10000/119/100

9/100 37.I - Price Policy
Dec. 1943 - Jan. 1944

Prices
&
Pricing

Imported
Com-modities

"DRAFT"

ALLIED FORCE HEADQUARTERS

Military Government Section

/thh
6 December 1943

SUBJECT: Price policy to be followed by AMG-ACC in Italy — Recommendations as to.

TO : Chief, Military Government Section

1. The following memorandum presents recommendations as to price policy to be followed in Italy for consideration by you and by the appropriate Sub-Commissions of the Allied Control Commission in order that a final draft price policy may be agreed and transmitted to the Combined Chiefs of Staff for approval.

2. The price policy herein elaborated may be summarized as follows:

(a) Price increases in Italy are in general to be resisted in view of the inflationary trend already underway.

(b) Considering (a), subsidies to domestic producers may be preferable to price increases as a means of encouraging production.

(c) All goods imported for civilian or Italian Government use should be charged to the appropriate Ministry or Agency at a price in lire considered to be equivalent to landed-cost. The price at which these goods are subsequently sold will, wherever possible, be a subject for joint consideration by Allied and Italian officials. In general, they should be sold on not less than a landed-cost basis, but may be sold at a loss if a price based on landed cost is so high as materially to disturb the general price structure.

(d) Exportable surpluses should be purchased from Italian producers at prices designed to cover costs plus a fair profit. As to the prices at which these surpluses should be sold abroad, while there is much to commend the quoting of landed-cost prices, the balance of the argument is in favor of a policy of charging prices reasonable in the light of those prevailing in the foreign market concerned, even though above landed cost. The question of disposing of the resulting surplus of foreign exchange would be left to the future.

(e) Consideration should be given to setting up an Agency under the appropriate Sub-Commission to handle exports and imports.

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The detailed application of this price policy to domestic, import, and export prices is discussed below.

3. As to pricing of Italian-produced articles for domestic consumption:

   (a) The settled policy of AMG and ACC to retard the upward movement of prices should be continued by every practicable means, with the concurrence and cooperation of the Italian Government.

   (b) Main attention must be given to major commodities, such as wheat, flour, pasta, olive oil, cheese, charcoal, and coal. In some instances, where the cost-prices essential to maintain supply would be undesirably high (from an inflation-control viewpoint) subsidies are being and will continue to be resorted to. This is the case notably with wheat. It is desirable to have the agreement of the Italian Government as to the need for such subsidies, and to arrange so far as possible that the payments proceed from or are for the account of the Italian Government or its agencies. All subsidy programs should be subject to frequent examination in order to determine whether a small price increase would achieve the same purpose without subjecting the national budget to additional burden which a subsidy involves.

   (c) The pricing of Sardinian coal requires immediate decision.

      (i) The present situation is approximately as follows: prices in Sardinia range generally from 140 to 160 lire and elsewhere in Italy from 300 to 320 lire per metric ton. Costs probably vary around 300 lire at the mines, depending on output. At the same time prior to invasion imported coal was sold around 300 lire generally throughout all Italy.

      (ii) Inasmuch as the general price structure in Sardinia has become adjusted to a coal price of 140-150 lire, it is probably justifiable to continue that price for the time being. Normally, however, it would not be considered equitable to oblige consumers distant from the point of production to subsidize those nearby. Consequently any differential coal price in favor of users in Sardinia should be reviewed from time to time.

      (iii) Prices for Sardinian coal elsewhere in Italy should be set sufficiently above c.i.f. Italian ports to cover as much as possible the loss on coal sold at lower prices in Sardinia. It has been suggested that these prices should range somewhere between 380 and 500 lire, but a decision can best be made by our fuel experts in touch with the situation. Whether a schedule of differential prices for various types of users can be set up will depend on the availability of technical staff.

      (iv) As to the determination of the price of imported coal, see below, paragraph 4 (c).

