C.G.R.
Joint Director,
Finance Sub-Commission

19/3

C 50

29.

- 1) Folios 22-27 are draft of proposed ^{telegraph} ~~draft~~ CCS from SACMED as prepared by CC and CCS on Finance Policy as to time and extent of returning to Italian Gov't its complete finance authority.
- 2) Folios 28 are minor corrections to draft on folios 23-24.
- 3) Do you wish further circulation of this draft to see for information? JCB 14/2

Los have seen

AM

31

Los then para to the draft copy
to TAM 445 (p 24 refers)

in at 30.

LA 15/2

MS/15/2

TO: C50

26

2478

To note folios 33 - 35 for information on proposed modification of Allied financial relations with Italian Government (see paragraphs sidelined in red).

28 Feb 45

37

Ex. Com

JCB

Major.

To see min 36 & folios 33 & 35

785017

31

Los then para to the Sept 20th
to TAM 445 (p 20 refers)
in at 30. Li 15/2

2478

36

NO: CSO

To note folios 33 - 35 for information on proposed modification of Allied financial relations with Italian Government (see paragraphs sidolined in red).

28 Feb 45

37

Ex. Com

To see min 36 & folios 33 & 35
28 Feb

WW/13

45

Joint Director Finance Sk

Please pri - direct to CC - 90m
reactions to draft Sept 20th 43

Endersby
19/3

Major.

785017

4601

99

13242/F

30 January 1946

SUBJECT : Currency Agreement.

JAN 30 1946

TO : Assistant Chief of Staff,
G-5 Section,
AFHQ.

1. I refer to paras. 13, 14, 15, 16, and 17 of FAN 583, and my letter 13242/F of 1 November, 1945 to the President of the Council of Ministers, in which the proposed Currency Agreement was put to the Italian Government.

2. Attached hereto are copies, and translations thereof, of the President of the Council of Ministers' reply, in which the Italian Government accepts the Currency Agreement as of 1 February, 1946. In our view, the Italian Government's reply meets the requirements of FAN 583. The U.S. and British Embassies concur in this view.

3. I assume that you will wish to forward copies of the attached documents to GCS for their information.

4. The technical details referred to in para. 7 of my reference letter, and para. 9 of the reply from the President of the Council of Ministers are now in process of being worked out with the Italian Treasury and the Banca d'Italia. We shall keep you closely advised of all technical arrangements made.

Copies to: Executive Commissioner,
Acting Vice-President
Economic Section,
U.S. Embassy (Dr. H. J. Tanca),
British Embassy (Mr. S.
Simmonds).

/s/ Ellery W. Stone

ELLERY W. STONE,
Rear Admiral, USNR,
Chief Commissioner.

See M. 100

5/11/46
BHE/paf
(10214)

TRANSLATION

From : The President of the Council
of Ministers.

To : Admiral Ellery W. Stone,
Chief of Allied Commission,
Rome.

Ref. No. 44/02423/4

Rome, 24 January 1946

Dear Admiral,

I refer to your letter of 1 November, 1945, to Prime
Minister Parri.

1. I am pleased to hear that the Allied Governments are
of the opinion that all lire issued should be unified under
the authority of the Italian Government; this represents a
further step towards the restoration of the Italian Govern-
ment's normal powers.

2. In accordance with your wishes, the Italian Govern-
ment state that they will appoint for the purpose the Banca
d'Italia, which will be recognised as the authority issuing
the As-Lire, including the ones at present in circulation.

The Italian Government reserves the right to discuss
the question of ultimate compensation with respect to the
issue of As-Lire directly with the Government of the United
States and of the United Kingdom through diplomatic channels.

3. I understand that the Allied Governments have discon-
tinued the printing of As-Lire.

4. The Italian Government will see that the Metropolitan
notes and lire credits necessary for the requirements of the
Allied Forces in Italy, and the ones in Venezia Giulia, will
be regularly supplied by the Banca d'Italia. On the other
hand, it is agreed that the Allied Authorities will give
adequate notice in advance, possibly of 15 days, to the Ita-
lian Government of their monthly requirements, besides any
eventual extraordinary request. We repeat also for said
notes and credits what stated at the second part of para. 2
above.

Dear Admiral,

I refer to your letter of 1 November, 1945, to Prime Minister Parri.

1. I am pleased to hear that the Allied Governments are of the opinion that all lire issued should be unified under the authority of the Italian Government; this represents a further step towards the restoration of the Italian Government's normal powers.

2. In accordance with your wishes, the Italian Government state that they will appoint for the purpose the Banca d'Italia, which will be recognized as the authority issuing the *As-Lire*, including the ones at present in circulation.

The Italian Government reserves the right to discuss the question of ultimate compensation with respect to the issue of *As-Lire* directly with the Government of the United States and of the United Kingdom through diplomatic channels.

3. I understand that the Allied Governments have discontinued the printing of *As-Lire*.

4. The Italian Government will see that the Metropolitan notes and lire credits necessary for the requirements of the Allied Forces in Italy, and the ones in Venezia Giulia, will be regularly supplied by the Banca d'Italia. On the other hand, it is agreed that the Allied authorities will give adequate notice in advance, possibly of 15 days, to the Italian Government of their monthly requirements, besides any eventual extraordinary request. We repeat also for said notes and credits what stated at the second part of para. 2 above.

5. For technical reasons of currency control, all the stock of *As-Lire* now with AFA will remain physically in the custody of the Banca d'Italia, but at the disposition of AFA. It is agreed that the Allied Armed Forces will fall back on the use of said stock, after the enactment of the present agreement, only if the Italian Government is not in a position to supply the necessary Metropolitan Lire; the drawing will be made giving full information to the Banca d'Italia. For said drawings a special accounting system

See 99

will be kept, to be agreed upon, between the Banca d'Italia and the Allied Commission. We beg to inform you that the ARA has already physically consigned to the Banca d'Italia some sealed boxes containing stock of As-Lire.

6. In case of drawings from the above-mentioned stock of As-Lire, the Italian Government undertakes to reimburse the printing and transportation cost of notes drawn in this manner. This reimbursement will be made by debiting at the end of each month in a post-liberation dollar account the amount equivalent to the cost of the notes drawn during the month, in the proportion mentioned in your letter of 7 December, 1945, and the Italian Government reserves the right to discuss the question of the reimbursement of the right of action and transportation cost of all the other As-Lire notes.

7. The Italian Government also undertakes, in the event of a conversion of the present Metropolitan notes and As-Lire in circulation, and only in case the said Government should not be able to meet the Allied requests in the new currency, to issue in due time a decree recognizing the legal tender of the As-Lire or of any other currency which the Allied might issue. Also for the foregoing we repeat what previously stated in the second part of para. 2 above.

8. I assure you that also for that period of time in which the As-Lire will remain legal tender in Italy, the provisions which at present rule the reimbursement of the original value of counterfeited notes, the exchange of damaged and torn notes and the destruction of those that cannot be placed again in circulation, will be kept in force. In the event of a conversion of the notes at ¹⁵⁴⁵ 1945, the above-mentioned provisions will be extended to the new notes, as far as Allied Military Offices are concerned, in accordance with the general provisions which will rule their circulation.

9. It is agreed that the procedure and the supplementary details of the agreement which will be annexed on 1 February, 1946, will be settled, as suggested in your letter of 1 November, 1945, between the Finance and Commission of the Allied Commission, the Italian Ministry of the Treasury, and the Banca d'Italia.

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end of each month in a post-liberation dollar account the amount equivalent to the cost of the notes drawn during the month, in the proportion mentioned in your letter of 7 December, 1945, and the Italian Government reserves the right to discuss the question of the reimbursement of the production and transportation cost of all the other Am-Lire notes.

7. The Italian Government also undertakes, in the event of a conversion of the present Metropolitan Notes and Am-Lire in circulation, and only in case the said Government should not be able to meet the Allied requests in the new currency, to issue in due time a decree recognising the legal tender of the Am-Lire or of any other currency which the Allies might issue. Also for the foregoing we repeat what previously stated in the second part of para. 2 above.

8. I assure you that also for that period of time in which the Am-Lire will remain legal tender in Italy, the provisions which at present rule the reimbursement of the original value of counterfeited notes, the exchange of damaged and torn notes and the destruction of those that cannot be placed again in circulation, will be kept in force. In the event of a conversion of the notes at 240:1 in circulation, the above-mentioned provisions will be extended to the new notes, as far as Allied Military Offices are concerned, in accordance with the general provisions which will rule their circulation.

9. It is agreed that the procedure and the supplementary details of the agreement which will be enacted on 1 February, 1946, will be settled, as suggested in your letter of 1 November, 1945, between the Finance Sub Commission of the Allied Commission, the Italian Ministry of the Treasury, and the Banca d'Italia.

I beg you to accept, dear Admiral, my most cordial regards.

Sincerely yours,

/s/ Alcide De Gasperi

Distribution:

Action: Finance S/C

Info : Chief Commissioner
Executive Commissioner
Acting Vice-President
Economic Section
British Embassy
American Embassy

COLL

-Al Presidente del Consiglio dei Ministri

11/02400/4

Roma, 24 Gennaio 1942

Caro Ammiraglio,

Mi riferisco alla Sua lettera inviata in data 1° novembre s.e. al Filao Ministro Ferri.

1. Sono lieto che i Governi Alleati siano entrati nell'ordine d'idea che tutte le emissioni di lire vengano unificate sotto l'autorità del Governo Italiano, ciò che rappresenta un ulteriore passo nel ripristino dei normali poteri dello Stato Italiano.

2. In relazione a quanto da Lei esposto, il Governo Italiano dichiara di designare per l'oggetto la Banca d'Italia, che sarà riconosciuta come autorità emittente delle salire, comprese quelle attualmente in circolazione.

3. Il Governo italiano si riserva il diritto di discutere la questione del regolamento definitivo dei rapporti di debito e credito per quanto riguarda l'emissione della salire, direttamente con i Governi degli Stati Uniti e del Regno Unito per via diplomatica.

4. Mi risulta che i Governi Alleati abbiano cessato di stampare salire.

5. Il Governo Italiano provvederà a far fornire regolarmente alla Banca d'Italia i biglietti antipolitici e i crediti in lire necessari al fabbisogno delle forze Alleate in Italia comprese quelle dislocate nella Venezia Giulia. Resta inteso che le autorità Alleate faranno conoscere al Governo Italiano con un congruo preavviso, possibilmente 15 giorni, i loro fabbisogni e quindi nonché ogni eventuale richiesta di carattere straordinario.

Si ripete anche per tali biglietti e crediti quanto è detto al capoverso secondo del paragrafo 1.

6. Per le esigenze tecniche del Governo della moneta, tutte le scorte di salire di cui dispone l'Asa riseranno materialmente custodite dalla Banca d'Italia, se a disposizione dell'Asa, inteso che le forze Alleate Alleate ricorreranno all'impiego di tali scorte, dopo l'entrata in vigore del presente accordo, soltanto nel caso che il Governo Italiano non sia in grado di fornire le lire antipolitiche occorrenti; il prelievo verrà effettuato mediante specific comunicazione alla Banca d'Italia. Per effetti prelevamenti sarà tenuta una contabilità speciale secondo un

...che tutte le emissioni di lire vengano unificate sotto l'autorità del Governo Italiano, ciò che rappresenta un ulteriore passo nel ripristino dei normali poteri dello Stato Italiano.

2. In relazione a quanto da Lei esposto, il Governo Italiano dichiara di designare per l'oggetto la Banca d'Italia, che sarà riconosciuta come autorità emittente delle lire, comprese quelle attualmente in circolazione.

Il Governo Italiano si riserva il diritto di discutere la questione del regolamento definitivo dei rapporti di debito e credito per quanto riguarda l'emissione delle lire, direttamente con i Governi degli Stati Uniti e del Regno Unito per via diplomatica.

3. Si risulta che i Governi Alleati abbiano cessato di stampare lire.

4. Il Governo Italiano provvederà a far fornire regolarmente della Banca d'Italia i biglietti metropolitani e i crediti in lire necessari al fabbisogno delle forze Alleate in Italia comprese quelle dislocate nella Venezia Giulia. Resta inteso che le Autorità Alleate faranno conoscere al Governo Italiano con un congruo preavviso, possibilmente 15 giorni, i loro fabbisogni mensili nonché ogni eventuale richiesta di carattere straordinario.

Si ripete anche per tali biglietti e crediti quanto è detto al capoverso secondo del paragrafo 2.

5. Per le esigenze tecniche del Governo della moneta, tutte le scorte di lire di cui dispone l'Alfa risaranno astierizzate e custodite dalla Banca d'Italia, se a disposizione dell'Alfa, l'inteso che le Forze Armate Alleate ricorreranno all'impiego di tali scorte, dopo l'entrata in vigore del presente accordo, soltanto nel caso che il Governo Italiano non sia in grado di fornire le lire metropolitane e occorrenti; il prelievo verrà effettuato dandone specificamente comunicazione alla Banca d'Italia. Per effetti prelevamenti sarà tenuta una contabilità speciale secondo un sistema da concordare fra la Banca d'Italia e la Commissione Alleata. Si fa notare che l'Alfa ha già materialmente consegnato alla Banca d'Italia delle cassette chiuse contenenti scorte di lire.

6. Nel caso di prelievi delle suddette scorte di lire, il Governo Italiano si impegna di rimborsare il costo di stampa e di trasporto dei biglietti così prelevati. Tale rimborso sarà effettuato mediante addebitamento alle fine di ogni mese di un conto in dollari post liberation per l'importo corrispondente al costo dei biglietti prelevati durante il mese secondo

la misura indicata nella sua lettera del 7 dicembre c.a. e il Governo Italiano si riserva il diritto di discutere la questione del costo di produzione e di trasporto di tutti gli altri biglietti salire.

2. Il Governo Italiano si impegna anche ad esentare temporaneamente, nell'eventualità di una conversione degli attuali biglietti metropolitani e delle salire in circolazione, un decreto che riconosce il corso legale delle salire e di altre monete da emettere degli Alleati, soltanto nel caso che venisse meno l'adempimento delle somministrazioni in nuovi biglietti metropolitani. Anche per questi si ripete quanto già detto al secondo capoverso del paragrafo 1.

3. Le assicuro anche che, durante il periodo in cui le salire conserveranno valore legale in Italia, saranno mantenute in vigore le norme disposizioni che regolano attualmente il riabito del valore originario di emissione dei biglietti contraffatti, il cambio dei biglietti danneggiati e logori e la distruzione di quelli incircolabili. Nell'eventualità di una conversione dei biglietti in circolazione, le suddette disposizioni verranno estese ai nuovi biglietti, nei confronti delle intendenze militari Alleate, compatibilmente con le norme generali che ne regolano la circolazione.

3. Resta inteso che la modalità di attuazione e i dettagli supplementari dell'accordo di cui alla presente lettera, che entrerà in vigore il 1° febbraio p.v. saranno definiti, come da lei suggerito nella sua lettera del 1° novembre s.a.; tra la Sottocommissione Finanziaria della Commissione Alleata, il Ministero del Tesoro e la Banca d'Italia.

Gradisca, caro Ammiraglio, gli atti della mia doverosa osservanza e i più cordiali saluti.

F.to Alcide De Gasperi

All'Ammiraglio Gallery A. STONE
Capo della Commissione Alleata.
Roma.

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1334/7

21 January 1946

My dear Mr. Prime Minister, ⁴⁶⁰¹
⁴⁶⁰¹ 4601

JAN 22 1946

I write with further reference to my letter 1334/7 of 17 July, 1945, to the President of the Council of Ministers.

With respect to paragraph 1 (b) of my letter under reference, I am now directed by the Combined Chiefs of Staff to inform your Government that it is now no longer necessary for the Italian exchange control authorities to consult with the Allied Commission before authorizing any external financial transactions undertaken by Italian insurance companies or involving the foreign branches or subsidiaries of such companies.

Very truly yours

(sgd)

ELERY F. STONE,
Rear Admiral, USN,
Chief Commissioner.

Onorevole Alcide De Gasperi,
President of the Council of Ministers
Italian Government.

cc to : C. A. Embassy
British Embassy
Fold (A)
Fold (B)

Executive Commissioner
Acting Vice President, Economic Section.
(AH) H)

2472

See M. 97

PA
2411
1

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

15015/r.

See 7-120
VOL II

16 January 1946.
JAN 17 1946

SUBJECT: Reorientation of Allied Financial Policy toward Italy.

TO: Assistant Chief of Staff,
G-5 Section,
AFHQ.

File 4025
JAN 12 1946

1. In my letter 20.04/25 of 14 December, 1945, entitled "Coordination of Military Procurement in Italy with Allied Civilian Supply Program", I made certain observations on the grave damage being done to the Italian economy by procurement of indigenous Italian materials, supplies, and plant equipment by Allied military units, and I presented recommendations designed to coordinate Allied military procurement with the supply programs which have as their object the rehabilitation of the Italian economy. The adoption of such recommendations would, I feel, reduce to a minimum the damage done to the production and distribution functions of the Italian economy.

2. It will also be remembered that in my letter under reference and my letter 23.04/25 of 14 December, 1945, entitled "Military Exports from Italy (Financial Problems)", I recommended that the Italian Government should receive current reimbursement in foreign currencies for indigenous supplies exported on a military basis after 1 September, 1945. Bearing in mind that a major objective of Allied economic policy in Italy is to enable the Italian economy to provide for its own needs and thus cease to constitute a burden on the economies of the United Nations, I feel that the time has come to recommend to you for your consideration that Allied financial policy towards Italy be reoriented, in order that the Allied drain upon the resources of the Italian economy may be offset by current foreign exchange credits for future translation into compensating supplies. You may wish to consider forwarding such recommendation, if appropriate, to the Combined Chiefs of Staff.

3. Specifically, I recommend that after 1 January, 1946, in addition to G-5 net troop expenditures, all other Allied net troop expenditures and all net lire outpayments into the Italian civil economy by the Allied forces for the procurement of local supplies, materials and services be reimbursed to the Italian Government in the appropriate foreign currency.

See by KC
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2471

See M. 94-95

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(MAY 11) 5/11/46

- 2 -

4. At the beginning of the Allied occupation of Italy, all Allied net outpayments in lire into the Italian civil economy were considered as chargeable to the account of the Italian Government. This policy was later modified in practice in favor of the Italian Government on the U.S. side and the Net Troop Expenditure Account was set up. (The Supreme Allied Commander in his telegram FA 47602 of 6 October, 1945, to the British Chiefs of Staff, stated he felt that consideration should be given to bringing British policy into line with U.S. policy as far as the question of foreign exchange credits for net troop expenditures in lire is concerned). Thus, the present position is that the U.S. Government still considers as chargeable to occupation costs the costs of all goods and services procured in Italy, and the British Government considers as chargeable to occupation costs, not only locally procured goods and services, but also all British and Dominion net troop expenditure, as well as the expenditure of those Allied Forces which draw their AM lire supplies through the British Army Pay-Masters, e.g. Polish Army units. The French Government's net lire expenditures in Italy for military purposes are likewise presently charged as occupation costs.

5. Beginning with PAN 467, the emphasis of the Allied supply programs for Italy has shifted from the original combined military responsibility formula of "disease and unrest" to a series of programs looking toward the rehabilitation of Italy. It is felt that the action of the U.S. Government in setting up the Net Troop Expenditure Account should be expanded to its full logical development, which would be to bring the "occupation costs" regime in Italy to an end, and I feel that 1 January, 1946, is an appropriate date for such action to become effective as it marks the beginning of the full UNRRA program for Italy. It is considered undesirable that UNRRA funds, U.S. Government funds, or Italian foreign exchange credits arising out of remittances and exports should be used to procure supplies abroad which, when imported into Italy for full utilization in the civilian economy, are withdrawn by the Allied Forces on an occupation costs basis under Armistice powers. Although it is recognized that the drain of the Allied Armed forces on Italy is steadily lessening, due to redeployment of troops, it is nevertheless felt that these supply programs should be allowed to make their maximum contribution to the rehabilitation of the Italian economy. It is manifestly impossible to attempt to distinguish between those Italian products into whose production imported supplies enter, and those without imported supplies components. For example, the effects of coal and P.O.L. extend throughout all parts of the Italian civilian economy.

6. It is recognized that the recommendation made in this letter may be more favorable to Italy than the contemplated financial and bookkeeping-offset terms of the proposed U.S. Civil Affairs Agreement, designed to accompany the Peace Treaty, which in its turn was less unfavorable to Italy than the proposed British Civil Affairs Agreement, but it is submitted that the present recommendation is more in line with the general policy proposed

- 3 -

in my secret memorandum CC1902 of 23 June, 1945, to the Supreme Allied Commander. The signing of a Treaty of Peace between the United Nations and Italy may well be delayed; the recommendation made above does not require a formal modification of the Armistice, which may not take place before the Peace Conference. Rather it may be given effect through a modification by the countries immediately concerned in the manner in which the Armistice is applied, as has already been done with respect to most of its economic clauses. The precedent most in point is of course the U.S. action in establishing the Net Troop Expenditure Account. If such a proposed modification is given effect, it could be stated to the Italian Government that Italy is receiving the advantages of grace and not of right and that full liability remains to be discussed at the Peace Conference.

7. I am sending copies of this letter to the American and British Ambassadors in Rome for their information.

Is/ Henry W. Stone

HENRY W. STONE,
Rear Admiral, USN,
Chief Commissioner.

Copy to : U.S. Ambassador
British Ambassador
Executive Commissioner
Acting Vice-President, Economic Section.

2463

Declassified E.O. 12356 Section 3.3/NND

No.

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JAN 13 1630

ROUTINE

AFHQ SIGNED SACRED CITE PHOEG

ALCOM ROME

JAN 14 1946

CONFIDENTIAL

(Allied Financial Agency)

CONFIDENTIAL.

CGS have directed that AFA be transferred to AFHQ but will remain in ROME on detached duty. Chief Financial adviser Allied Commission will continue to negotiate the currency agreement as called for in para 13 Jan 582.

AC DIST

ACTION FINANCE 2
INFO CHIEF COMMISSIONER
EX COMM
FILE

CONFIDENTIAL

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See M. 89-90

24

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785017

HEADQUARTERS ALLIED COMMISSION
APO 394
FINANCE SUB COMMISSION

13242/T

4 January 1946

SUBJECT : Currency Agreement (FAN 583).

TO : The Chief Commissioner.

1. This morning at 11:00 AM Col. Menapace, Lt. Col. Timmons and Dr. H.J. Tasea, U.S. Treasury Representative, met with Minister of the Treasury Corbino and Director General of the Bank of Italy Introna to discuss the currency agreement proposed in your letter 13242/T of 1 November (copy attached at Tab "A").

2. We found Minister Corbino both fully informed on the question and obviously desirous of bringing the proposed agreement to an early conclusion. We encountered none of the disposition to haggle over small and unimportant points that had characterized our discussions with Ricci, Corbino's predecessor. The Banca d'Italia had apparently given way on a number of points to which they had objected in a meeting on 23 November, 1945, and in discussion we worked out a satisfactory method of meeting Introna's chief point, that of the necessity for full information to the Banca d'Italia on outpayments of AM lire by the Allied Commission (to the Allied Armed Forces for troop pay, etc.) after the date on which the currency agreement enters into force.

3. Minister Corbino concluded the meeting by saying that the Italian Treasury would accept the agreement and that he would proceed to prepare a formal reply to this effect from the President of the Council of Ministers to you.

(Signed) ROBERT B. MENAPACE

2468

Director,
Finance Sub Commission.

Copies to: U.S. Embassy (Dr. Tasea)
British Embassy (Sir R. Neworthy)
Executive Commissioner
A/Vice President, Economic Section
G-5 (Financial Advisor), AFHQ

HELE/pmf

Appendix "A"

ADJUTANT GENERAL'S COMMISSION

AFG 391

Office of the Chief Commissioner

13242/P

1 November 1945

My dear Mr. Prime Minister:

1. I write with reference to my letter 13242/P of 18 July, 1945.

2. I am further directed by the Combined Chiefs of Staff to inform you that the Allied Governments are now prepared to accede to the request of your Government that all lire currency issues be unified under the authority of the Italian Government. As you are aware, this request was first made to the United States Government by the Quintieri-Mattoli Financial and Economic Mission during their visit to the United States in November, 1944 - January, 1945, and was referred by the United States Government to the Combined Chiefs of Staff.

3. In order to implement the decision of the Allied Governments referred to in paragraph 2 above, I am authorized by the Combined Chiefs of Staff to enter into an agreement with your Government under which:

a. The Italian Government, or an agency designated by it, will be recognized as the issuing authority of Allied Military lire currency, including all such lire now in circulation.

b. The future currency needs of the Allied Forces in Italy, including Venezia Giulia, will be met with currency issued by the Italian Government or its designated agency, and the Italian Government will undertake to supply such lire currency and credits as may be required by the Allied Forces. Pending the time when your Government or its designated agency is able to acquire sufficient currency of your own design, Allied Military lire will be made available by the Allied Commission to your Government in such amounts as are required to meet the needs of the Allied Forces in Italy. As long as the Allied Forces use Allied Military lire rather than Metropolitan lire, it is not contemplated that an actual physical transfer will be made to your Government of the Allied Military lire which are to be used by the Allied Forces. However, in order that your Government may be currently and fully informed of the lire issued on its behalf, records of all such issues will be kept on a basis to be agreed between your Government and this Commission.

c. The Italian Government will agree to reimburse the United States and United Kingdom Governments currently for the cost of printing and transporting currency made available to your Government after the effective date of the agreement contemplated in this letter. We shall advise you in due course as to the limited cost of Allied Military lire. It is anticipated that your Government will reimburse the United States Government on a monthly basis, by means of a debit to a post-liberation dollar account at the end of each month, for the cost of the Allied Military lire made available to your Government during that month. I am directed to state that these arrangements are without prejudice to any

2465

and aware, this request was first made to the authority of the Italian Government. As you Matfield Financial and Economic Mission during their visit to the United States in November, 1941 - January, 1945, and was referred by the United States Government to the Combined Chiefs of Staff.

3. In order to implement the decision of the Allied Governments referred to in paragraph 2 above, I am authorized by the Combined Chiefs of Staff to enter into an Agreement with your Government under which:

- a. The Italian Government, or an agency designated by it, will be recognized as the issuing authority of Allied Military Lira currency, including all such Lira now in circulation.
- b. The future currency needs of the Allied Forces in Italy, including German Italy, will be met with currency issued by the Italian Government or its designated agency, and the Italian Government will undertake to supply such Lira currency and credits as may be required by the Allied Forces. Pending the time when your Government of your own design, Allied Military Lira will be made available by the Allied Commission to your Government in such amounts as are required to meet the needs of the Allied Forces in Italy. As long as the Allied Forces use Allied Military Lira rather than Metropolitan Lira, it is not contemplated that an actual physical transfer will be made to your Government of the Allied Military Lira which are to be used by the Allied Forces. However, in order that your Government may be currently and fully informed of the Lira issued on its behalf, records of all such issues will be kept on a basis to be agreed between your Government and this Commission.

- c. The Italian Government will agree to reimburse the United Kingdom Government currently for the cost of printing and transporting currency made available to your Government after the effective date of the agreement contemplated in this letter. We shall advise you in due course as to the loaded cost of Allied Military Lira. It is anticipated that your Government will reimburse the United States Government on a monthly basis, by means of a debit to a post-liberation dollar account at the end of each month, for the cost of the Allied Military Lira made available to your Government during that month. I am directed to state that these arrangements are without prejudice to any claim by the United Kingdom and United States Governments for reimbursement for the cost of printing and transporting currency and stamps issued by the Allied Forces prior to the effective date of the agreement, as well as any unutilized balance of Allied Military Lira and stamps.

The Allied Commission reserves the right of the Allied Governments to issue Allied Military Lira or to use any other currency deemed desirable, in the event adequate supplies of Lira currency are not made available to the Allied Forces by your Government at any time. I would appreciate your assurance that in the event your Government effects in the future a conversion of outstanding currency and Allied Military Lira is declared non-legal tender, your Government will promptly convert and issue new Lira, or any other currency deemed desirable, as legal tender in Italy, if the Allied Forces should have to resort to the use of such currency or currency.

785A17

BEST COPY POSSIBLE

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INCOMING MESSAGE

HEADQUARTERS ALLIED COMMISSION

Message Centre No: G/5413
Date Time Rec'd: DEC 12 1300
Precedence: ROUTINE
DEC 13 1945

Originator's Reference: FX 56132
Date/Time of Origin: DEC 11 1955 A

FROM: AFHQ SIGNED SACTED
TO : SEE ADDRESSEES LISTED BELOW

~~CONFIDENTIAL~~
~~RESTRICTED~~
CONFIDENTIAL
RESTRICTED

RESTRICTED.

Action AGWAR Washington info Cabinet Offices Whitehall US21
Main ALCOM Rome. To AGWAR for CCS for CCAC info Cabinet offices
hall for British Chiefs of Staff.

This MAT 964.

Use of Italian external assets.

(1) Under para 3 of Jan 583 the Italian Government require to consult with Allied Commission before authorizing the use of Italian external assets for the purpose of paying claims arising prior to 8 September 1943.

(2) Such requests by the Italian Government are required to be reported to CCS for guidance as to reply to be made.

(3) In view of procedure adopted in case of Italo-Swiss payment agreements namely Italian Government informed of US/UK attitude through embassies, should the Italian Government hence forward required to consult the US and UK embassies and not Allied Commission, in the first instance.

(4) It is understood that Italian external assets maybe used for purpose of paying debts incurred prior to 10 June 1940 according to text of notes verbale relative to Italo-Swiss payments agreement. Does this represent the adoption of a general policy in this respect. Government be so informed.

DATE TIME REC'D DEC 12 1300

PRECEDENCE ROUTINE

DEC 13 1945

FROM: AFHQ SIGNED SACHS

TO : SEE ADDRESSEES LISTED BELOW

~~CONFIDENTIAL~~
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RESTRICTED

RESTRICTED.

Action AGWAR Washington info Cabinet Offices Whitehall USFI
Main ALCOM Rome. To AGWAR for CCS for CCAC info Cabinet offices
hall for British Chiefs of Staff.

This MAT 964.

Use of Italian external assets.

(1) Under para 3 of Pan 583 the Italian Government ~~also~~ requires
to consult with Allied Commission before authorizing the use of
Italian external assets for the purpose of paying claims arising
prior to 8 September 1943.

(2) Such requests by the Italian Government are required to be
reported to CCS for guidance as to reply to be made.

(3) In view of procedure adopted in case of Italo-Swiss payment
agreements namely Italian Government informed of US/UK attitude
through embassies, should the Italian Government hence forward
required to consult the US and UK embassies and not Allied Commis-
sion, in the first instance.

(4) It is understood that Italian external assets maybe used for
purpose of paying debts incurred prior to 10 June 1940 according
to text of notes verbale relative to Italo-Swiss payments agreement.
Does this represent the adoption of a general policy in this respect.
If so may the Italian Government be so informed.

AC DIST. ACTION: EX COM 2-INFO: CHIEF COMM.-POLAD 2-POLAD 3-FINANCE.

See M.84

RESTRICTED
CONFIDENTIAL

Copy to
M.84

(M.84)

785017

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(2)

132h2/F

7 December 1945

DEC 7 1945

77

My dear Mr. Prime Minister:

1. I write with reference to my letter 132h2/F of 1 November, 1945, to you.
2. As promised in paragraph 3 (c) of my above mentioned letter, I am now able to advise you as to the landed cost of Allied Military lira currency. I have been informed by the Combined Chiefs of Staff that the average landed cost of Allied Military lire notes, which includes production and transportation costs, is \$111.89 per box. A box of AM lire notes contains 64,000 notes in the denominations of 1, 2, 5, or 10 lire, or 32,000 notes in the denominations of 50, 100, 500, or 1000 lire.

ELDERY W. STONE
Rear Admiral, USNR
Chief Commissioner

The President of the Council of Ministers
Italian Government
Rome

2463

Copies to: U.S. Embassy (Dr. Tasso)
British Embassy (Sir R. Gosworthy)
Executive Commissioner
A / Vice President Economic Section

(NNH) 4/12/45

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ROUTINE

NOV 26 1945

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A G WAR FOR GCS FOR COAC INFO: CABINET OFFICES WHITEHALL
FOR BRITISH CHIEFS OF STAFF USFET MAIN ALCOM ROME

HEADQUARTERS
15 NOV 1945

RESTRICTED.

Italian external insurance transactions.

This is mat 955. Following is present position relative
to requirements laid down in tam 417.

1) An adequate Italian foreign exchange control is now
functioning and transactional correspondence of all types has
been authorized for ITALY.

2) The Italian Government has adopted and published the
proclaimed and statutory lists.

3) The head offices of all Italian insurance companies
are now under adequate control are either the Italian Govern-
ment or AMG and defascistation of companies has reached a satis-
sfactory stage.

4) In view of the above it is recommended that the prior
approval of Allied Commission for authorization of external
financial transaction, as laid down in paragraph 20 of nan 583,
need no longer be referred by Italian exchange control authoriti

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AC DIST
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INFO CHIEF COMMISSIONER
EX COM
ECON SEC 2
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HEADQUARTERS ALLIED COMMISSION
APO 394
FINANCE SUB-COMMISSION

13242/P.

1 November 1945.

NOV 2 1945

SUBJECT : Financial Directive Italy

TO : distribution below.

1. Herewith, for your information, is/are copy/copies of letter 13242/P. dated 1 November 1945 addressed to the President of the Council of Ministers by the Chief Commissioner.

2. This communication is based on paragraphs 13, 14, 15, 16 and 17 of PAN 583 and follows letter 13242/P. of 18 July, 1945, from the Chief Commissioner to the President of the Council of Ministers.

56. 66
R.B. HENRICE, Colonel,
Director,
Finance Sub-Commission.

DISTRIBUTION

Hon. Alexander Kirk, American Embassy, Rome,
Sir Noel Charles, British Embassy, Rome,
Executive Commissioner, ✓
Political Advisor, (A),
Political Advisor, (B),
Acting Vice President, Econ. Section,
G-5 Section (Financial Advisor), AFHQ.

See files 86

2462

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1945
See file 6

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HEADQUARTERS ALLIED COMMISSION

AC 394

Office of the Chief Commissioner

13242/3.

1 November, 1945

b6

My dear Mr. Prime Minister:

See 72082

1. I write with reference to my letter 13242/3 of 16 July, 1945.

2. I am further directed by the Combined Chiefs of Staff to inform you that the Allied Governments are now prepared to accede to the request of your Government that all lire currency issues be unified under the authority of the Italian Government. As you are aware, this request was first made to the United States Government by the Under-Secretary of the Treasury and Economic Mission during their visit to the United States in November, 1944 - January, 1945, and was referred by the United States Government to the Combined Chiefs of Staff.

3. In order to implement the decision of the Allied Governments referred to in paragraph 2 above, I am authorized by the Combined Chiefs of Staff to enter into an agreement with your Government under which:

- a. The Italian Government, or an agency designated by it, will be recognized as the issuing authority of Allied Military lire currency, including all such lire now in circulation.
- b. The future currency needs of the Allied Forces in Italy, including Venezia Giulia, will be met with currency issued by the Italian Government or its designated agency, and the Italian Government will undertake to supply such lire currency and credits as may be required by the Allied Forces. Pending the time when your Government or its designated agency is able to acquire sufficient currency of your own design, Allied Military lire will be made available by the Allied Commission to your Government in such amounts as are required to meet the needs of the Allied Forces in Italy. As long as the Allied Forces use Allied Military lire rather than Metropolitan lire, it is not contemplated that an actual physical transfer will be made to your Government of the Allied Military lire which are to be used by the Allied Forces. However, in order that your Government may be currently and fully informed of the lire issued on its behalf, records of all such issues will be kept on a basis to be agreed between your Government and this Commission.
- c. The Italian Government will agree to reimburse the United States and United Kingdom Governments currently for the cost of printing and transporting currency made available to your Government after the effective date of the agreement contemplated in this letter. We shall advise you in due course as to the landed cost of Allied Military lire. It is anticipated that your Government will reimburse the United States Government on a monthly basis, by means of a debit to a post-liberation dollar account at the end of each month, for the cost of the Allied Military lire made available to your Government during that month. I am directed to state that the currency account, without exception, is any claim by the

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United States Government. As you are aware, this request was first made to the United States Government by the Committee on International Financial and Economic Mission during their visit to the United States in November, 1944 - January, 1945, and was referred by the United States Government to the Combined Chiefs of Staff.