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4. As to pricing of imports, the policy should be to charge all such goods to the appropriate Ministry or Agency of the Italian Government at a price in lire considered to be equivalent to landed-cost (i.e. c.i.f. Italian ports). The prices at which these goods are subsequently sold will be determined by the Italian Government in consultation with the Allied Control Commission in all areas under Commission control, and by the appropriate local governmental agency in accordance with AMG directive in all other areas. This procedure will be more readily understood by the British and American public than one which involves actual sale by Allied officials of imported goods at a loss. For the purpose of reducing Governmental expenditures, imported goods should normally be resold at price which will avoid losses to the Governmental agency charged with them. However, the policy of maintaining the prevailing price-cost structure, in Italy so far as possible will make it desirable in some instances to sell imported goods at prices which will be below landed cost. In the following paragraphs the problem of pricing various types of imports is examined from this viewpoint.

(a) Foodstuffs. In general, the prevailing official prices of major foods (especially flour) in Italy are lower than the lire equivalent of the landed cost of the corresponding imported items. In the interest of retarding the rise in the cost of living, it has been and will continue to be necessary to sell most imported foods at less than cost. However, in the determination of domestic prices (see paragraph 3) account should be taken of the cost of imports, of the proportion of total consumption which is supplied by imports, and how long this degree of dependence on imports is likely to continue. If the proportion is large and likely to continue large, and the spread between landed cost and prevailing domestic price is also large, consideration should be given to raising the domestic price. Even inflation control may not justify extremely costly subsidies, the burden of which will have to be borne by an already overloaded Italian Government budget.

(b) Medical and other supplies and equipment for the use of the Government, armed forces and public institutions of Italy. There is no inflation control argument to support a policy of supplying such imports below cost. The Ministry or Governmental agency to which they have initially been billed at cost, may and generally should transfer the full cost of the goods onto the budgets of the institutions, Departments, or other Governmental units subsequently acquiring the goods for use. It is of course true that the net cost to the Government is the same, but from a budgetary point of view it is more satisfactory to charge the cost of imported articles to the branch or unit responsible. Of course, if the article in question is one of common consumption and has a prevailing price below landed cost which it is desired to maintain, the Italian Government may prefer to charge imported goods to the consuming unit, institution, or agency at the prevailing price, carrying the loss on the National budget.

(c) Industrial and agricultural equipment and supplies, including fertilizers. In accordance with the general policy laid down in paragraph 4 above, all such imports, as soon as arrangements can be made in

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both ACC and AMG territory, will be charged to appropriate Italian Government Ministeries or agencies at landed cost. Normally, it should be possible for the Government to resell such goods at approximately the same price. In some instances, however, such resale prices would be so much above the prevailing price for local products or where there is no prevailing price (demand being entirely dependent on imports), so much above previous prices to which consumers have adjusted their own operations, as to make it impossible for them to sell their output at the official price. In such instances it will be appropriate for the Italian Government officials and AMG or ACC officials concerned jointly to consider which is preferable: to supply the imported articles at less-than-cost prices, the Government's budget bearing the loss; or to allow the users of the imported articles to raise the prices of their products or services so as to cover the increased cost of imported equipment or raw materials.

A commodity for immediate consideration is imported coal. It is strongly recommended that all imported coal be billed at once to the Italian Government at landed cost. But it will then be necessary to determine what policy the Italian Government should follow in selling or charging that coal to State and private users. Imported coal from Germany was selling at about 300 lire per metric ton prior to the invasion. American and British coal has a landed cost somewhere between 2500 and 3000 lire at Italian ports. To what extent so high a price for coal would rise the production costs of public utilities, flour mills, bakeries, machine shops, mines, etc., beyond the point at which they could continue to operate at existing prices for their products, is not known and will have to be ascertained in the case of each major user or industry. Neither is it possible from this distance to determine whether a single price for imported coal to all users (whatever that price may be) is preferable under existing circumstances to a schedule of price differentials for various classes of users. In any event, it will probably be necessary to have a considerably lower price for Sardinian coal than for imported coal in order to induce users to take the former, which is much inferior to the latter. All these matters will have to be the subject of consideration by Italian and ACC-AMG authorities.