3. In order to implement the decision of the Allied Governments referred to in paragraph 2 above, I am authorized by the Combined Chiefs of Staff to enter into an agreement with your Government under which:

- a. The Italian Government, or an agency designated by it, will be recognized as the issuing authority of Allied Military lire currency, including all such lire now in circulation.
- b. The future currency needs of the Allied Forces in Italy, including Venezia Giulia, will be met with currency issued by the Italian Government or its designated agency, and the Italian Government will undertake to supply such lire currency and credits as may be required by the Allied Forces. Pending the time when your Government or its designated agency is able to acquire sufficient currency of your own design, Allied Military lire will be made available by the Allied Commission to your Government in such amounts as are required to meet the needs of the Allied Forces in Italy. As long as the Allied Forces use Allied Military lire rather than Metropolitan lire, it is not contemplated that an actual physical transfer will be made to your Government of the Allied Military lire which are to be used by the Allied Forces. However, in order that your Government may be currently and fully informed of the lire issued on its behalf, records of all such issues will be kept on a basis to be agreed between your Government and this Commission.

- c. The Italian Government will agree to reimburse the United States and United Kingdom Governments currently for the cost of printing and transporting currency made available to your Government after the effective date of the agreement contemplated in this letter. We shall advise you in due course as to the limited cost of Allied Military lire. It is anticipated that your Government will reimburse the United States Government on a monthly basis, by means of a debit to a post-liberation dollar account at the end of each month, for the cost of the Allied Military lire made available to your Government during that month. I am directed to state that these arrangements are without prejudice to any claim by the United Kingdom and United States Governments for reimbursement for the cost of printing and transporting currency and stamps issued by the Allied Forces prior to the effective date of the agreement, as well as any unutilized balance of Allied Military lire and stamps.

4. The Allied Commission reserves the right of the Allied Governments to issue Allied Military lire or to use any other currency deemed desirable, in the event adequate supplies of lire currency are not made available to the Allied Forces by your Government at any time. I would appreciate your assurance that in the event your Government effects in the future a conversion of outstanding currency and Allied Military lire is declared non-legal tender, your Government will promulgate promptly a decree recognizing AM lire, or any other currency deemed desirable, as legal tender in Italy, if the Allied Forces should have to resort to the use of such currency or currencies.

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- 2 -

5. I should also appreciate your assurance that during the period in which Allied Military lire remains legal tender in Italy, your Government will recognize and maintain in force the various technical regulations regarding Allied Military lire currency adopted by the Allied Commission in consultation with the Chiefs of the Allied Pay Services. Such regulations relate inter alia to the redemption of counterfeit notes, exchange of mutilated and foul notes, and destruction of defective notes. The Banca d'Italia is, I believe, familiar with these regulations. Your recognition and adoption of such regulations should also apply to the new type Italian lire currency when it has been issued by your Government and taken into use by the Allied Pay Services.

6. I would suggest that this letter and your acceptance thereof by letter be considered to constitute an agreement, which will be effective as of the date of your acceptance. It would also be desirable to indicate in your letter very clearly, or whether such issuing authority is to be an Italian agency designated by your Government.

7. As soon as the Agreement has been concluded, its supplementary details, including the keeping of records referred to in paragraph 3 b. above, the reimbursement foreseen in paragraph 3 c. above, and the currency regulations subscribed Banca d'Italia, can be worked out between the Ministry of the Treasury, the Banca d'Italia, and the Finance Sub-Commission of this Commission.

Yours very truly,

(Signed) Henry W. Stone.
HENRY W. STONE
Rear Admiral, USNR
Chief Commissioner

Professor Remondino Perri,
The President of the Council of Ministers,
Italian Government,
Rome.

DISTRIBUTION:

Gen. Alexander Kirk, American Embassy, Rome.
Sir Noel Charles, British Embassy, Rome.
Executive Commissioner,
Political Advisor (...),
Political Advisor (...),
Acting Vice President, Econ. Section,
G-5 Section (Financial Adviser), AFM.

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76

HEADQUARTERS ALLIED COMMISSION
APO 394
FINANCE SUB-COMMISSION

13242/F

7 Sept. 1945

SEP - 8 1945

SUBJECT: Currency Conversion.

TO : Office of the Executive Commissioner. ✓

74

1. Reference your 4601/74/EC of 6 September.
2. There have been no new developments since the despatch of MAT 890 of 31 August. You will be kept advised.

8002
Joint Director,
FINANCE SUB-COMMISSION

2433

P.A. *Emm*

(Can. Review)

PA 25/9

785017

Ext 451

ANA/el

74

Ref: 4601/74/EO

6 September 1945

MEMORANDUM:

TO : Economic Section (Attention: Finance Subcommittee)

1. Reference is made to AFHQ cable FX 39983 of 1 September 45 addressed to all MAT addresses regarding currency conversion.

2. Could this office be informed of any new developments in connection with any negotiations on currency agreement?

A. B. ARNOLD.

Chief Staff Officer
To Executive Commissioner

2458

SEE F. 76

785017

regu. 183

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Translation

The President of the Council of Minister

16614.4/19.11

Rome, 4 September 1945

Dear Admiral,

1. By your letter of July 18th, n. 13242/P, the Government heard with great satisfaction the action taken by the Allied Governments to grant greater financial autonomy to the Italian Administration in the field of financial activity. Such regulations, important in themselves, are greatly appreciated the more so as they show the favourable dispositions of the Allied Nations for a gradual normalization in economic relations.

2. The Italian Government acknowledges the communication that the intervention of the Allied Commission in matters concerning taxes and in internal financial questions is now limited to the cases which involve allied military requirements.

The Government is also most happy to be able to count on the offer of advice and collaboration of the Allied Commission on such matters, of which it will avail itself on every occasion.

3. In relation with the conditions that go with the abolition of the consent of the A.G. for financial operations abroad, we assure you that the Minister of Treasury will consult the Allied Commission before authorizing the use of Italian funds abroad for the payment of debts made before September 8th, 1943; in the same way, every initiative for settling Italian clearing accounts will previously be discussed with the Commission.

We also inform you that the Ministry of Treasury is willing to issue the necessary orders for control on financial operations made abroad by Italian insurance companies, as soon as the range of this control has been cleared up thanks to the informations we shall ask to the Allied Commission.

4. The Italian Government also agrees that:

through the channel of the Ministry of Treasury, the Allied Commission is to be informed of the action which may be taken by the Italian Government or by the organisms which depend from it, about the use and control of Italian funds abroad;

the Allied Commission is to receive every fortnight a report on the foreign transactions with foreign countries, in the required form and with the required particulars.

Admiral Ellery W. Stone
Chief Commissioner
Allied Commission
Rome

E.C. Distribution 6 Sept 45

Action: Finance S/C (2)
Info: Chief Comm
Exec Comm

(Finance S/C to complete distribution)

see 1775

2457

(Copy Attached)

- 2 -

5. The creation of an office for an efficacious control of foreign exchanges is now an accomplished fact, because of D.L.L. 17 May 1945, n. 331. The Italian exchange office, created by this regulation, began in fact its activity on August 2nd. - The Banks acting for or connected with the issuing Institute (Istituto di emissioni) have also been notified that the monetary regulations issued up to now remain fully in force and are to be strictly observed; modifications for a simpler and clearer regulating of the matter are to be studied later on.

6. The Commission knows that adequate action is being taken with the Allied Government for what concerns the action to be taken to support the initiatives of economic warfare; in any case, when the question is solved on general principles, the Minister of Treasury will contact the British and American Embassy, to establish the way of collaborating to the program prepared, if the end of the war hasn't made it necessary to revise it.

7. I have no difficulty in assuring you that the Government will exercise the greatest surveillance to see that no payments are made to undesirable persons; the Ministry of Treasury will come to an agreement with A.C. about the categories of persons that are to be included in this definition.

8. It remains understood that payment from neutral countries will go on taking place through the banks of the United States and Great Britain, until regulations to support the aims of the Allied Governments for economic warfare are enforced. We trust that the allied side will not fail to make things easier for us, as much as possible, to have the enforcement of this system carried out without adding new burdens to Italian economy, especially now that the war is over.

9. While we acknowledge the ceasing of the surveillance on the agreements with allied and neutral countries for the financing of foreign trade, we assure you that the funds coming from sales abroad will be exclusively reserved for the main payments depending on our import requirements, the maintenance of our diplomatic and consular agents, military expenses, navy and the like.

10. I also agree that the rights of the Allied Governments as from the armistice clauses, about Italian property (attività) abroad, and the legal position of Italian property in allied countries, should remain unaltered. 2456

Believe me,

Yours truly,

s. Ferruccio Parri

~~SECRET~~

Exec Comm

11

FX 39983
AUG 311751B

8/5110
SEPT 011030B
PRIORITY

From: SIGNED ALEXANDER DITE PHREG
To: ALL NAT ADDRESSES INFO ALCON ROME

~~SECRET~~

Strong possibility Italian Government may undertake currency conversion in October. Consider negotiations on currency agreement directed by N583 should begin soon as possible since probably will require months for completion. Accordingly urgently need replies to NATS 836 and 875. Also wish inform you U.S. and British Embassies have not transmitted notes to Italian Government (paras 12 and 13 N 583). May negotiations on currency agreement be undertaken without waiting for presentation two notes.

HEADQUARTERS
1-SEP-1945

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FINANCE SC
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ECON SEC 2
COMMERCE SC
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See 74

Pa.
(Copy Answer) A. C.

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

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EXEC COMM
(70)

FX 34532
AUG 111901

F/3648
AUG 122000
ROUTINE
AUG 13 1945

FROM: SIGNED ALEXANDER CITE FIGHO
TO: ALL MAT ADDRESSEES INFO ALCON ROME

~~SECRET~~

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(5)

(This is MAT 875)

Form of currency agreement under para 14 of EAM 583 is being considered while reply to MAT 836 and delivery of diplomatic notes per para 13 are awaited. Question arises whether technical regulations in theater relating to AM lire should be carried over into agreement. For example, should Italian Government be required to redeem counterfeit notes and exchange four AM lire notes for Chief Allied pay services, destroy defective notes, etc. Presumably Italian Government will prefer own regulations for AM lire and in any case conversion to new currency is scheduled for November. But unless advised to contrary by you, we shall endeavour include in currency agreement such technical regulations as are considered essential to Allied pay services.

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HEADQUARTERS
15 AUG 1945

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ROUTINE

FROM: SIGNED ALEXANDER CITE FIGURE

TO: ACTION ALL MAT ADDRESSEES INFO AIDCOM ROME

JUL 26 1945

~~SECRET~~

MAT 836. Reference FAN 589. Financial relations with Italian Government.

1. Italian Government has been informed of contents of FAN 589 and implementing steps being taken except for paras 4 currency which await notification by embassies as per para 13 and clarification as requested below.

2. Report requested LOB being sent separate message.

3. Consider it desirable inform Italian Government of cost printing and transporting A.M. Lire in connection current reimbursement per para 14C. (A) Advise urgently landed cost per box each denomination of A.M. Lire notes including any intheater handling by WD vehicles. These data would be incorporated in agreement (see para 13) with provision that end each month cost of A.M. Lire made available will be reimbursed by debiting appropriate post liberation blocked AF account of Banca D'ITALIA. Please confirm this procedure acceptable. (B) Interpret phrase "made available" in 13B and 14C to mean physical transfer A.M. Lire to Italian Government or its designated agency or issue such Lire by US on its behalf. Hence cost of unissued A.M. Lire retained by us in reserve would not be reimbursed by Italian Government prior to issue or physical transfer to Government. (C)

Not clear whether current reimbursement from Italian Government should be requested for cost of A.M. Lire issued only to meet needs Allied Forces per para 13, or also in connection with issues for following which are all for Italian purposes or non-military responsibilities: Purchase of supplies in ITALY; expenses of

(CAPT. ARNOLD)

See 70-71

See M 69

785017

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- 2 -

(FL 27533 cont'd)

storing and handling exports, imports, and local supplies; advances to Italian State Treasury, armed forces, state institutions, provinces, communes; payments chargeable to Italian state respecting refugees, etc.; AMG/AC expenditure.

4. Is cost of printing A.M. postage stamps for later settlement or should it be reimbursed now. If latter, please advise as to landed cost and whether only cost of those issued is to be reimbursed. Only approximately 15,000,000 Lire out of total 169,000,000 were issued to Italian post office.

5. Consider establishment Lire account no longer necessary and our purposes per MAT 353 met once Italian Government agree supply without reimbursement all Lire currency and credits needed by Allied Forces under para 14A and have accepted responsibility as issuing authority for A.M. Lire. The Allied Forces are paying cash for current procurement where non payment would work undue hardship on supplier or imperil continuity of supply. Allied Force unpaid requisitions are now being transmitted regularly to Italian Government for settlement as it considers appropriate. Requirement of setting up Lire account will make negotiations currency agreement more difficult, and Allied pay services wish avoid change in procedure for handling Lire at this late date. If you agree, please inform us soonest in order that negotiations currency agreement may begin.

DIST

INFO ACTION: Finance SC
INFO: Chief Commissioner
Ex Commissioner 2
Neon Sec
Commerce
File

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785017

HEAD, UNITED ALLIED COMMISSION
Office of the Chief Commissioner
APO 394

18 July 1945

13242/E

JUL 21 1945

SUBJECT: Financial Directive for Italy.

TO : Distribution below.

1. Herewith, for your information, is copy of letter 13242/E dated 18 July 1945 addressed to the President of the Council of Ministers.

2. This communication is based on FAM 583 of 3 July, 1945, which supplements the directive contained in FAM 487 of 13 January 1945.

W. W. Stone
ELDER W. STONE
Rear Admiral, USN
Chief Commissioner

Distribution:

Office of the Chief Commissioner (2)
Office of the Executive Commissioner (2) ←
A/V.P. Economic Section (10)
V.P. Civil Affairs Section (10)
V.P. Establishment Section (10)
Director, E.R.B.
Director, Communications Sub-Comm. (2 - one for CCG)
Director, War Materials Disposal & IFA Sub-Comm.
R.C. Emilia Region (20 of which 10 for RPO)
R.C. Piemonte Region " " " " "
R.C. Liguria Region " " " " "
R.C. Lombardia Region (23 " " 13 " "
R.C. Venezia Region (27 " " 17 " "
R.C. Venezia Giulia Region (16 " " 6 " "
AGC Commissioner, Naples Command } 7, of which 2 for
" " Livorno Zone } Finance Officer
" " Ancona Command (5)

See file 78-77

? 2451 to
att of Maj. Brando
and cc from the
two letters to stop

See file 85

21/7

(Case Attorney)

*4601 This copy for
Executive Commission*

13227

18 July 1945

JUL 18 1945

My dear Mr. Prime Minister:

1. I write with reference to the Aide-Memoire of 24 February, 1945, which was communicated by the Acting President and the Chief Commissioner of the Allied Commission to the President of the Council of Ministers, outlining certain steps taken by the Allied Governments to hand over an increasing measure of control to Italian administration.
2. In order to implement further the declaration of 26 September, 1944, by the President of the United States and the Prime Minister of Great Britain regarding Italy, I am now directed by the Combined Chiefs of Staff to inform your Government that the intervention of the Allied Commission in Italian financial matters and other internal financial affairs will in future be confined to cases involving Allied military necessity. The Allied Commission will assist or advise your Government on financial matters in territory under your jurisdiction only when your Government specifically requests such advice or assistance, which will be given at a high level between the senior officers of this Commission and appropriate officials of your Government.
3. I am further directed by the Combined Chiefs of Staff to inform your Government that, subject to certain exceptions and conditions which are indicated below, it is no longer necessary to obtain the approval of the Allied Commission prior to the execution of Italian external financial transactions.

4. The exceptions to this general rule are as follows:

(a) the Italian Government is requested to consult with the Allied Commission before authorizing the use of Italian external assets for the purpose of paying claims arising prior to 8 September, 1943. Thus all questions relating to the settlement of Italian clearing accounts should be discussed with this Commission before any action is taken.

(b) the Italian Government is requested to direct its exchange control and other appropriate authorities to consult with the Allied Commission before authorizing any external financial transactions undertaken by Italian insurance companies or involving the foreign branches or subsidiaries of such companies.

2950

*See File 4608
Jules 1172*

See H. 65

*B/V 24/7
Held
PA 19/7*

(Att. Attorney)

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

785017

5. The Combined Chiefs of Staff have stated that as a condition of the relaxation of Allied control over Italian external financial transactions, the Italian Government is required to keep the Allied Commission fully informed as to the status of Italian external assets and of Italian external financial transactions. It is therefore requested that your Government:

(a) keep the Allied Commission fully advised as to the policies that may be adopted by the Italian Government, or any agency or committee thereof (including the Banca d'Italia), regarding the utilization and control of Italian external assets. You may find it desirable to consult with the Allied Commission before authorizing new policies or types of transactions, in order that no conditions may arise that might be prejudicial to the interests of the United Nations.

(b) submit fortnightly reports in triplicate to the Allied Commission listing all external financial transactions permitted or undertaken by the Italian Government during the period covered by the report, indicating the names of all parties to the transactions, a detailed statement of the nature and purpose of the transaction, the amount thereof, the currencies involved, the rates of exchange utilized, and any other relevant information.

6. In conjunction with the relaxation of control indicated in this letter, the Combined Chiefs of Staff have directed me to inform your Government that it will be expected to take the following steps:

(a) to establish and maintain an effective foreign exchange control agency

(b) to adopt measures in support of the economic warfare objectives of the Allied Governments.

The details of the economic warfare program are to be communicated to your Government in the near future by the British and American Embassies in Rome, and it is expected that representatives of your Government will work with the two Embassies in the development and implementation of this program. I am further directed to inform your Government that failure to take the steps specified in (a) and (b) of this paragraph within a reasonable period of time will result in the reimposition of prior control of Italian external transactions by the Allied Governments through the instrumentality of the Allied Commission. I should be grateful if you would keep me as closely informed as possible of your progress in the development of the program requested by the Allied Governments.

785017

7. I would also request that you give assurance that you assume responsibility for assuring that remittance payments are not made to undesirable persons in Italy.

8. The Combined Chiefs of Staff have also instructed that remittances to Italy from neutral countries are to continue to be channelled through banks in the U.S. and U.K. until the measures in support of the economic warfare objectives of the Allied Governments are taken.

9. The Allied Commission has, as part of the general suspension outlined in the third paragraph of this letter, suspended the supervision and control of arrangements concluded by the Italian Government with Allied and neutral countries concerning the financing of foreign trade, except that your Government is required to ensure that the proceeds of export sales will be made available for the purpose of making essential payments arising from import needs of Italy, Italian diplomatic, consular, or military expenditure, maintenance of the Italian merchant marine, and similar expenditure.

10. Finally, I am directed to state that the relaxation of control of Italian external assets is not to be construed as affecting the rights of the Allied Governments under the Armistice Terms with respect to Italian foreign assets, nor to prejudice or affect the status of Italian property in Allied countries which has been subjected to exceptional war measures, such as sequestration, vesting, and freezing.

11. Our supplementary financial directive from the Combined Chiefs of Staff deals with certain other matters relating to Allied Military lire currency and other Allied financial operations in Italy. Clarification of certain points is omitted and I shall communicate with you further as soon as possible.

Yours very truly,

/s/ Ellery W. Stone
ELLERY W. STONE
Rear Admiral, USN
Chief Commissioner.

Professor Ferruccio Parri,
The President of the Council of Ministers
Italian Government,
Rome

Distribution:

- Hon. Alexander Kirk,
American Embassy, Rome
- Sir Noel Charles,
British Embassy, Rome
- Executive Commissioner
- Political Adviser (A)
- Political Adviser (B)
- Acting Vice President, Economic Section
- G-5 Section (Financial Adviser), AFHQ

2448

785017

4601

13 July 1945.

MEMORANDUM TO: Brigadier Graffey-Smith, Joint Director, Finance Sub-Commission, JUL 14 1945

SUBJECT: PAN 583 dated 3 July 1945.

1. PAN 583 requires certain notifications to be made to the Italian Government, as was also done, you will recall, in the case of PAN 487 through the medium of the Macmillan Aide Memoire.

2. I believe the communications required to be made to the Italian Government under PAN 583 should be similarly handled at my level, and I should be grateful if you would prepare either an Aide Memoire or a letter for my signature which I can deliver to the Prime Minister, and possibly the Minister of Finance as well.

/s/ Ellery W. Stone

ELLERY W. STONE
Rear Admiral, USNR
Chief Commissioner

Copy to: Exec Comm

2447

see 1758

461

(Capt. Adm. 104)

785017

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Sub

13214/7

13 July 1945

JUL 14 1945

My dear Mr. Prime Minister:

I write with reference to the letter dated 9 January, 1945, and its attached memorandum, to this Commission from the Ministry of Foreign Affairs in which the Italian Government requested reimbursement to Italy in foreign exchange for the Allied Military Liro issued and the value of requisitions made by the Allied military forces in Italy.

I am now directed by the Combined Chiefs of Staff to inform your Government that the respective Allied Governments concerned will make replies to the memorandum referred to above directly to the Italian Government through diplomatic channels.

Yours very truly,

W. S. W. Stone
WILSON W. STONE
Rear Admiral, USNR
Chief Commissioner

Professor Ferruccio Parri
President of the Council of Ministers
Italian Government
Rome

2448

DISTRIBUTION:

American Ambassador
British Ambassador
Political Advisor (A)
Political Advisor (B)
Executive Commissioner
Finance Subcommittee
Chief Commissioner Files

(CART AKNALDY)

W.S.W.

Declassified E.O. 12356 Section 3.3/NND

No.

785017

FAN 583.

785017

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~~SECRET~~

HEADQUARTERS ALLIED COMMISSION
APO 394
FINANCE SUB-COMMISSION

13242/F

12 July 1945

JUL 12 1945

SUBJECT: Paraphrase of FAN 583 dated 3 July, 1945.

TO : Chief Commissioner,
HQ Allied Commission.

1. Attached for your information is a paraphrase of FAN 583, dated 3 July, 1945, which is the long-awaited "financial directive", supplementing FAN 487.
2. You will note that this directive is not as comprehensive as we had expected. It addresses itself to two main problems:
 - (a) Italian external assets and foreign exchange transactions.
 - (b) The currency and central banking functions of the Finance Sub-Commission, which have been carried out through the medium of the Allied Financial Agency Sub-Section.
3. Several paragraphs of the directive merely confirm action we have already taken. For example, as regards para 9, we deal with budget and revenue questions arising in Italian Government territory only when they involve Allied military necessity.
4. You will note that implementation of FAN 583 calls for close and detailed cooperation with the two Embassies. We have therefore formed a small working group to deal with the Italian Government and carry through the implementation of the entire directive. This group consists of Brig. Graffey-Smith, Col. Manasse, Sir Richard Nosworthy (British Embassy), Mr. Tasea (U.S. Embassy), Lt. Col. Penick of AFA, and Major Timmons. Other specialists will be co-opted from time to time, particularly from Commerce Sub-Commission in those discussions concerning Italian foreign trade in relation to the economic warfare programs of the Allied Governments.
5. We will report to you from time to time our progress in implementing FAN 583. All other interested persons, including Economic Section and G-5, AFHQ, will be kept informed.

R. Graffey-Smith
Joint Director,
Finance Sub-Commission

Encl: Copy of Paraphrase of Fan 583 (Copy No. 1)

Copy to: Executive Commissioner (Copy No. 2) ✓
A/VP, Economic Section (Copy No. 3)
Commerce Sub-Commission (Major Genl) (Copy No. 4)
Sir Richard Nosworthy (Copy No. 5)
Mr. Tasea (Copy No. 6)

BELT/rad

M58

(CHART ROOM)

Copy No: ...22.....

Paraphrase of PNY 583 of
3 July 1945

1. In order to implement further the joint declaration of the Prime Minister and the President (of 26 September, 1944) in respect of Italy, action should be taken by you as rapidly as possible in conformity with the following terms. These terms supplement the Directive contained in PNY 487.

CONTROL OF ITALIAN EXTERNAL TRANSACTIONS AND EXTERNAL ASSETS

2. The requirement will be suspended that the AG approve Italian external financial transactions prior to their execution. The Italian Government, as a condition to the relaxation of such control, will be required to keep the Allied Commission informed currently in detail such as the Commission shall find necessary, of the status of Italian external financial transactions, and of external assets. In conjunction with this action, you will inform the Italian Government that it will be expected to take the following steps:

4. To establish and maintain an effective foreign exchange control agency;
5. To adopt measures in support of the economic warfare objectives of the Allied Governments.

For the development of the necessary measures a program shall be entered into with the British and American Embassies in Rome by the Italian Government. All possible assistance will be furnished to the two agencies in this connection by the Allied Commission.

The Italian Government will be further informed by you that failure to take the steps specified above within a reasonable period of time will result in the reposition of prior control through the instrumentality of the Allied Commission by the Allied Governments.

3. The Italian Government will be requested by you, to consult with the AG before authorizing the use of Italian external assets for the purpose of paying claims arising prior to 8 September 1945. The AG should be referred to for guidance on all questions of this nature.

4. The AG's supervision will be suspended over the budgets of diplomatic missions in neutral countries (Ref PNY 576).

5. As soon as assurance has been given by the Italian Government that responsibility is assumed for ensuring that payments will NOT be made to undesirable persons, control and screening by AG of outpayments for residences of foreign countries will be suspended. Residences from neutral countries to Italy should continue to be controlled through US or UK banks until the referred measures (Para 23) are taken by the Italian Government.

6. Supervision and approval will be suspended by AG of arrangements included by the Italian Government with neutral or Allied countries concerning the

4. To establish and maintain an effective foreign exchange control agency;
5. To adopt measures in support of the economic warfare objectives of the Allied Governments.

For the development of the necessary measures a system shall be worked out with the British and American Missions in Rome by the Italian Government. All possible assistance will be furnished to the two missions in this connection by the Allied Commission.

The Italian Government will be further informed by you that failing to take the steps specified above within a reasonable period of time will result in the repositioning of prior control through the intransigence of the Allied Commission by the Allied Governments.

3. The Italian Government will be requested by you, to consult with the AS before authorizing the use of Italian currency notes for the purpose of paying claims arising prior to 3 September 1943. The AS should be referred to for guidance on all questions of this nature.

4. The AS's supervision will be suspended over the budgets of Italy diplomatic missions in neutral countries (Ref. 575).

5. As soon as assurance has been given by the Italian Government that responsibility is assumed for ensuring that payments will not be made to undesirable persons, control and screening by AS of outpayments for reimbursements from foreign countries will be suspended. Expenditures from neutral countries in Italy should continue to be channelled through US or UK banks until the referred measures (Para 22) are taken by the Italian Government.

6. Supervision and approval will be suspended by AS of arrangements concluded by the Italian Government with neutral or Allied countries concerning the financing of foreign trade, except that it may be required to ensure that proceeds of export sales will, for the purposes specified in Para 135, be available and also for meeting other essential Italian expenditures. (See also para 3 above.) The policies laid down in Para 456 with respect to Italian export trade are not to be construed as altered by this directive.

7. A report will be made to you by the AS and the Mission of the AS and US will be kept informed concerning any external financial transaction permitted or undertaken by the Italian Government, or the existence of any conditions or policies respecting Italian external finances, which are deemed prejudicial to the United Nations interest, together with the recommendations for remedial measures. In any such case, such action as may be taken by you as you see fit is necessary in order that the interests of the United Nations may be protected. Any action taken by you in this regard should be reported to AS. The AS should be consulted by you before reorganization is ordered of any prior controls over Italian external transactions.

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3. The relaxation of controls over Italian external assets is NOT to be construed to be prejudicial to the rights of the Allied Governments under the terms of the armistice with respect to Italian foreign assets NOT to affect or prejudice the status of Italian property in Allied countries which has been subjected to war measures which are exceptional, such as vesting, freezing, and registration.

RECOMMENDATIONS OF THE ALLIED MILITARY GOVERNMENT FOR THE ALLIED COMMISSION FOR INTERNAL FINANCES

9. The intervention in Italian financial and military and other internal financial affairs by the AG will be confined to cases involving Allied military necessity. The Italian Government should be consulted and advised by the Allied Commission on matters of finance in respect of Italian government territory only when the Italian Government is requested to render assistance and advice shall be made at high levels.

10. A. There will be made available to the Italian government full information concerning the volume of Allied military currency issued by the Allied Forces in Italy, the amounts expended for particular purposes, the purposes for which such currency has been expended, and other Allied financial operations in Italy, except as it may be necessary to withhold such information on military security grounds. Other records and books of the Allied Financial Agency and other Allied agencies must NOT be released to the Italian government, however, except as authorized specifically by the Combined Chiefs of Staff.

B. A report to the Combined Chiefs of Staff by you should be made of the action taken pursuant to para. 2 of TAF 331 of 26 October 1944, on the subject of informing the Italian government about the amounts of Allied military lire issued.

ALLIED FINANCIAL AGENCY

11. All functions performed by Allied Financial Agency with reference to Italian Government territory should be terminated promptly, with the exception of the requirements under para. 17 herein. Except as ordered, this involves the following steps, which it is understood are being or have been taken:

A. Except in any case where the Italian Government is unwilling to procure supplies covered by para. 2 of TAF 331, and the Allied Commander has to ensure that the supplies nevertheless are forwarded, cessation of provision of lire for purchase of goods for export (para. 45b).

B. Cessation of advances to banks of lire for payment of redemptions.

C. Cessation of payments collected in lire for civilian supplies turned over to the Italians. There is NO objection to such collection in Allied military Government territory, when necessary.

ALLIED MILITARY LIRE CURRENCY

12. The Italian Government should be informed by you that the respective

10. A. There will be no available to the Italian Government full information concerning the volume of Allied military currency issued by the Allied Forces in Italy, the amounts expended for particular purposes, the purposes for which such currency has been expended, and other Allied financial operations in Italy, except as it may be necessary to withhold such information on military security grounds. Other records and books of the Allied Financial Agency and other Allied agencies must NOT be released to the Italian Government, however, except as authorized specifically by the Combined Chiefs of Staff.

B. A report to the Combined Chiefs of Staff by you should be made of the action taken pursuant to para. 2 of 21/371 of 26 October 1944, on the subject of informing the Italian Government about the amounts of Allied Military Lira issued.

ALLIED FINANCIAL AGENCY

11. All functions performed by Allied Financial Agency in reference to Italian Government territory should be terminated promptly, with the exception of the requirements under para. 12 below. Except others, this involves the following steps, which it is understood are being or have been taken.

A. Except in any case where the Italian Government is unwilling to procure supplies covered by para. 2 of 21/371, and the Allied Commander has to ensure that the supplies mentioned are being furnished, cessation of provision of lire for purchase of goods for export (21/450).

B. Cessation of advances to banks of lire for payment of rentances.

C. Cessation of payments collected in lire for civilian supplies turned over to the Italians. There is no objection to such collection in Allied Military Government territory, when necessary.

ALLIED MILITARY LIRA CURRENCY

12. The Italian Government should be informed by you that the representative Allied Government concerned will arrange, through diplomatic channels, replies directly to the Italian government, relative to the request of the Italian Government for withdrawal in foreign exchange for Allied military lire issued and the value of requisitions made in Italy made by the Allied Military Forces. In memorandum to the Allied Commission of 9 January 1945 from Italian Government this request was contained and transmitted to Combined Chiefs of Staff under cover of Allied Forces Headquarters letter of 28 February 1945, subject: Financial proposals by the Italian Government.

13. After the British and American embassies in Rome have notified you that the United States and United Kingdom governments have applied to the Italian Government of 9 January 1945, the Italian Government should be informed by you

- 3 -

that the Allied Governments are prepared to accede to its request that there be unification of all lire currency issues under the authority of the Italian Government. The Quindici-Minister Economic Union addressed this request to the United States Government and the United States in turn referred it to Combined Chiefs of Staff. In order that this decision may be implemented, you are authorized to enter with the Italian Government into an agree- in under which:

1. An Italian agency designated by the Italian Government, or the Italian Government itself will be recognized as the issuing authority of Allied Military lire, including such lire in circulation now.

2. Future currency needs of the Allied Forces in Italy will be met with currency issued by the Italian Government or its designated agency. You should make available to the Italian Government Allied Military lire in such amounts as are required to meet the needs of the Allied Forces in Italy, pending the time when the Italian Government or its agency is able to acquire sufficient currency of its own design. In hereafter, you will obtain supplies of Allied Military lire by requisition.

14. References para 13 and the agreement to be concluded thereunder, the Italian Government should undertake:

4. To supply such credits and lire currency as the Allied Military Forces may require.

5. As a supplement to Italian requisitioning procedures, to establish a lire account on which the Allied Forces could draw for the purpose of making cash payments for local supplies, services and facilities. This account should be used only where it is not feasible to resort to Italian requisitioning procedures or where the Italian Government fails to satisfactorily meet requisitions by the Allied Forces (see 355).

6. To reimburse the United Kingdom and United States Governments currently for printing and transporting costs of currency made available by the Italian Government after the effective date of the agreement in accordance with the provisions of para 13 above. The Italian Government should understand that these arrangements are without prejudice to any claim by the two Governments for the transporting and printing costs of currency issued by the Allied Forces prior to the agreement.

So long as Allied Military lire is used by Allied Forces rather than Italian Government lire, an actual physical transfer to the Italian Government will not be necessary. However, in order that the Italian Government may be currently and fully informed of the lire issued on its behalf, record 2443 such issues should be kept on a basis to be agreed upon with the Italian Government. You may maintain a reserve of unissued Allied Military lire to meet emergencies, in addition to the Allied Military currency which you will be available to the Italian Government.

15. You will reserve the right to issue Allied Military

with currency issued by the Allied Forces in Italy will be set should also be available to the Italian Government or its designated agency. You should also be available to the Italian Government Allied Military Lira in such amounts as are required to meet the needs of the Allied Forces in Italy, pending the time when the Italian Government or its agency is able to acquire sufficient currency of its own design. As hereafter, you will obtain supplies of Allied Military Lira by requisition.

14. Reference para 13 and the agreement to be concluded hereunder, the Italian Government should undertake:

A. To supply such credits and lira currency as the Allied Military Forces may require.

B. To supplement to Italian requisitioning procedures, to establish a lira account on which the Allied Forces could draw for the purpose of making cash payments for local supplies, services and facilities. This account should be used only where it is not feasible to resort to Italian requisitioning procedures or where the Italian Government fails to satisfactorily meet requisitions by the Allied Forces (para 13).

C. To reimburse the United Kingdom and United States Governments currently for printing and transporting costs of currency made available by you to the Italian Government after the effective date of the agreement in accordance with the provisions of para 13 above. The Italian Government should understand that these arrangements are without prejudice to any claim by the two Governments for the transportation and printing costs of currency issued by the Allied Forces prior to the agreement.

So long as Allied Military Lira is used by Allied Forces rather than Italian Government Lira, an actual physical transfer to the Italian Government will not be necessary. However, in order that the Italian Government or its agency should be kept on a basis to be agreed upon with the Italian Government, you may maintain a reserve of unissued Allied Military Lira to meet emergency needs, in addition to the Allied Military currency which you will make available to the Italian Government.

15. You will reserve the right to issue Allied Military currency or to use any other currency which you may deem desirable in the event adequate quantities of Lira currency are not made available to you by the Italian Government.

16. If any request is made by the Italian Government for compensation, or if they propose any intergovernmental settlement in connection with the arrangements envisaged in paragraphs 13 and 14 above, the Italian Government should be informed by you that such questions should be taken up directly by them with the Allied Governments concerned.

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17. A combined agency for receiving the currency needed by Allied Forces, should be maintained, so long as the combined command continues in ITALY, for distributing such currency to the Allied Forces in all parts of ITALY and for maintaining the necessary records. Whether the Allied Commission should carry on these functions or whether they should be at Headquarters level is primarily your responsibility (reference para. 1 C and D of MAC 554). Note AMHQ has stated the combined agency should continue to be AFA and should remain a part of AM.

RELATION OF THIS DIRECTIVE TO OTHER INSTRUCTIONS

18. The general policy of TMM 487 will be understood to apply to matters of finance. Particular reference is made to paras. 2B, 2C, 2D, 2E, 3A, 3C, and 7A of TMM 487.

19. Instructions previously given on matters of finance which are inconsistent with this directive (such as certain parts of TMM Airman 24) are to be regarded as superseded. In keeping with the spirit of TMM 487 and this directive, such instructions should be carried out.

20. Until the Italian government makes further progress in the defascistization and control of Italian insurance companies, request should be made by you to the Italian government to instruct the Italian Exchequer Control authorities that before authorizing any external financial transactions undertaken by Italian Insurance Companies or involving the foreign branches or subsidiaries of such companies, they should consult with the Allied Commission. The Allied Commission and Allied Military Government should continue to be guided by the provisions of TMM 417 in dealing with insurance companies, pending the receipt of further instructions. The controls by the Allied Commission over insurance should be relaxed gradually and integrated with those developed by the Italian government in cooperation with the American and British Embassies in the development of the program outlined in paragraph 25 above.

21. This directive does NOT relate to the matter of Allied property in ITALY (reference para. 4E of MAT 554 and TMM 551).