(d) The policy laid down in paragraph 4 above, involving the billing of all imports to the Italian Government or its agencies at landed cost, will make it necessary for AMG-ACC to take account of the landed costs of the articles it receives from abroad. This would run counter to accounting procedure now being followed, but was to some extent foreseen in our MAT 73, sent to the CCS on 1 November, which said in part (paraphrased): "In the determination of prices in Italy at which we will sell imports, the landed-values schedules you are preparing will be of some assistance, although local considerations such as prevailing prices are now of predominant importance in this matter." It is also to be noted that in message 86538FL of 6 November the War Office instructed the British Army accountants in this Theatre to keep what records they could of the value of supplies made available to the Italians, having in mind the uncertain nature of future negotiations which may have to be carried out with the Italians in reaching a final peace settlement.

5. As to the pricing of exports.

(a) So far as the price paid to the producer in Italy is concerned, it is proposed that it be based on cost (including a reasonable profit) at the point where AMG takes possession. Admittedly, having in view the disturbed conditions as to wages, cost of materials and fuel, etc., which Italian producers face, as well as the damage their plants have in many cases suffered, it will not be easy to arrive at and agree on a fair cost price. But no other policy will be readily defensible.

(b) As to the price to be charged to the buyer in the foreign market, several bases present themselves: (1) Sell at a loss (i.e. at less than landed cost) in order to adjust to prices prevailing in that market (2) Sell at a price designed to cover landed costs. (3) Sell at a price above landed costs by an amount considered reasonable in view of prices prevailing in the market. Each of these possibilities will be considered.

(1) It should not be necessary to sell at a loss, inasmuch as Italian exportable surpluses consist of goods (sulphur, citrus by-products, fruit, nuts, wine) which in view of wartime scarcities can in most cases readily be sold in foreign markets at prices which will avoid a loss.

(2) Selling abroad at prices designed only to cover landed costs would be from some points of view the most defensible policy. It would be readily accepted by Anglo-American opinion as being fairly comparable to the policy herein recommended of charging imports to the Italians at prices covering landed costs. However, there are persuasive arguments in favor of basis no. 3, which are next presented.

(3) In general, it is recommended that exports be priced to foreign buyers at prices above landed costs by an amount considered reasonable in view of prices prevailing in the buyers country. This policy would have several advantages, to offset the disadvantage mentioned in (2) above. (a) It would provide a reserve which, though not accruing to the immediate benefit of the Italian producers, would be available to meet future contingencies. (b) It would be entirely reasonable in the case of exports to neutral countries such as Spain, Turkey, or Argentina to price them at levels prevailing in those countries. (c) Reasonable prices, even though above landed costs, would not be unfair to consumers in Allied markets, and the resulting

extra amounts of foreign exchange (dollars, sterling, francs, etc.) could be held for appropriate disposition in the future — possibly though not necessarily as a partial reimbursement to Allied Governments for goods supplied to Italy for civilian purposes.

6. Consideration should be given to the instrumentality through which exports and imports will be accounted. While all such transactions could be carried directly into AMFA's balance sheet, it is suggested that it is preferable to open separate accounts for this purpose because (a) AMFA's accounts are not designed to carry inventories and (b) it is not yet clear that AMFA is to carry foreign exchange. It is therefore proposed that an Export and Import Agency (or separate agencies for each) be created as part of the appropriate sub-commission in the same way that AMFA is part of the Finance Sub-Commission, and that over its book all accounting of exports to and imports from Italy should pass.

The following hypothetical summarized statement of account is offered as an illustration of the way in which such an agency might function.

Statement(s) of Account as at ? date
(all amounts in lire)

ASSETS		LIABILITIES	
EXPORTS		EXPORTS	
Cash in hand and at bankers	10,000,000	Sundry creditors: Advances obtained from AMFA for purchase goods for export	65,000,000
Cash (in foreign exchange) at bankers abroad, converted at current rate of exchange	50,000,000	Balance on export account	10,000,000
Goods in hand, at cost	15,000,000		
Total	75,000,000	Total	75,000,000
IMPORTS		IMPORTS	
Cash at AMFA or bankers (proceeds sales of imported goods to Italian Government or its agencies	140,000,000	Sundry creditors: Econ. & Indus. Sub-Comm. (value of goods rec'd. at landed cost)	140,000,000
Total	140,000,000	Total	140,000,000

An examination of this statement will indicate several points. (1) Imports can be carried into the accounts of the Agency at costs, and then sold or billed to the Italian Government or its agencies at a price in lire designed