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MAR 23 1832A
PRIORITY

MAR 24 1945

FROM: AFHQ SIGNED ALEXANDER CITE FHSAC AND FHGEO

TO: AGWAR FOR CCS FOR CCAC INFO AMSSO FOR BRITISH CHIEFS OF STAFF AND
HQ COMZONS MAIN ETUSA AND HQ ALCON

~~SECRET~~

FOR INFORMATION ONLY

This is MAT 595.

Proposal to transfer currency responsibility to Italian Government is subject.

1. MAT 554 gave the views of this Hq and A.C. on TAM 445, omitting para 1 E and 2, which are commented on herein.

2. At the time of the dispatch of MAT 554 I found it difficult to give any clear reply on the broad political effect of entering upon the negotiations proposed in paragraph 1 E of TAM 445. Some of my advisers felt that since the question of the ultimate disposition of Am lire was obscure in Italian minds, there was a good deal to be said for not disturbing this situation which to some extent was contributing to internal stability. Since then, however, the technical position with regard to A.M. lire has been made quite clear, and Italians generally must be coming to recognize the necessity for absorbing the currency with their own.

3. At the same time, the Italians no doubt hope for some financial support from the Allied Governments. This is a matter of high financial policy upon which decision must clearly be taken at an intergovernmental level, more especially as the Italian Government have now

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formally raised the issue in their Memorandum of January 9 (refer MAT 558 of 2 March). Your reply to this Memorandum may officially dispose of the question of dollar/sterling reimbursement and open the way to negotiations on currency responsibility and issue. In the meantime, therefore, I do not feel that any further comment of mine is necessary.

Dist

Info-Action - Finance SC
Info - A/President
Chief Commissioner
Exec Comm
Econ Sec
File

HEADQUARTERS

the way to negotiations on currency responsibility and issue. In the meantime, therefore, I do not feel that any further comment of mine is necessary.

Dist

Info-Action - Finance SC
Info - A/President
Chief Commissioner
Exec Comm
Econ Sec
File



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2442

~~SECRET~~

52

Extract from Minutes of SACRED's Political Conference held
on 22 March 1945. Ref: SAC(P)(45) 4th Meeting - 22 March 1945.

MINUTE No. 6.

6. CURRENCY RESPONSIBILITIES OF THE ITALIAN GOVERNMENT.

(Paper No. SAC (P) (45) 9 and Addendum).

THE CONFERENCE had before them a paper suggesting that though the Italians now recognised their responsibilities for Allied Military currency, the matter was one which must be discussed at governmental level and the Supreme Allied Commander should refrain from further comment. The paper attached a draft cable to the Combined Chiefs of Staff giving effect to these recommendations.

THE SUPREME ALLIED COMMANDER:

Approved the draft cable circulated under SAC (P) (45) 9 Addendum and instructed the Chief of Staff to despatch it.

* Despatched as MAT 595 of 23 March 1945.

COPY.

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ALLIED FORCE HEADQUARTERS
Supreme Allied Commander's Secretariat.

SAC (P) (45) 2 Addendum
20 March 1945.

SUPREME ALLIED COMMANDER'S CONFERENCE
(POLITICAL)

CURRENCY RESPONSIBILITY OF THE ITALIAN GOVERNMENT.

Note by Secretary.

1. At SAC (P) (45) 2nd Meeting, Minute 6, it was directed that the subject of the currency responsibility of the Italian Government, as set out in paper number SAC (P) (45) 9, should be raised again when further details were available regarding the precise statement by the U.S. Secretary of the Treasury and the reactions of the Italian Government and the Italian public.

2. It is now clear that the statement by the U.S. Secretary of the Treasury constitutes an unequivocal assertion that the U.S. Government is not in any way responsible for the Allied Military Lira, which is considered to be the currency of the Italian Government. The statement of the Secretary of the Treasury further points out that the Italian Government publicly accepted this responsibility in late 1943.

3. It is considered that in view of Allied statements such as the above, Italians now publicly recognize that they are responsible for the Allied Military Currency, but that they hope for some Allied financial support. Since this aspect of the matter is one of high policy, on which decision must be taken at an inter-governmental level, it appears to be desirable that, pending such decision, the Supreme Allied Commander should refrain from further comment.

4. C-5 (with the concurrence of the Allied Commission, the British Resident Minister, the US Political Adviser, the Deputy Paymaster-in-Chief, and the Fiscal Director, MONA), therefore submit for the approval of the Supreme Allied Commander the draft reply to the Combined Chiefs of Staff attached at Appendix "A".

(Signed) J. G. SWIFT
LIEUT. COLONEL,
SECRETARY.

APM Dist: Chief Commissioner, HQ. AC -- Copy Nos. 35-36.

Chief Commissioner

CURRENCY RESPONSIBILITY OF THE ITALIAN GOVERNMENT.

Note by Secretary.

1. At SAC (P) (45) 2nd Meeting, Minute 6, it was directed that the subject of the currency responsibility of the Italian Government, as set out in paper number SAC (P) (45) 9, should be raised again when further details were available regarding the precise statement by the U.S. Secretary of the Treasury and the reactions of the Italian Government and the Italian public.

2. It is now clear that the statement by the U.S. Secretary of the Treasury constitutes an unequivocal assertion that the U.S. Government is not in any way responsible for the Allied Military Lire, which is considered to be the currency of the Italian Government. The statement of the Secretary of the Treasury further points out that the Italian Government publicly accepted this responsibility in late 1943.

3. It is considered that in view of Allied statements such as the above, Italians now publicly recognize that they are responsible for the Allied Military Currency, but that they hope for some Allied financial support. Since this aspect of the matter is one of high policy, on which decision must be taken at an inter-governmental level, it appears to be desirable that, pending such decision, the Supreme Allied Commander should refrain from further comment.

4. C-5 (with the concurrence of the Allied Commission, the British Resident Minister, the US Political Adviser, the Deputy Paymaster-in-Chief, and the Fiscal Director, MVOUSA), therefore submit for the approval of the Supreme Allied Commander the draft reply to the Combined Chiefs of Staff attached at Appendix "A".

(Signed) ... J. G. SWEETMAN, 233
LIEUT. COLONEL,
SECRETARY.

AFHQ Distbn: Chief Commissioner, HQ. AC -- Copy Nos. 34-36.

HQ AC Distbn: Chief Commissioner
Executive Commissioner
Finance Sub-Commissioner.

50

COPY

DRAFT

TO : AMER FOR CCS FOR CCAC.

This is MAT _____.

Proposal to transfer currency responsibility to Italian Government is subject.

Paragraph One. MAT 554 gave the views of this Headquarters and A.C. on TAM 445, omitting para 1B and 2, which are commented on herein.

Paragraph Two. At the time of the dispatch of MAT 554 I found it difficult to give any clear reply on the broad political effect of entering upon the negotiations proposed in paragraph 1B of TAM 445.

Some of my advisers felt that since the question of the ultimate disposition of A.M. lire was obscure in Italian minds, there was a good deal to be said for not disturbing this situation which to some extent was contributing to internal stability. Since then, however, the technical position with regard to A.M. Lire has been made quite clear, and Italians generally must be coming to recognize the necessity for absorbing the currency with their own.

Paragraph Three. At the same time, the Italians no doubt hope for some financial support from the Allied Governments. This is a matter of high financial policy upon which decision must clearly be taken at an intergovernmental level, more especially as the Italian Government have now formally raised the issue in their memorandum of January 9 (refer MAT 568 of 2 March). Your reply to this memorandum may officially dispose of the question of dollar/sterling reimbursement and open the negotiations on currency responsibility and issue. In the meantime,

2633

Paragraph One. MAT 551 gave the views of this Headquarters and A.C. on TAN 445, omitting para 13 and 2, which are commented on herein.

Paragraph Two. At the time of the dispatch of MAT 554 I found it difficult to give any clear reply on the broad political effect of entering upon the negotiations proposed in paragraph 12 of TAN 445.

Some of my advisers felt that since the question of the ultimate disposition of A.M. lire was obscure in Italian minds, there was a good deal to be said for not disturbing this situation which to some extent was contributing to internal stability. Since then, however, the technical position with regard to A.M. lire has been made quite clear, and Italians generally must be coming to recognize the necessity for absorbing the currency with their own.

Paragraph Three. At the same time, the Italians no doubt hope for some financial support from the Allied Governments. This is a matter of high financial policy upon which decision must clearly be taken at an intergovernmental level, more especially as the Italian Government have now formally raised the issue in their memorandum of January 9 (refer MAT 568 of 2 March). Your reply to this memorandum may officially dispose of the question of dollar/sterling reimbursement and open the ~~24~~ 23 negotiations on currency responsibility and issue. In the meantime, therefore, I do not feel that any further comment of mine is necessary.

785017

Ref: 4601/42/NO.

21 March 1945.

SUBJECT: Currency Responsibilities of the
Italian Government.

TO : Finance Sub-Commission.

Further to this office letter 4601/42/NO of 9 March 1945, the following is extracted from the Minutes of SACRED's Political Conference held on 16 March:

Minute No. 2.

"CURRENCY RESPONSIBILITIES OF THE ITALIAN GOVERNMENT."

(Previous reference SAC (P) (45) 2nd Meeting, Minute 6).

BRIGADIER GENERAL MACRODER reported that no further details were available regarding the precise statement made by the United States Secretary to the Treasury regarding the redemption of the so-called "invasion currency" in ITALY.

THE SUPREME ALLIED COMMANDER:

Took note of the above. "

WDS. C. RIVELY

Chief Staff Officer,
to the Executive Commissioner.

/JG.

49
P/A

42

41

29/3/45
23/4

The following draft is to be substituted for that attached to letter of 17th March, addressed by Brigadier General Spoffard to the Chief Commissioner on the question of responsibility for A.M. currency. 47
by General Spoffard and Mr. MacMillan, and is to be considered at the Political Meeting which is to take place at AFHQ tomorrow morning at 10.00 hrs. Comments by telephone are required by this afternoon or first thing tomorrow morning, either to General Spoffard or to Commander Southard, depending upon which level it is dealt with here.

References are those mentioned in the draft which the following supercedes:

~~SECRET~~

1. At the time of despatch of MAT ⁵⁵⁴..... I found it difficult to give any clear reply on the broad political effect of entering upon negotiations proposed in paragraph 1 (e) of ~~paragraph~~ ^{TAM 445}..... Some of my advisers felt that, since the question of the ultimate disposition of A.M. lire was obscure in Italian minds, there was a good deal to be said for not disturbing this situation which, to some extent, was contributing to internal stability. Since then, however, the technical position with regard to A.M. lire has been made quite clear and Italians generally must be *coming* to recognize the necessity for absorbing the currency with their own.
2. At the same time, the Italians no doubt hope for some financial support ~~after the conclusion of hostilities.~~ This is a matter of high financial policy upon which decision must clearly be taken at an intergovernmental level, more especially as the Italian Government has now formally raised the issue in their memorandum of 9 January (refer MAT ⁵⁶⁸..... of 2 March). Our reply to this memorandum may officially dispose of the question of dollars/sterling reimbursements and open the way to negotiation on currency responsibility and issue. In the meantime, therefore, I do not feel that any further comment of mine is necessary.

CONFIDENTIAL

PWA 2430

785017

~~SECRET~~

cc 720
MAR 11 1945

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242 444

ALLIED FORCE HEADQUARTERS
G-5 SECTION
APO - 512

CHIEF COMM

Recd EAC

MAR 19 1945

17 March 1945

Secret

File: G-5/100-1

Subject: Proposal to transfer currency responsibility to the Italian Government.

To : Headquarters, Allied Commission
(Attention: Chief Commissioner).

1. We have received, in TAM 498 of 16 March, the reply of the Combined Chiefs of Staff to our request for clarification of the statement made in Secretary of the Treasury Morgenthau before the House Appropriations Committee on the above subject, in connection with our consideration of paragraph 1E of TAM 445. The Combined Chiefs of Staff in its reply went no further than to inform us that an official summary of the testimony had been forwarded to the U. S. Political Adviser, and that he would also receive a copy of the U. S. Treasury press release of 14 March on invasion currencies. We have seen the former, and have sent a copy to the Finance Sub-Commission.

2. It is considered desirable to present a draft reply to paragraph 1E of TAM 445 at the next meeting of the Political Committee. There is attached hereto a copy of a new draft which sets forth the current views and situation as they appear to us. I should appreciate having the reactions of the Allied Commission to this draft as soon as possible, in order that we may proceed with clearing it in this Headquarters preparatory to presenting it to the Committee. If you find it possible to telephone your comments, we may save time.

Charles M. Stoppford
CHARLES M. STOPPORD,
Brigadier General, G.S.C.,
Assistant Chief of Staff, G-5.

~~SECRET~~

785017

~~SECRET~~

13

~~CONFIDENTIAL~~

TO ADMAR for CCS

FROM: ALEXANDER

REFER: TAM 445

35

Proposal to transfer/currency responsibility to Italian Government is subject.

Para one. MAT 554 gave the views of this Headquarters and AC on TAM 445 omitting para 1E and 2 which are commented on herein.

12

Para two. I would, of course, be reluctant at this time to have any negotiations undertaken with the Italian Government which may increase political unrest or financial difficulties in Italy to the point of prejudicing military operations. My advisers are not wholly in agreement as to whether and to what extent negotiations looking toward recognition by the Italian Government of its currency obligations might have political repercussions severe enough to contribute to the downfall of the present Government, or as to whether it would cause some increased measure of inflation.

Para three. Taking the above considerations into account, I prefer to refrain from making a recommendation on the wisdom of negotiating with the Italian Government at this time in respect to its currency responsibility. The matter is one of the highest financial policy, on which decision should be taken at the inter-governmental level. I also have in mind that your reply to the Italian Government on its memorandum of 9 January (refer MAT 568 of 2 March) may dispose of the question of dollar/sterling reimbursement and open the way to negotiations on currency responsibility and issue without undue political and financial repercussions which might adversely affect the military situation.

2435

~~SECRET~~

~~SECRET~~

(A)

CONFIDENTIAL

Ref: 4601/14/EO.

9th March 1945.

SUBJECT: Currency Responsibilities of the
Italian Government.

TO : Finance Sub-Commission.

39

1. Reference Paper No. SAC (P) (45) 9 of 27 February
1945, copy of which was passed to you by this office.

41

2. Herewith for your information extract from the
Minutes of SACRED's Political Conference of 2nd March 1945 at
which this paper was discussed.

/JG.

qfB
Chief Staff Officer,
to the Executive Commissioner.

2433

See (49)

10/3

EXTRACT

~~SECRET~~

ALLIED FORCE HEADQUARTERS X 95

SAC (P) (45) 2nd Meeting
2nd March 1945SUPREME ALLIED COMMANDER'S CONFERENCE
(POLITICAL)6. CURRENCY RESPONSIBILITIES OF THE ITALIAN GOVERNMENT

(Paper No. SAC (P) (45) 9) — 3a

THE CONFERENCE had before them a draft telegram to the Combined Chiefs of Staff recommending that the Italian government should not be officially pressed at the moment to give public recognition to its responsibilities for all lire currency.

BRIGADIER GENERAL SHOFFER said that the Combined Chiefs of Staff had forwarded for the comment of the Supreme Allied Commander certain proposals in regard to United States and United Kingdom financial relations with the Italian Government. Comments on such of the proposals as were merely technical in nature had already been notified. The question of whether the Italian government should be pressed to acknowledge its financial obligations in respect of all lire currency, including the so-called 'invasion currency' issued by the Allied authorities, had, however, political implications and no comment on this matter had yet been forwarded to the Combined Chiefs of Staff. The Italian government had recently stated publicly that it was seeking to be relieved of these financial obligations which it had accepted under article 23 of the armistice. In view of this statement it had been considered inadvisable to press the Italian government officially at this time to accept full currency responsibility, as it was feared that such action might lead to the fall of the government. The draft telegram circulated under paper No. SAC (P) (45) 9 had been prepared on this basis.

In the meantime a statement was reported to have been made by the US Secretary to the Treasury to the effect that the United States had assumed and did not intend to assume any liability for the redemption of the so-called 'invasion currency' used by American armies in liberated European countries. With particular reference to ITALY, the press statement indicated that the Secretary disclosed that the Italian government had accepted responsibility for the redemption of Italian invasion currency under the terms of the armistice agreement. This statement, if correctly reported, would have a material bearing on the draft cable circulated under SAC (P) (45) 9 and accordingly he suggested that no further action should be taken until a verified summary of the remarks made by the Secretary to the Treasury had been obtained, and also the reaction of the Italian public to these remarks had been ascertained.

6. CURRENCY RESPONSIBILITIES OF THE ITALIAN GOVERNMENT

(Paper No. SAC (P) (45) 9) — 3A

THE CONFERENCE had before them a draft telegram to the Combined Chiefs of Staff recommending that the Italian government should not be officially pressed at the moment to give public recognition to its responsibilities for all lire currency.

BRIGADIER GENERAL MONTGOMERY said that the Combined Chiefs of Staff had forwarded for the comment of the Supreme Allied Commander certain proposals in regard to United States and United Kingdom financial relations with the Italian Government. Comments on such of the proposals as were merely technical in nature had already been notified. The question of whether the Italian government should be pressed to acknowledge its financial obligations in respect of all lire currency, including the so-called "invasion currency" issued by the Allied authorities, had, however, political implications and no comment on this matter had yet been forwarded to the Combined Chiefs of Staff. The Italian government had recently stated publicly that it was seeking to be relieved of these financial obligations which it had accepted under article 23 of the armistice. In view of this statement it had been considered inadvisable to press the Italian government officially at this time to accept full currency responsibility, as it was feared that such action might lead to the fall of the government. The draft telegram circulated under paper No. SAC (P) (45) 9 had been prepared on this basis.

In the meantime a statement was reported to have been made by the Secretary to the Treasury to the effect that the United States had assumed and did not intend to assume any liability for the redemption of the so-called "invasion currency" used by American armies in liberated European countries. With particular reference to Italy, the press statement indicated that the Secretary disclosed that the Italian government had accepted responsibility for the redemption of Italian invasion currency under the terms of the armistice agreement. This statement, if correctly reported, would have a material bearing on the draft cable circulated under SAC (P) (45) 9 and accordingly he suggested that no further action should be taken until a verified summary of the remarks made by the Secretary to the Treasury had been obtained, and also the reaction of the Italian public to these remarks had become clearer.

MR. MONTGOMERY stated that the danger of pressing the Italian government to accept these currency responsibilities was not so much that such action would precipitate the fall of the government, but that, if that government openly accepted these obligations, the Italian public might realize that the Italian financial structure was bankrupt. The public had not realized the true position up to the present and the result of their doing so would be a cessation of normal banking activities and a runaway inflation such as had been seen in GERMANY. This would be a military embarrassment. He considered

~~SECRET~~

that the Supreme Allied Commander's reply on this subject might confine itself to stating that he did not feel obliged to comment on the economic details of the matter, which must be settled by the governments, and pointing out that no steps should be taken which would make for confusion in ITALY. He agreed that the reply should be postponed for the present.