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to cover this cost. Should any instances occur in which ACC or AMG itself too sold at a loss, this would be reflected by a deficit on the asset side. (2) Any surplus of foreign exchange over cost of exports would be carried visibly. If the above accounts were being liquidated in the course of negotiations with the Italian Government, the state of import accounts is clear: i.e., a sum of lire obtained for imports in some instances sold directly to the users but generally billed to the Italian Government at cost. The possibility of converting these lire into the desired foreign currencies will be one of the post-war problems. As to the export accounts, and considering the item 10,000,000 lire "Balance on export a/c", this accrues as a result of selling exports above cost and remains after the Italians have been fully satisfied by payment to the producers of goods exported of a price including a fair profit. As stated, it can be set aside as a reserve to adjust prices paid to producers if subsequent analysis shows those originally paid to have been inadequate to keep the producers in business. Failing that, it becomes the property of the Allies. Apart from this, the whole amount shown as an asset at 50,000,000 lire will exist in foreign exchange. The disposition of this foreign exchange will remain for discussion, for example as to whether part or all of it will be made available to the Italians in meeting the Allies' demand for conversion of the lire held in the import accounts.

Supply Division

Finance Division

151600 . HLS

8183

62 LRAR V HAR NR 169 T(BY ALS) GR 42

TO FLAMBO FOR M G S ADVANCED CIVIL SUPPLY

FROM AMG EIGHTH ARMY MAIN 14 Dec

FOR MERALL FROM SPENCER . YOUR MINUTES OF PRICE MEETING

HELD NAPLES NOV 23 RECEIVED HERE DEC 14 RPT 14 .

HAS ANY ACTION BEEN TAKEN REF WHEAT PRICE PARA FOUR QUERY

~~THI 141540~~

ERPTN ~~62 169 42 MGS AMG MERALL SPENCER 23 14 14~~

3433

~~141540~~ +

V

R 1612 merall

Copy to CSC

Action MGS (Adv)

4711

37

MINUTES OF PRICES MEETING HELD AT PROVINCIA BUILDING, NAPLES, AT 0930 HRS 23 NOV 43

Major General the Lord Rennell in the Chair

PRESENT

Col. Grafftey Smith	C.F.O., AMG 15 Army Group
Col. G.S. Adams	HQ AMG
Col. Evans	HQ AMG
Col. J.A. Butterworth	MGS, AFHQ
Lt.Col. H.S. Berry	SSO, AMG 15 Army Group
Lt.Col. Berrall	DES, AMG 15 Army Group

Representatives from all AMG/ACC Regions were also present.

Dealing with the question of cost of living, the Chairman, after hearing the reports made by all Supply Officers present, said that it would seem there had been a general increase of one hundred per cent during the last two months - additional to another one hundred per cent increase over Summer 1942-Summer 1943. It would not appear that the rise had been much higher in one region than in another.

2. It was considered that neither AMG/ACC nor the Italian Government could do more than fix the price for grain and a few other commodities. Any attempt to peg the prices of less important items - on an interregional basis - would be so much wasted effort and might bring the authorities into disrepute. The general aim should be to limit the number of foodstuffs over which control is exercised to the minimum. Wheat (and bread), edible oil and sugar were the items for which a standard price should be fixed forthwith.

THE MEETING AGREED THAT THE PRICE DIFFERENTIALS EXISTING BEFORE THE OCCUPATION FOR THE PURCHASE OF GRAIN AT THE AMASSI SHALL CONTINUE TO BE OBSERVED. IT WAS ALSO AGREED, IN RESPONSE TO AN ENQUIRY FROM MAJOR KENNEDY (AMG Region III), THAT FOR THE PURPOSE OF APPLYING THESE PRICE DIFFERENTIALS THE PART OF REGION 4 ALREADY OCCUPIED SHALL BE CONSIDERED AS INCLUDED IN REGION 3.

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3. Dealing with the price of bread to the public, Col. Grafftey Smith enquired whether a price had been agreed to by Washington. Col. Butterworth, replying for AMG Algiers, said there is a price published at which the Quartermaster purchases; to this price must be added overhead costs. The policy on public price at point of consumption is left to the proper local authorities to determine based on actual market conditions and on the procedure that has to be followed to sell imported flour to the Italian Government.

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4. The Chairman requested the meeting to vote on the following point: whether the price to farmers for existing wheat should be significantly raised. The result of the motion was:

Affirmative votes 13

Negative votes 9

IT WAS DECIDED THAT THE PRICE OF WHEAT SHALL BE RAISED TO LIRE 350/450. IF THE FIXING OF THE PRICE OF CURRENT WHEAT AT 350 DOES NOT BRING IN A REASONABLE AMOUNT OF GRAIN, IT IS BELIEVED THAT THE EFFECT OF THE RECOMMENDATION WILL BE TO INCREASE INFLATION PROBLEM BY GIVING A BONUS TO THOSE FARMERS WHO [illegible] IN THE YEAR [illegible] IN THEIR GRAIN AT A LOWER PRICE.

IT MUST CLEARLY BE UNDERSTOOD THAT THIS RECOMMENDATION DOES NOT APPLY TO SICILY WHERE IT IS A PENAL OFFENCE TO HOLD UNDECLARED WHEAT BUT APPLIES ONLY TO THE OCCUPIED MAINLAND OF ITALY AND TO THE 1943 CROP OR WHAT IS LEFT OF IT.

5. OLIVE OIL. IT WAS DECIDED TO ENFORCE THE AMASSING OF OLIVE OIL AND IT WAS RECOMMENDED THAT THE PRICE TO THE PRODUCER BE FIXED AT NOT LESS THAN LIRE 20 PER LITRE.

6. It was agreed, on proposal of Lt.Col. Gerry, that the control of prices of items other than essential foodstuffs be left to the Regional Officers until such time as lend-lease manufactures arrive, when also these lend-lease articles will be properly controlled. AMG/ACC officers in the field should cooperate with the Army and recommend to the Army the closing of shops and businesses who give offence.

7. Major Toscani (Supplies Officer, AMG 5th Army) enquired whether official notice will be given of the prices at which imported dehydrated soap and other stores may be sold to the consumer. Col. Butterworth, replying; said that AFHQ are in a position to say what it costs the Quartermaster to provide these stores cif. The actual selling price to the public is a policy matter to be decided in the field. Col. Butterworth produced a list of the commodities this territory is at present receiving from abroad or is likely to receive in the future. The Regions were requested through their representatives at the meeting to send in to the Civil Supply Committee in Naples the prices at which they consider the commodities in question should be sold to the public in order to keep the cost of living at its present level. The differentials, it is expected, will be taken care of by subsidy. The commodities for which the regions have been invited to supply prices are the following:

1. All petroleum products
2. Chemicals
3. Calcium-hypochloride
4. Chloride of lime
5. Insecticide and insect repellant
6. Soap, laundry, and soap; toilet

Butterworth, replying; said that AFHQ are in a position to say what it costs the Quartermaster to provide these stores c.i.f. The actual selling price to the public is a policy matter to be decided in the field. Col. Butterworth produced a list of the commodities this territory is at present receiving from abroad or is likely to receive in the future. The Regions were requested through their representatives at the meeting to send in to the Civil Supply Committee in Naples the prices at which they consider the commodities in question should be sold to the public in order to keep the cost of living at its present level. The differentials, it is expected, will be taken care of by subsidy. The commodities for which the regions have been invited to supply prices are the following:

1. All petroleum products
2. Chemicals
3. Calcium-hypochloride
4. Chloride of lime
5. Insecticide and insect repellant
6. Soap, laundry, and soap; toilet
7. Dried peas and beans
8. Cheese
9. Flour
10. Milk (evaporated, per lb)
11. Salt
12. Sugar
13. Dehydrated soup
14. Rations, C or K
15. Coal (a. bituminous egg; bituminous run of mine; c; bituminous 2 in. screenings)

4709

THIS LIST TO BE IN BY 7TH DECEMBER 1943. ON PROPOSAL OF MAJOR SPENCER, IT WAS AGREED THAT THE PRICES TO BE GIVEN SHOULD BE THOSE WHICH APPLY TO THE PRINCIPAL PLACE OF CONSUMPTION IN EACH PROVINCE.