THE SUPREME ALLIED COMMANDER :

Directed the Chief Administrative Officer to have this matter raised at a future political conference when further details were available regarding the precise statement made by the United States Secretary to the Treasury, and the reactions of the Italian government and the Italian public.

Lee (49)

COPI.

ALLIED FORCE HEADQUARTERS.

K 88

SAC (E) (US) 9
27th February 1945

SUPREME ALLIED COMMANDER'S CONFERENCE
(POLITICAL)

PROPOSAL TO TRANSFER CURRENCY RESPONSIBILITY TO
ITALIAN GOVERNMENT.

Notes by C-2.

1. In TAM 445 of 1 February the Combined Chiefs of Staff made certain proposals for the modification of the financial relations between the US/UK governments and the Italian government. Some of these proposals, relating to the Allied Financial Agency, the control of Italian foreign exchange, and other financial activities of the Allied Commission, were technical and non-political in character; and the comments of the Allied Commission and of this Headquarters were transmitted to the CCS in MAT 554 of 24 February.

2. Paragraph 12 of TAM 445 proposed that negotiations should be undertaken with the Italian Government looking toward the centralisation in the government or its agencies of all lire currency issues, including the Allied Military lire. Thereafter the government would provide lire currency required by the Allied forces.

3. There is attached hereto as Annex 'A' a draft reply to paragraph 12 of TAM 445 and to paragraph 2, relating to the lire account. This draft agrees that from now every technical point of view the Italian government should be made to assume responsibility for all lire currency and for the provision of currency to the Allied forces. However, the government has publicly stated that it intends to press for reimbursement in dollars and sterling of all lire spent by or for the Allied forces in Italy, and may have created in the minds of the public the conviction that such reimbursement is essential to the stability of the lire. This being the case, the majority view in the Allied Commission and this Headquarters is that the political and popular reaction at this time to insistence on recognition by the government of its proper currency obligations may cause a government crisis and accelerate the depreciation of the lire, thus adversely affecting military operations.

4. This draft reply has been approved by the Allied Commission, the British Resident Minister, the U.S. Political Adviser (whose dissenting view is stated therein), the U.S. Fiscal Director, and the D/Paymaster-in-Chief.

5. The Supreme Allied Commander is requested to authorize its despatch.

APRM Distbn: Chief Commissioner,

(initd) T.R.H.

Note by G-5.

1. In TAM 445 of 1 February the Combined Chiefs of Staff made certain proposals for the modification of the financial relations between the US/UK governments and the Italian government. Some of these proposals, relating to the Allied Financial Agency, the control of Italian foreign exchange, and other financial activities of the Allied Commission, were technical and non-political in character; and the comments of the Allied Commission and of this Headquarters were transmitted to the CCS in MAT 554 of 24 February.
2. Paragraph 12 of TAM 445 proposed that negotiations should be undertaken with the Italian government looking toward the centralization in the government or its agencies of all lire currency issues, including the Allied Military lire. Thereafter the government would provide lire currency required by the Allied forces.
3. There is attached hereto as Annex 'A' a draft reply to paragraph 12 of TAM 445 and to paragraph 2, relating to the lire account. This draft agrees that from ~~the~~ every technical point of view the Italian government should be made to assume responsibility for all lire currency and for the provision of currency to the Allied forces. However, the government has publicly stated that it intends to press for reimbursement in dollars and sterling of all lire spent by or for the Allied forces in ITALY, and may have created in the minds of the public the conviction that such reimbursement is essential to the stability of the lire. This being the case, the majority view in the Allied Commission and this Headquarters is that the political and popular reaction at this time to insistence on recognition by the government of its proper currency obligations may cause a government crisis and accelerate the depreciation of the lire, thus adversely affecting military operations.
4. This draft reply has been approved by the Allied Commission, the British Resident Minister, the U.S. Political Advisor (whose dissenting view is stated therein), the U.S. Fiscal Director, and the D/Paymaster-in-Chief.
5. The Supreme Allied Commander is requested to authorize its despatch.

(initd) T.R.H.

APPRO Distbn:Chief Commissioner,
HQ Allied Commission

- Copy Nos. 32-34

EX AC Distbn:Chief Commissioner
Executive Commissioner
Finance Sub-Commission

See

41

SECRET

ANNEX 1A

(38)

TO : ACTAS FOR CCS FOR CCAC

FROM : ALEXANDER Cite _____

Proposed to transfer currency responsibility to Italian government is subject.

Para one. MAT 554 gave views of this Headquarters and AC on TAN 443 omitting para 1X and 2 which are commented on herein.

Para two. It is the consensus of opinion in the Allied Commission and this Headquarters that: (a) at some date Italian government must assume official responsibility for all lira currency. They have escaped this responsibility only because the Allies invaded from SICILY and the South and had no access to note-printing facilities for almost a year and found them destroyed when they were reached. (b) It is not now opportune officially to push the Italian government to give public recognition of its responsibility for all lira currency.

Para three. In support of the view expressed in 2(b) my advisers point out that the Italian government has publicly stated that it is seeking to be relieved of the financial obligations under article 23 of the Armistice. On 9 January it handed to the AC and to both Embassies a strong memorandum on this subject which my Headquarters is studying preparatory to forwarding it to you. Unless, as my advisers do not think likely, the two governments propose to accept the Italian demand for dollar/sterling reimbursement for all lire expended by or on behalf of the Allied Forces, the political considerations of insistence on recognition of the government's currency obligation may be severe and may contribute to the downfall of the present government and to some increased measure of inflation. The U.S. Political Adviser agrees that

2433

para 15 and 2 which are commented on herein.

Para two. It is the consensus of opinion in the Allied Commission and this Headquarters that: (a) at some date Italian government must assume official responsibility for all lire currency. They have escaped this responsibility only because the Allies invaded from SICILY and the South and had no access to note-printing facilities for almost a year and found them destroyed when they were reached. (b) It is not now opportune officially to push the Italian government to give public recognition of its responsibility for all lire currency.

Para three. In support of the view expressed in 2(b) my advisers point out that the Italian government has publicly stated that it is seeking to be relieved of the financial obligations under article 23 of the Armistice. On 9 January it handed to the AG and to both Bahasies a strong memorandum on this subject which my Headquarters is studying preparatory to forwarding it to you. Unless, as my advisers do not think likely, the two governments propose to accept the Italian demand for dollar/sterling reimbursement for all lire expended by or on behalf of the Allied forces, the political ²⁴³² consequences of insistence on recognition of the government's currency obligation may be severe and may contribute to the downfall of the present government and to some increased measure of inflation. The U.S. Political Adviser agrees that in view of the public statements of the Italian government the negotiations proposed will come as something of a disappointment to the Italian government, but he considers that nevertheless, weighing all factors and taking into consideration the long run situation, it is desirable to undertake the proposed negotiations.

Para four. I am reluctant at this time to have any negotiations undertaken with the Italian government which may increase political unrest or financial

785017

-2-

difficulties in Italy, to the point of prejudicing military operations. It is not possible for my advisers to weigh with exactness the effect which the proposed negotiations would have, but on balance I concur in the view that it would not be desirable, at the present time, to force the issue, in any event to the point of causing the fall of the present

government.

Para Five. As to the establishment of a lire account (your paragraph 2) all of the same considerations apply but in a reduced form.

785017

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FX 33055
FEB 242030A

D/3234
FEB 250930A
PRIORITY
FEB 25 1945

FROM: AFHQ SIGNED ALEXANDER CITE PHUG

TO: JGAPAR FOR CCS FOR CCAC REPEATED FOR INFORMATION TO AMSSO FOR BRITISH CHIEFS
OF STAFF AND HQ COMZONE MAIN ETUSA AND HQ ALCOM

FOR INFORMATION ONLY

~~SECRET~~

Refer TAM 445 this is MAT 554.

Proposals for modification of US/UK financial relations with Italian Government
is subject.

1. Your paragraphs 1A, and 1C relating to functions of AFA.

a. Finance SubCommission (including AFA) is in process of ridding itself
of financial operations such as mentioned in para 1A of reference, but some months
will be necessary to complete process. Certain operations such as civilian supply
and financial accounting, financing of AC/AME and Advisory Council, must be
continued by AC and are in addition to those stated in para 1C of reference.

b. AC has been working toward goal of terminating control over Italian
external financial transactions, and in assisting Italian Government in developing a
machinery of exchange control to be operated by Banca D'Italia as agents of treasury
substantially as in period 1917-1919. The experience and probity essential to
exchange control are not readily available in ITALY at this time. Some of the
experts are in German-controlled ITALY and many of those who remained behind are
suspended and awaiting expiation hearings. AC is endeavoring to expedite the
hearings in the hope of obtaining a competent nucleus but has to proceed with
considerable care. In the meantime neither Government nor public have made any
request known to us for acceleration of date when full responsibility for exchange

SECRET

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P. 2 -

(FX 33055 continued)

control would pass to Italian hands. Premature transfer of such control may result in wasting of slender foreign exchange resources of Italian Government by improper or imprudent management, to disadvantage of Allied Governments which now or in future are obliged to meet minimum essential foreign exchange needs of ITALY. In this connection you have urged (E.G., TAM 136 and 398 and TAM airmgram 24) necessity for exercising control not only in operation of post-liberation accounts in US and UK but also of all transactions in currencies of neutral countries.

c. AFA must continue to provide an adequate volume of Lire currency to Allied forces in ITALY regardless of their location with reference to Italian Government or AMO territory. Therefore whenever Italian Government assumes responsibility for all currency AFA should either draw currency from Government or receive currency from overseas as we present for account of Italian Government but for military use. Moreover, after shift to non-military currency is made, AFA should retain remaining stocks Am Lire and have right to use them in emergency.

d. In view of above, transfer of AFA to AFHQ could not be accomplished for some months and even then such transfer would necessitate creation of another section in Finance Sub-Commission to carry on some of AFA's present functions.

2. Your paragraph 1B is noted and concurred in.

3. Your paragraphs 1E and 2. Our views on the undertaking of the proposed negotiations will follow in another message.

4. TAM 445 deals with only part of wider problem of giving 'a greater measure of responsibility in financial matters' to Italian Government. As is concerned in 2423 varying degrees between control and advice with many other areas of financial operations such as following. Until other wise instructed you, AC will continue its present

~~SECRET~~

SECRET

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- 3 -

(FX 33055 continued)

activities in these areas.

a. AC assists Government in control of expenditures and must bring pressure at times on Government to prevent breakdown of communications and other services essential to Allied war effort.

b. In field of revenue AC works with Government in developing new sources and improvement of collection techniques, reduction of collection costs, and increased efficiency of revenue service.

c. Works with central Government accounting authority in effort to maintain close check on expenditure, budget deficit, and disbursement deficit.

d. AC and Government are cooperating to ^{bring} about normal operations of domestic insurance, but AC is retaining tight control over insurance interests abroad as required by TAM 417.

e. In connection with Property Control, AC in absence of detailed instructions from you, has attempted to conserve property of Allied nationals in ITALY and to make suitable arrangements for transfer of responsibility to Italian Government.

FOR INFORMATION ONLY

LIST

HEADQUARTERS
25 FEB 1945
A. C.

ACTION: Finance B/C
INFO: A/President
Chief Commissioner
Executive Commissioner
Econ Sec
File

SECRET

785017

British Embassy

Rome.

13th February, 1945

FEB 15 1945

127/25/45

My dear Admiral,

On behalf of the Ambassador, I write to thank you for your letter (11.08/ES) of the 5th February in which you sent him the Allied Commission's comments on the Italian Foreign Minister's financial memorandum of the 9th January.

2. I have telegraphed the substance of the Commission's memorandum to the Foreign Office, with the recommendation that some agreement on the subject must be urgently reached between the Governments of the United States and the United Kingdom if it is to be of any use to the Italian Government in connection with the liberation of the North.

Believe me,

Yours sincerely

/s/ R.L. Nosworthy.

Rear Admiral Ellery W. Stone,
U.S.N.R.,
Chief Commissioner,
Allied Commission,
Rome.

NOTE:

ORIGINAL Passed To Econ Sec
COPY " " C.C.

785017

4601
~~SECRET~~

F 26406
FEB 13 2023A

CONFIDENTIAL FOR INFORMATION ONLY

30
P/1780
FEB 14 0330A
ROUTINE

FROM: AFHQ, STAMPAH, SACRED CITY, PHOENIX, FROM SPOTFORD
TO: ACTION HQ, ALCON, FOR STONE

FEB 14 1945

SECRET

24
UNITED STATES Political Adviser has requested addition of following new paragraph after paragraph 6 of draft cable reply to TAM 445 agreed in your office last Friday:

2
With reference to paragraphs 4, 5 and 6, quite aside from technical aspects, U.S. Political Adviser feels that in view of the public statements of the Italian Government the negotiations proposed in TAM 445 will come as something of a disappointment but that nevertheless, weighing all factors and taking into consideration the long run situation, he considers that it is desirable to undertake the proposed negotiations and is communicating his views more fully to WASHINGTON.

We are adding this paragraph in order to obtain necessary concurrences at AFHQ.

BLM

ACTION: Chief Commissioner
INFO: A/President
Chief Commissioner
C.O.S.
Finance 2/24/45
Pol Sec
Tech Sec
File & Float 3

HEADQUARTERS
14 FEB 1945

A. C.

~~SECRET~~

see 11.31

HEADQUARTERS ALLIED COMMISSION
Office of the Chief Commissioner
AFC 394

JAG/afe

12 February 1945

CC 102

ERRATUM

Following corrections should be made to Draft Telegram to Combined Chiefs of Staff which dealt with TAM 445.

Page 4, para 6. Last sentence should read: 'If, however, you decide to go ahead with the proposal, I should like to make informal soundings as to how they are likely to react before officially making any demands.'

Page 5, para 2. This paragraph should read: 'As to the establishment of a liaison account, all of the same considerations apply but in a reduced form. It is technically desirable but is politically difficult.'
Remain two lines of para are to be deleted.

Amended. Pg 13/2

CMK 2423

see M. 29

785017

Following corrections should be made to Draft Telegram to Combined Chiefs of Staff which dealt with TAW 445.

Page 4, para 6. Last sentence should read: 'If, however, you decide to go ahead with the proposal, I should like to make informal soundings as to how they are likely to react before officially making any demands.'

Page 5, para 7. This paragraph should read: 'As to the establishment of a liaison account, all of the same considerations apply but in a reduced form. It is technically desirable but is politically difficult.'
Remain two lines of para are to be deleted.

Amended. $\frac{13}{2}$

CMK

2425

see M.29

72

DRAFT TELEGRAM TO

COMBINED CHIEFS OF

STAFF

In preparing this reply I have consulted the Acting President and the Chief Commissioner of the Allied Commission. This represents an agreed view.

SAN 445 makes two major proposals. First, that the control of foreign exchange transactions should revert to the Italian Government. Second, that the Italian Government should become the sole issuing authority for all lire currency (including all AM lire now in circulation) whether this is for their own use or to meet their obligations to the Allies under Clause 23 of the Armistice. I support both these proposals in principle since they are in conformity with the developing policy of the Allied Governments towards Italy, which is to place upon the shoulders of the Italian Government those responsibilities normally associated with sovereignty.

2. In both cases, however, the question arises as to the timing for such change.

3. The technique of exchange control is not an easy one. It demands both experience and probity. Neither of these are readily available in Italy at the moment. Some of the individuals most expert in the matter have unfortunately gone into that portion of Italian territory at present under German control. Those who remain behind are suspended and awaiting expatriation hearings. We are attempting to expedite

control of foreign exchange transactions should revert to the Italian Government. Second, that the Italian Government should become the sole issuing authority for all lira currency (including all lire now in circulation) whether this is for their own use or to meet their obligations to the Allies under Clause 23 of the Armistice. I support both these proposals in principle since they are in conformity with the developing policy of the Allied Governments towards Italy, which is to place upon the shoulders of the Italian Government those responsibilities normally associated with sovereignty.

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At the present time the Allied Commission is assisting the Italian Government in developing a machinery of exchange control which will be operated by the Banca d'Italia as the agents of the Italian Treasury substantially as in the period

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1918-1919. Neither the public nor the Government have ever made, so far as we know, any request for surrender of the date when full responsibility would pass to Italian hands. Moreover, to the extent to which the Allied Governments find it a necessity to make available some foreign exchange either now or in the future to the Italians, they have an interest in securing that the slender foreign exchange resources now at the disposal of the Italian Government shall not be wasted either by improper or inept management. You seem to share this view since in several telegrams (TAM 136 and 308 and TAM Airgram 24) you have urged the necessity for exercising control not only on the operation of post-liberation accounts in the United States and the United Kingdom but also in all transactions in the currencies of neutral countries. You may feel that these considerations weigh against any premature relinquishment of controls, meanwhile I shall continue the policy of preparing for transfer to the Italians of full responsibility whenever you may so direct.

4. With regard to the second proposal, it is clear that at some date the Italians must publicly shoulder the burdens which they have escaped only because the Allies invaded from Sicily and the South and in consequence had no access to note printing facilities for almost a year and found them destroyed when they were reached. This resulted in the inability of the Italian Government to

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now or in the future to the Italians, they have an interest in securing that the slender foreign exchange resources now at the disposal of the Italian Government shall not be wasted either by improper or imprudent management. You seem to share this view since in several telegrams (TAM 136 and 138 and TAM Airgram 24) you have urged the necessity for exercising control not only on the operation of post-liberation accounts in the United States and the United Kingdom but also in all transactions in the currencies of neutral countries. You may feel that these considerations weigh against any premature relinquishment of controls, meanwhile I shall continue the policy of preparing for transfer to the Italians of full responsibility whenever you may so direct.

4. With regard to the second proposal, it is clear that at some date the Italians must publicly shoulder the burdens which they have escaped only because the Allies invaded from Sicily and the South and in consequence had no access to note printing facilities for almost a year and found them destroyed when they were reached. This ^{24.23} resulted in the inability of the Italian Government to fulfill its obligations to make currency available under Article 23. I fully sympathize with your desire to force the Italians to face this issue and not live in a false illusion that they may somehow escape or reduce their obligation.

- 3 -

The fact that Allied Military lire have had to be printed and imported is due purely to the above military circumstance, but I have no doubt that in the minds of both of the public and of the Government, (as evidenced by its recent memorandum), there is a hope that the Allies might be persuaded to make available dollar and sterling credits commensurate with the currency thus created. I must warn you that this control over currency issue so far from being a welcome concession may well seem to the Italians no advantage since it involves the overt assumption of an armistice obligation which the Government has publically stated it is seeking to avoid. The institution of the lire account proposed last autumn would have meant a budgetary charge to the Italian Government of some fifteen-eighteen billion lire per annum. The new proposal would result in an immediate increase in the debt owed by the Italian Government to the Banca d'Italia, of some fifty billion lire, and a continuing budgetary charge of some five billion lire per month.

5. The Italian Government has recently presented a memorandum to the United States and United Kingdom Governments and to the Allied Commission requesting the dollar and/or sterling counterpart not only for all Allied Military lire outstanding but also to cover all the payments made or to be made by the Italian Government for requisitions, supplies, services and work furnished to or ordered by the Allied forces. Unless, as I do not think likely, the two Governments propose to accept this

available dollar and sterling credits commensurate with the currency thus created. I must warn you that this control over currency issues as far from being a welcome concession may well seem to the Italians no advantage since it involves the event assumption of an audacious obligation which the Government has publicly stated it is seeking to avoid. The institution of the lira account proposed last autumn would have meant a budgetary charge to the Italian Government of some fifteen-eighteen billion lire per annum. The new proposal would result in an immediate increase in the debt owed by the Italian Government to the Agency d'Italia, of some fifty billion lire, and a continuing budgetary charge of some five billion lire per month.

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of doing so without further delay are very strong both in logic and in equity; the Italians should face the realities. The issue and control of their own money is the outward and visible sign of a sovereign state, and since at some time or other they will have to swallow this bitter medicine they might as well do so at once. On the other hand, it is arguable that in present circumstances the Italian Government is probably weaker than it will ever be again. At the last crisis it took twelve days to produce an Italian Government. If a crisis were precipitated by the proposal in LAM 445 it may be that no Government can be formed at all. Moreover, in spite of the grave financial situation of the country, the people generally retain what has been called an unrealistic confidence in the value of the lira. Bank deposits continue, savings are made, contributions to life insurances, friendly societies and the like flow in, and there has been so far no sign of any panic flight from money into goods. I should not like to do anything to destroy the present confidence in the currency.

b. In view of all these circumstances, while I accept the desirability of the assumption of currency responsibility by the Government, I should like to invite your attention to the fact that this question should not be decided without due regard for the wide issues and potential dangers which I have brought to your attention. If, however, you decide to go ahead with

the proposal I should like to make informal soundings as to how likely it is to be accepted before

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as well do so at once. On the other hand, it is arguable that in present circumstances the Italian Government is probably weaker than it will ever be again. At the last crisis it took twelve days to produce an Italian Government. If a crisis were precipitated by the proposal in FAM 445 it may be that no Government can be formed at all. Moreover, in spite of the grave financial situation of the country, the people generally retain what has been called an uncritical confidence in the value of the lire. Bank deposits continue, savings are made, contributions to life insurances, friendly societies and the like flow in, and there has been so far no sign of any panic flight from money into goods. I should not like to do anything to destroy the present confidence in the currency.

6. In view of all these circumstances, while I accept the desirability of the assumption of currency responsibility by the Government, I should like to invite your attention to the fact that this question should not be decided without due regard for the wide issues and potential dangers which I have brought to your attention. If, however, you decide to go ahead with

the proposal, I should like to make informal

suggestions as to how ^{they are} likely to react before

officially making any demands.

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7. As to the establishment of a lire account, all of the same considerations apply but in a reduced form. It is technically desirable but is politically difficult to make informal soundings of the Italian as to how they

are likely to react before presenting an official demand.

8. TAF 445 also makes certain proposals with reference to AFA, concerning which my experts at A.C. and this Headquarters have advised me as follows:

A. AFA must continue to provide an adequate volume of lire currency to the Allied forces in Italy regardless of their location with reference to Italian Government or AMG territory. Therefore, if the Italian Government assumes responsibility for all currency AFA should either physically draw currency from the Government or receive currency from overseas as at present for account of Italian Government but for military use. Moreover, after non-military currency arrives, AFA should retain remaining stocks of AM lire and have the right to use them in an emergency.

B. Finance Sub-Commission (including AFA) is in process of riding itself of financial operations such as mentioned in para 1 A. of TAF 445, but some months will be necessary to complete this process. Certain operations such as civilian supply and financial accounting, financing of AC/AMG and Advisory Council, must be continued by AC and are in addition to those stated in para 1 C. of TAF 445.

C. In view of above, transfer of AFA to AFNA could not be accomplished for some months and even then ²⁴²⁰ transfer would necessitate creation of another section in Finance Sub-Commission to carry on many of AFA's present functions.

A. APA must continue to provide an adequate volume of lire currency to the Allied Forces in Italy regardless of their location with reference to Italian Government or AMG territory. Therefore, if the Italian Government assumes responsibility for all currency APA should either physically draw currency from the Government or receive currency from overseas as at present for account of Italian Government but for military use. Moreover, after non-military currency arrives, APA should retain remaining stocks of AM lire and have the right to use them in an emergency.

B. Finance Sub-Commission (including APA) is in process of ridding itself of financial operations such as mentioned in para 1 A. of TAF 445, but some months will be necessary to complete this process. Certain operations such as civilian supply and financial accounting, financing of AC/AMG and Advisory Council, must be continued by AC and are in addition to those stated in para 1 C. of TAF 445.

C. In view of above, transfer of APA to AFPA, could not be accomplished for some months and even then ²⁴²⁰transfer would necessitate creation of another section in Finance Sub-Commission to carry on many of APA's present functions.

9. TAF 445 deals only with a limited part of the wider problem of giving a greater measure of responsibility in financial matters to the Italian Government. At present the Allied Commission concerns itself in varying degrees between control and advice with many other areas of financial operations. For instance; (A) is the control of expenditure the Allied Commis-

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sion assists the Italian Government in its own territory and to a certain extent finds it necessary to bring pressure upon the Italian Government from time to time to prevent the breakdown of essential communications and other services necessary to the Allied war effort.

(B) In the collection of revenue the Allied Commission works with the Italian Government in developing new sources of revenue and in attempting to improve existing collection techniques, lower collection costs and in general stimulate the efficiency of the revenue service.

(C) In connection with Governmental accounting within and without the budget, the A.C. works with the central accounting authority in an effort to maintain a close check on expenditures, budget deficits and disbursement deficit.

(D) In the field of insurance the A.C. with the Italian Government is attempting to bring about normal operations of domestic insurance but at the same time is retaining a tight control over insurance interests abroad as required by TAM.

(E) In connection with property control the A.C. in the absence of any detailed instruction from the Combined Chiefs of Staff has been attempting to conserve the property of Allied nationals in Italy and to make suitable arrangements for the transfer of this responsibility to the Italian Government.

10. Until otherwise instructed I intend to **2413** as heretofore.

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5 February 1945

11 08/ES

FEB 9 1945

SUBJECT: Financial Proposals by the Italian Government.

TO : G-5, Allied Force Headquarters.

On ES file
11 08/25

1. Attached for forwarding to the Combined Chiefs of Staff, is a memorandum which I have received from the Ministry of Foreign Affairs of the Italian Government and a covering letter signed by the Minister of Foreign Affairs. Attached also is a "Rough Translation" of the memorandum, which was prepared in the Ministry of Foreign Affairs and sent to the Allied Commission together with the Italian text.

2. Copies of the memorandum by the Minister of Foreign Affairs were sent by him to the British and American Embassies, as well as to the Allied Commission.

3. The proposals in the Italian memorandum are briefly summarized in the attached paper dated 5 February, which also embodies the considered views of the Allied Commission.

4. I should appreciate being informed by the United States and United Kingdom Governments what reply they wish me to make to the memorandum by the Minister of Foreign Affairs. So far, I have merely acknowledged its receipt and indicated that it was being referred to higher authority for consideration.

5. I am sending a copy of our memorandum of 5 February 1945 to the British and American Embassies here in order that they may have our views on the Italian document which they have already received.

12/2 Ellery W. Stone

ELLERY W. STONE
Rear Admiral, USNR
Chief Commissioner

Incl (1) Ltr and Memo Ministry of Foreign Affairs,
Italian Government

(2) Rough Translation of (1)
(3) Summary of (1) dtd 5 Feb 45.

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MEMORANDUM

5 Feb 45

1. On 9 Jan 45, the Minister of Foreign Affairs of the Italian Government presented to the Allied Commission in Rome a long memorandum dealing with the economic and financial difficulties faced by Italy and with the financial measures the Italian Government believes necessary to mitigate these difficulties.

2. Briefly summarized, the Italian memorandum argues as follows:

a) The financial situation of Italy is extremely difficult, since both the national deficit (estimated at 300 billion lire) and the need for reconstruction expenditures are rapidly increasing.

b) The memorandum lists certain remedial steps which can be taken, notably increased taxation, maximum use of Italian labor and capital, bond issues, and the making available of foreign capital. It is argued that little can be done along any of these lines if the Italian economy is in imminent danger of economic and financial collapse. The first condition, therefore, is that the Allied furnish financial relief designed to:

- (i) Increase the confidence of the Italian people in the lire, and
- (ii) Make possible the purchase of essential supplies abroad.

c) This financial relief should take the form of setting up credits in dollars or sterling corresponding to (1) the ^{total} amount of lire issued by the Allies, and (2) the total payments by the Italian Government on behalf of the Allies, whether chargeable to the "costs of occupation" or the costs of carrying the war against the enemy from Italian soil.

- 2 -

d) In leading up to this proposal the memorandum is at great pains to make a distinction (which is not carried over into the proposals) between costs of occupation and the costs of carrying the war against the enemy from Italian soil. The memorandum also dwells on the contradiction between the Treaty of Armistice and the state of co-belligerency, quoting the announcement that the conditions of armistice would be modified in Italy's favor to the extent of Italy's contribution to the common war effort.

3. It is clear that Italy's financial situation is quite as bad as the Ministry of Foreign Affairs represents it to be. Confidence in the lire is ebbing rapidly, and the tide is almost out. Moreover, Italy does need materials, machinery, and supplies in far greater measure than she can pay for -- and, for the moment, in far greater measure than can be supplied and shipped.

4. The Allied Commission therefore concurs in the Government's analysis of its economic situation, and has in fact been bending its best efforts to aiding the Italian Government in the solution of the economic and supply problems with which the country is faced. The Commission takes exception, however, both to the tone of the memorandum presented by the Minister of Foreign Affairs, and to the proposals put forward to meet the agreed need.

5. The tone of the memorandum reveals a sense of self-righteousness and a lack of realism. The recent contribution of Italy to the common war effort is considerable if compared to the resources Italy has to work with; but at the same time the country's contribution is tiny if placed in the perspective of the total United Nations war effort. The memorandum places stress on the destruction wrought on Italian soil by the use of

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the country as a battlefield; but the use of Italy as a battlefield is surely to be traced to her participation in the Axis partnership rather than to a voluntary choice by either Italy or the Allies.

6. Given the attitude described in the previous paragraph, it is perhaps natural that the Ministry should propose a wholesale reinterpretation of the financial terms of the Armistice ~~as a matter of right~~. The Allied Commission agreeing that Italy needs financial relief, emphatically does not agree that the Allies owe it to Italy in any legal sense. It is therefore recommended that the proposals summarized in paragraph 2 c above not be approved by the Governments of the United States and the United Kingdom.

7. It is further recommended, however, that further measures of financial relief for Italy be urgently adopted by the United States and/or the United Kingdom Governments, even if such measures should result in any early purchases of shipments of supplies. Such measures should be taken with the following provisos:

a) They represent a contribution by the Allied Government or Governments concerned to the rehabilitation of the Italian economy, and are not taken in fulfillment of any obligation vis-a-vis the Italian Government.

b) They do not affect the Armistice, or any obligations assumed or to be assumed by the Italian Government.

c) They are not a promise of supplies or the shipping to move supplies, but rather an indication that when the supply and shipping ^{is} situation becomes less stringent, Italy will be in a position to secure supplies which will enable the country to get back on its feet economically.

- 4 -

8. The taking of such measures, and the publicity attendant upon them, should greatly increase the waning confidence of the Italian people in their own financial and economic prospects and in their Government. The factors making for a runaway inflation are already present -- and in large measures irremediable at the moment -- large amounts of currency and desperate shortages of goods. If the lira is not to go the way of the drachma, the psychological effect of the present creeping inflation (rightly emphasized in the memorandum under reference) must be counteracted by Allied action along the lines suggested.

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5 February 1945

11.08/ES

FEB 9 1945

My dear Ambassador:

I understand you have already received a copy of a memorandum by the Minister of Foreign Affairs, H. E. De Gasperi, dated 2 Jan 45, which attached a long memorandum having to do with the financial situation of Italy and action which the Italian Government wished to be taken by the United States and United Kingdom Governments.

For your information, I am attaching a copy of a memorandum dated 5 February 1945 which embodies the considered views of the Allied Commission with respect to the analysis and proposals included in the memorandum by the Minister of Foreign Affairs. The original of the attached memorandum has of course been forwarded to G-5, Allied Force Headquarters, for onward transmission to the Combined Chiefs of Staff.

Yours very truly,

/s/ Ellery W. Stone

ELLERY W. STONE
Rear Admiral, USNR
Chief Commissioner

The Hon. Alexander Kirk
American Ambassador
119 Via Vittorio Veneto
Rome

Incl - Memo 5 Feb 45.

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5 February 1945

11.08/ES

FEB 5 1945

My dear Ambassador:

I understand you have already received a copy of a memorandum by the Minister of Foreign Affairs, R. E. De Gasperi, dated 9 Jan 45, which attached a long memorandum having to do with the financial situation of Italy and action which the Italian Government wished to be taken by the United States and United Kingdom Governments.

For your information, I am attaching a copy of a memorandum dated 5 February 1945 which embodies the considered views of the Allied Commission with respect to the analysis and proposals included in the memorandum by the Minister of Foreign Affairs. The original of the attached memorandum has of course been forwarded to G-5, Allied Force Headquarters, for onward transmission to the Combined Chiefs of Staff.

Very truly yours,

/s/ Ellery W. Stone

ELLERY W. STONE
Rear Admiral, USNR
Chief Commissioner

Sir Noel Charles, Bt., K.C.M.G.
British Ambassador
84 Via Venti Settembre
Rome

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5 February 1945

11 08/ES

FEB 9 1945

My dear Minister De Gasperi,

I am sorry to have been so long in acknowledging your memorandum of 9 January 1945, to which you attached a memorandum having to do with the financial and economic situation of Italy, and the financial measures proposed by the Italian Government to mitigate the present difficult situation.

I have forwarded this memorandum, together with the recommendations of the Allied Commission, to our Combined Chiefs of Staff for the consideration of the United States and United Kingdom Governments. As soon as I am informed of the considered views of our two governments with respect to your proposals, I will of course get in touch with you immediately.

Sincerely yours,

[s] Ellery W. Stone

ELLERY W. STONE
Rear Admiral, USNR
Chief Commissioner

H. E. Alcide De Gasperi
Minister of Foreign Affairs
Italian Government
Rome

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DRAFT.

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I have seen TAM 445. The technical aspects of the problems involved in (a) the transfer of exchange control to the Italian Government and (b) the issuing of lire for the needs of the Allied forces to the Italian Government are being dealt with in a separate telegram prepared by the experts at A.F.H.Q. and A.C., with which I am in general agreement.

2. From paragraph 9 of the new directive I was expecting to be asked my views as to the whole problem of giving "a greater measure of responsibility in financial matters" to the Italian Government. No doubt these proposals will be matters of direct discussion between the two Governments. Nevertheless, TAM 445 deals only with a limited part of the wider field. At present the Allied Commission concerns itself with varying degrees between control and advice with many other areas of financial operation, for instance, in the control of expenditure the Allied Commission ² ~~445~~ ~~443~~ to the

the Italian Government and (b) the issuing of lire for the needs of the Allied forces to the Italian Government are being dealt with in a separate telegram prepared by the experts at A.F.H.Q. and A.C., with which I am in general agreement.

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(2) In the collection of revenue the Allied Commission works with the Italian Government in developing new sources of

revenue

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revenue and in attempting to improve existing collection techniques, lower collection costs and in general stimulate the efficiency of the revenue service.

(3) In connection with Governmental accounting within and without the budget, the A.C. works with the central accounting authority in an effort to maintain a close cheque on expenditures, budget deficit and disbursement deficit.

(4) In supply accounting, the A.C., although it has attempted to transfer responsibility to the Italian Government, is still carrying the major portion of the burden of current operations as well as attempting to reconcile and settle past due accounts.

(5) In the field of insurance the

A.C. with the Italian Government is attempting to bring about normal operations of domestic insurance but at the same time is retaining an extremely tight control over reinsurance operations which normally involve foreign reinsurance and foreign treaties. In connection with property control the A.C. in the above

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control the A.C. in the above

TAKES IN

FOLIO 1

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(4) In supply accounting, the A.C., although it has attempted to transfer responsibility to the Italian Government, is still carrying the major portion of the burden of current operations as well as attempting to reconcile and settle past due accounts.

TAKE IN
FOLIO (7)

(5) In the field of insurance the A.C. with the Italian Government is attempting to bring about normal operations of domestic insurance but at the same time is retaining an extremely tight control over reinsurance operations which normally involve foreign reinsurance and foreign treaties. In connection with property control the A.C. in the absence of any instruction from the Combined Chiefs of Staff has been attempting to conserve the property of Allied nationals in Italy and to make suitable arrangements for the transfer of this responsibility to the Italian Government.

②
3. Since TAM 445 is headed "Proposals for Modification of U.S.-U.K. Financial Relations with the Italian Government", I feel that I should draw your attention to this wider field of investigation. If you would wish the views of those most acquainted with these matters on the spot to be conveyed to you, I will arrange to supply the necessary information and advice. If on the other hand we may still expect the visit of Messrs. Glasser and Wade, it might be more convenient to thresh out all these matters with representatives of the U.S. Treasury and the British Treasury when they arrive.

Paragraph 4 - at end - ? insert:

FOUO (C)

The dollar and/or sterling counterpart is the reality. The transfer to and overt acceptance of great responsibilities by the Italian Government without there is no great assistance to them. If the United States Treasury are prepared to consider making such dollar counterpart I do not feel that the inability of the British Treasury to do the same should necessarily stand in the way. The relative financial positions at the present stage of affairs of the United States and Great Britain are well understood and there is no loss of prestige to Great Britain in openly accepting a known situation. From the Italian point of view, therefore, apart from the technical problems to be solved we should not wish to stand in the way of any substantial advantage which Italy might obtain through the introduction of a new system so long as the financial authorities are fortified internally to

responsibilities by the Italian Government without there is no great assistance to them. If the United States Treasury are prepared to consider making such dollar counterpart I do not feel that the inability of the British Treasury to do the same should necessarily stand in the way. The relative financial positions at the present stage of affairs of the United States and Great Britain are well understood and there is no loss of prestige to Great Britain in openly accepting a known situation. From the Italian point of view, therefore, apart from the technical problems to be solved we should not wish to stand in the way of any substantial advantage which Italy might obtain through the introduction of a new system so long as its financial authorities are fortified internally to carry the new weight placed upon them.

SEEN AND APPROVED
BY CHIEF COMMISSIONER.

CONFIDENTIAL

HEADQUARTERS ALLIED COMMISSION
Office of the Chief Commissioner
AFU 394

CC —

— February 1945

Subject: Proposals for modification of financial relations with
Italian Government.

To: Supreme Allied Commander, Mediterranean Theatre

1. Reference is made to TAM 445 of 1 February 1945, para 3 of which contains a request by the Combined Chiefs of Staff for comment on the main heads of the proposals raised therein. As the implementation of any proposals modifying existing financial relations with the Italian Government must inevitably fall to the Allied Commission, I desire to set out our comments before a reply is forwarded by AFHQ.

2. In general terms, the proposals call for the termination of all the functions of the Allied Financial Agency (AFA) in Italian Government territory. In more detail it is suggested that this proposal would be effected by (a) the termination of exchange control, (b) the handing over to the Banca d'Italia of the function of supplying currency to the Armed Forces, and (c) the transfer of AFA to AFHQ.

3. As regards 2(a) above, discussed in para 1(b) of TAM 445, the Allied Commission is presently instructed by TAM Airgram 24 of 11 October 1944 and TAMS 136 and 393 of 23 Jan 1944 and 18 Dec 1944 respectively to exercise control not only on the operations of post-liberation accounts in the U.S. and U.K., but also on all transactions in the currencies of neutral countries. The present machinery of exchange control is in process of development with the full agreement of the Italian Government;

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1. Reference is made to TAM 445 of 1 February 1945, para 3 of which contains a request by the Combined Chiefs of Staff for comment on the main heads of the proposals raised therein. As the implementation of any proposals modifying existing financial relations with the Italian Government must inevitably fall to the Allied Commission, I desire to set out our comments before a reply is forwarded by AFHQ.

2. In general terms, the proposals call for the termination of all the functions of the Allied Financial Agency (AFA) in Italian Government territory. In more detail it is suggested that this proposal would be effected by (a) the termination of exchange control, (b) the handing over to the Banca d'Italia of the function of supplying currency to the Armed Forces, and (c) the transfer of AFA to AFHQ.

3. As regards 2(a) above, discussed in para 1(b) of TAM 445, the Allied Commission is presently instructed by TAM Airgram 24 of 11 October 1944 and TAMS 136 and 398 of 23 Jan 1944 and 18 Dec 1944 respectively to exercise control not only on the operations of post-liberation accounts in the U.S. and U.K., but also on all transactions in the currencies of neutral countries. The present machinery of exchange control is in process of development with the full agreement of the Italian Government; and is to be operated through the Banca d'Italia acting as the agent of the Italian Treasury. It is considered that to remove the control now required by CCS to be exercised by the Allied Commission might lead to the improper or improvident employment of the slender foreign exchange resources at the disposal of the Italian Government. The control is not a subject which arouses interest either with the public or the Government and no request for a relaxation has been made. The present proposal,

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

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if effected, would replace the present OCS instructions whereby prior approval is granted by the Allied Commission with an ex post facto supervision of foreign exchange transactions. This method would not prevent the misuse of external assets, which could be remedied only by the reimposition of control. It is recommended that the existing controls as ordered by the Combined Chiefs of Staff should be maintained.

4. Consideration of the proposals in para 1(e) of TAM 445 raises the following questions:

(a) What will be the attitude of the Italian Government to the proposals?

(b) To what extent is the Banca d'Italia capable of exercising the functions described?

As regards 4(a) above, the objections of the Italian Government to the institution of a lira account were reported to the Combined Chiefs of Staff in MAT 353 of 12 October 1944. The present proposal would result in the assumption by the Banca d'Italia of the liability for the present and future circulation of Allied Military lire notes. It will be remembered that the financial consequences of the lira account as originally proposed would have been a direct budgetary charge to the Italian Government of an estimated lire 15/18 billion per annum. The new proposal would result in an increase in the debt owed by the Italian Government to the Banca d'Italia, an extra-budgetary charge, of a figure which currently amounts to lire 50 billion. The Italian Government has recently presented a memorandum to the U.S. and U.K. Governments and to the Allied Commission, requesting the allocation of dollar and/or sterling counterpart not only for all Allied Military lire outstanding, but also to cover all the payments made or to be made by the Italian Government for requisitions, supplies, services and works furnished to or ordered by the Allied Forces. If it is intended at this time to

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A. Consideration of the proposals in para 1(c) of TAV 445 raises

the following questions:

(a) What will be the attitude of the Italian Government to the proposals?

(b) To what extent is the Banca d'Italia capable of exercising the functions described?

As regards 4(a) above, the objections of the Italian Government to the institution of a lira account were reported to the Combined Chiefs of Staff in MAT 353 of 12 October 1944. The present proposal would result in the assumption by the Banca d'Italia of the liability for the present and future circulation of Allied Military lire notes. It will be remembered that the financial consequences of the lira account as originally proposed would have been a direct budgetary charge to the Italian Government of an estimated lire 15/18 billion per annum. The new proposal would result in an increase in the debt owed by the Italian Government to the Banca d'Italia, an extra-budgetary charge, of a figure which currently

amounts to lire 50 billion. The Italian Government has recently presented a memorandum to the U.S. and U.K. Governments and to the Allied Commission, requesting the allocation of dollar and/or sterling counterpart not only for all Allied Military lire outstanding, but also to cover all the ²⁵⁰ payments made or to be made by the Italian Government for requisitions, supplies, services and works furnished to or ordered by the Allied Forces. If it is intended at this stage to place upon the Banca d'Italia this overt liability without any corresponding benefit I foresee grave objections, possibly with political repercussions, being raised by the Italian Government. In the light of the foregoing, unless a dollar and/or sterling counterpart is granted, I consider that there is nothing to be gained and much to be lost in centralising at this time all currency issues in the Banca d'Italia.

As regards 4(b) above, I have grave doubts that the Banca d'Italia, either now or in the near future, will be able to perform satisfactorily the physical task of supplying currency to the Armed Forces. The obstacles that AFA has encountered (and, it may be said, successfully overcome) in the reception, storage, custody and movement of large amounts of

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currency in a country whose transport and communication facilities are crippled, can scarcely be visualized outside Italy. The Banca d'Italia has thus far been totally incapable of moving even comparatively small amounts of Metropolitan lire from branch to branch without AFA's aid. In the light of this experience it is impossible to expect the Banca d'Italia to receive large consignments of currency from the United States and to distribute currency to the Armed Forces, lacking, as it would, transport, adequate liaison with the military authorities (not only the Army Finance officers and paymasters, but also the post, security and other authorities whose clearance must be obtained), and organizational experience. AFA's record of having delivered the right denominations at the right time in the right place has been achieved only by the closest friendly cooperation with the various military formations concerned, a state of affairs that the Banca d'Italia would find impossible to bring about. It must further be remembered that when the battle line in Italy moves forward again, the difficulties of currency supply in forward areas will be multiplied. In our opinion it is unlikely that the pay services of the U.S. and U.K. armed forces will willingly accept any proposal resulting in a diminution of efficiency in supplying currency for their purposes.

5. The financial proposals put forward reveal a misunderstanding of the role played by AFA in AC/AE operations. AFA is not a separate entity charged with the provision of funds to the Allied Forces, but is an integral part of the Finance Sub-Commission, which handles all financial matters connected with the Allied Commission. If, as we hope, it is decided to reject ~~the~~ ^{the} ~~proposal~~ ^{proposal} the proposal for transfer of the currency supply function discussed in the foregoing paragraph, the question of the transfer of AFA to AFHQ will undoubtedly not arise. But the need for retaining AFA as an operating section of the Finance Sub-Commission is independent of the decision on transfer of

officers and paymasters, but also the port, security and other authorities whose clearance must be obtained), and organizational experience. APA's record of having delivered the right denominations at the right time in the right place has been achieved only by the closest friendly cooperation with the various military formations concerned, a state of affairs that the Banca d'Italia would find impossible to bring about. It must further be remembered that when the battle line in Italy moves forward again, the difficulties of currency supply in forward areas will be multiplied. In our opinion it is unlikely that the pay services of the U.S. and U.K. armed forces will willingly accept any proposal resulting in a diminution of efficiency in supplying currency for their purposes.

5. The financial proposals put forward reveal a misunderstanding of the role played by APA in AG/AMH operations. APA is not a separate entity charged with the provision of funds to the Allied Forces, but is an integral part of the Finance Sub-Commission, which handles all financial matters connected with the Allied Commission. If, as we hope, it is decided to ~~reject~~ ^{reject} the proposal for transfer of the currency supply function discussed in the foregoing paragraph, the question of the transfer of APA to AFHQ will undoubtedly not arise. But the need for retaining APA as an operating section of the Finance Sub-Commission is independent of the decision on transfer of the currency supply functions since in addition to the provision of currency to the armies, APA has four groups of functions.

The first group includes those which APA is in process of turning over to the Italian Government, the Banca d'Italia and the commercial banks. As is known, we are negotiating with the Banca d'Italia the provision of lire for remittance payments and have proposed to the Combined Chiefs of Staff a plan for the termination and clearance of the AF remittance accounts. The

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Banca d'Italia has : red numerous objections and so line will probably elapse before this program is completed.

The second group of functions includes those currency and banking services which Finance Sub-Commission performs for AC/AMG itself or various parts of the Allied forces. The following may be cited as examples: advances of funds to the Advisory Council for Italy and Allied missions; provision of funds to the Allied Screening Commission (POW helper payments); handling of checks issued to Italians by escaped American POWs; provision of funds for the operating expenses of AC/AMG; collection of BMA notes and yellow seal dollars from banks for return to Army finance officers and paymasters; transmission of effective AM line notes and information on package discrepancies to the U.S. Treasury.

The third group of functions includes the purchase of commodities for export and resale in Italy and the collection of the proceeds of sales of imported supplies. These functions will be ended as soon as the Italian Government is in a position to take over completely the purchasing for export and the collection of proceeds of sales of imports. The Italian Government is in the process of taking up this work but is not yet functioning efficiently in its own territory and so long as Italy remains a theater of operations some of this work will be a matter of practical necessity be thrown on AMG forward areas.

The fourth group of functions is the maintenance of the final accounts of all receipts and expenditures not only in the AC proper but in AMG territory. It must be appreciated that the APA accounts are and will continue to be the financial accounts of AC/AMG and will comprise the records of past and future transactions within the four groups of functions referred to above. Our present directives are that these accounts will eventually be submitted to the Italian Government. The withdrawal of APA

funds for the operating expenses of AC/AMG; collection of BMA notes and yellow seal dollars from banks for return to Army finance officers and paymasters; transmission of effective AM lire notes and information on package discrepancies to the U.S. Treasury.

The third group of functions includes the purchase of commodities for export and resale in Italy and the collection of the proceeds of sales of imported supplies. These functions will be ended as soon as the Italian Government is in a position to take over completely the purchasing for export and the collection of proceeds of sales of imports. The Italian Government is in the process of taking up this work but is not yet functioning efficiently in its own territory and so long as Italy remains a theater of operations some of this work will be a matter of practical necessity be thrown on AMG forward areas.

The fourth group of functions is the maintenance of the final accounts of all receipts and expenditures not only in the AC proper but in AMG territory. It must be appreciated that the AFA accounts are and will continue to be the financial accounts of AC/AMG and will comprise the records of past and future transactions within the four groups of functions referred to above. Our present directives are that these accounts will eventually be submitted to the Italian Government. The withdrawal of AFA to AFHQ would not rid us of this responsibility since this Commission is charged with the responsibility of enforcing the Armistice. The interrelation of these activities to other work of the Finance Sub-Commission and the Allied Commission generally is obvious, as is the fact that they are operating problems which properly belong with an operating agency (AC). The transfer of AFA would merely require the creation of another section in the Finance Sub-Commission to carry on many of AFA's present duties.

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6. While it is realized that the functions of the Allied Financial Agency must eventually be terminated, it is the considered opinion of the Allied Commission, concurred in by the Acting President and the Joint Directors of the Finance Sub-Commission, that it is premature to withdraw the Allied Financial Agency or to terminate its functions at the present time.

ELLEN W. STONE
Rear Admiral, USNR
Chief Commissioner

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

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ELLEN E. STONE
Rear Admiral, USNR
Chief Commissioner

2401

7 February 1945.
AFG&/adm.

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AFHQ MESSAGE CENTER
INCOMING MESSAGE

AFSC # 214/02

DEFERRED

OMC

FROM: AGWAR FROM CCS

TO: ALEXANDER, INFORMATION COMZONE ETUSA, BASH, BCS

REF IN THIS MESSAGE: WX-30628

1 February 1945

Cite CCAC

For FHCEG

TAM 445.

Refer MAT 353.

Proposals for modification of US/UK financial relations with Italian Government.

1. The following proposals for the modification of US/UK relations with the Italian Government in the financial field are now under consideration:

A. All functions performed by the Allied Financial Agency with reference to territory which has been returned to the Italian Government should be promptly terminated. This will involve, amongst others, the cessation by Allied Financial Agency of its present practices of making lire available for the payment of remittances from Allied countries and for the purpose of procuring goods for export. It will also involve the cessation of collection by Allied Financial Agency of payment in lire for civilian supplies turned over to the Italians, except as such collection may be necessary in AMG territory.

B. The controls exercised by AFA over Italian external financial transactions, such as payments out of the post-liberation accounts in the US and the UK, should be terminated. The Italian Government should be required, in place of these controls, to keep the Allied Commission informed of its external financial transactions. This will enable the Commission to recommend to CCS the repositioning of controls under the Armistice should it regard such action as necessary.

C. The remaining functions of AFA would then be concerned solely with the financial operations of the Allied Military Forces and of AMG in forward areas. These should be performed under the supervision and control of AFHQ, to which AFA should be transferred promptly as possible.

D. Full information should be made available to the Italian Government concerning these activities of AFA which will hereafter be the responsibility of the Italian Government.

For FKZEG

TAM 445.

Refer MAT 353.

Proposals for modification of US/UK financial relations with Italian Government.

1. The following proposals for the modification of US/UK relations with the Italian Government in the financial field are now under consideration:

A. All functions performed by the Allied Financial Agency with reference to territory which has been returned to the Italian Government should be promptly terminated. This will involve, amongst others, the cessation by Allied Financial Agency of its present practices of making lire available for the payment of remittances from Allied countries and for the purpose of procuring goods for export. It will also involve the cessation of collection by Allied Financial Agency of payment in lire for civilian supplies turned over to the Italians, except as such collection may be necessary in AMG territory.

B. The controls exercised by AFA over Italian external financial transactions, such as payments out of the post-liberation accounts in the US and the UK, should be terminated. The Italian Government should be required, in place of these controls, to keep the Allied Commission informed of its external financial transactions. This will enable the Commission to recommend to CCS the reimposition of controls under the Armistice should it regard such action as necessary.

C. The remaining functions of AFA would then be concerned solely with the financial operations of the Allied Military Forces and of AMG in forward areas. These should be performed under the supervision and control of AFHQ, to which AFA should be transferred promptly as possible.

D. Full information should be made available to the Italian Government concerning these activities of AFA which will hereafter be the responsibility of the Italian Government. However, books and other records of AFA must NOT be released by AFA except as specifically authorized by CCS.

E. Negotiations through diplomatic channels should be undertaken with the Italian Government with a view to bringing about the centralization of all currency issues in the Italian Government or such agencies as it may designate, and the recognition that the Italian Government, or such agency thereof as it may designate, is the issuing authority for the Allied Military lire now in circulation in ITALY. The arrangements made with the Italian Government should include provision for the supply of an adequate volume of lire currency and credits to meet the operational needs of the Allied Forces and to supplement the requisition procedures of the Italian authorities in purchasing supplies and services for the Allied Military Forces in ITALY; also provision for meeting the requests of the Italian Government for the printing and supplying of the necessary

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quantities of lira currency for all Italian needs. Should adequate quantities of lira currency NOT be available to the Military Forces at any time, the right would be reserved to AFHQ to use any other currency it deemed desirable.

2. The clause in paragraph 1E. above which reads "to supplement the requisition procedures of the Italian authorities in purchasing supplies and services for the Allied Military Forces in ITALY" is intended to provide for the establishment of a lira account as proposed in MAT 353.

3. Before any final decision is taken on whether discussions should be opened with the Italian Government along the general lines of the foregoing proposals, it is considered necessary that your views relative thereto should first be obtained. The detailed working out of these proposals will require time and careful negotiation, but your immediate comments are requested on the main heads of these proposals as are also your views with regard to the desirability of putting them to the Italian Government at this time. Your reply earliest will be appreciated.

MAT 353 1s Ref No. FI 37798 MC OUT 3021 12-10-44 G-5

ACTION: G 5

INFORMATION: SCS
GMO
USPOLAD
RSMIN
ISAPS
DPIC
F A (B)
G-4

G-4 (B)
QM
Q(MAINT)
CINC MED
USN
C/S MTC
MAAF
FISC DER

MC IN 1098 2 February 45 1156A Ref No. MX 30629 b/f/g

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3. Before any final decision is taken on whether discussions should be opened with the Italian Government along the general lines of the foregoing proposals, it is considered necessary that your views relative thereto should first be obtained. The detailed working out of these proposals will require time and careful negotiation, but your immediate comments are requested on the main heads of these proposals as are also your views with regard to the desirability of putting them to the Italian Government at this time. Your reply earliest will be appreciated.

MAT 353 in Ref No. FX 37798 MC OUT 3021 12-10-44 G-5

ACTION: G 5

INFORMATION: SCS
CAB
USPOLAD
RESMTH
ISAPS
DPIC
FA (B)
G-4

G-4 (B)
QM
Q(MAINT)
CINC MCD
USH
C/S MTO
MAAF
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PLSC DIR

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MC IN 1098 2 February 45 1156A Ref No. MX 30629 b/F/G

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