8. Lt. Sarizzi (Region 2) requested that the Army be urged not to raid provinces for what they need. The Chairman said this point would be taken up suitably with AFHQ.

9. General Rennell, at the close of the meeting, said that he had set up the nucleus of his Supplies and Economics Division in Naples which would work in close collaboration with General Robertson's Local Resources Board. The purpose for which the AMG 15 Army Group nucleus had been sent to Naples was to deal with Civil Supply as opposed to the impact of Civil-Military Supply, which was the concern of the Local Resources Board. The offices of the nucleus had been established in Provincia Building, Naples, where the Civil Supply Committee also had their quarters. Telegrams intended for the Civil Supply Committee should be addressed "FLAMBO for HQS Adv for Civil Supply". Information intended for transmission to the Resources Board should be sent to the Committee.

10. The meeting rose at 1200 hours.

C.R. Merrall.

NAPLES
24 Nov 43

C.R.MERRALL,
Lt.Col.,
Secretary

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FLAMBO, HQS Adv	

NAPLES
24 Nov 43

C.R. Merrall.

C.R.MERRALL,
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Secretary

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FLAMBO, HQS Adv (Major Todd)	3 copies

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" Finance
Algiers
G5

PNS.

Landed Cost Prices

Flour

L 3508 + 46% = L 5122 per M lbs or
L 5.122 per lb or L 11.27 per kilo

Cheese

L 28500 + 22% = L 34770 per M lbs or
L 34.77 per lb or L 76.49 per kilo

Soap

L 15500 + 37% = 21225 per M lb or
L 21.22 per lb or L 46.70 per kilo

4707

U. S. CONFIDENTIAL
Equals British CONFIDENTIAL

C O P Y WAR DEPARTMENT C O P Y
HEADQUARTERS ARMY SERVICE FORCES
WASHINGTON

SPLIS .014 (19-Oct-43)

19 October 1943

MEMORANDUM TO THE COMMANDING GENERAL, NORTH AFRICAN THEATER OF OPERATIONS

Subject: Landed Cost of Civilian Supplies.

1. Reference is made to your cable No. W-9968 of 14 September 1943, cite MAGOS 9061, requesting information concerning unit prices of civilian supplies listed in Section VI of the Army Supply Program, and our cable of this date.

2. Unit prices listed in Section VI of the Army Supply Program represent procurement cost in the United States plus an additional amount for transportation and handling from the point of manufacture to the point where initial delivery is accepted by the Army.

3. In order to devise a practicable means for determining fair landed cost of civilian supplies, the technical services concerned were requested to develop a percentage factor that could be applied to unit prices listed in Section VI of the Army Supply Program, and which would include consideration of the following:

a. transportation in the U.S.;
b. handling and storage in the U.S.;
c. ocean freight;
d. transportation in the theater;
e. handling and storage in the theater.

It would then be possible to determine landed cost by adding to the unit cost listed in Section VI, a stated percentage of that cost which would represent the amount to be added in consideration of the above listed factors.

4. Transmitted herewith are the percentage factors, developed by the respective technical services, which should be added to unit prices listed in Section VI of the Army Supply Program in order to arrive at landed cost. It is anticipated that the enclosed percentages will require revision from time to time and you will be advised accordingly.

For the Commanding General:

BOYKIN C. WRIGHT,
Brigadier General, General Staff Corps,
Director, International Aid Division

Att:
Statement of percentages

4706

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VI

Reference: T.D. Hq. A.A.F. letter SPIJS .014 (19-10-4_) subject "Landed Cost of Civilian Supplies," to the C.G. NATOUSA.

Statement of Percentages to be added to Unit Costs of Items in Section VI, Army Supply Program, to cover Total Cost at Destination.

QUARTERMASTER:

Item	Percentage to be added
CLASS 56	
Beans or peas, dried.	52%
Cheese	22%
Flour	46%
Milk, evaporated	29%
Salt	172%
Soup, dehydrated	37%
C or K ration.	28%
CLASS 51	
Calcium hypochlorite (5 lb can)	22%
Calcium hypochlorite (100 tubes).	13%
Chloride of lime (20 lb. can)	61%
Insecticide, powder, body insects, 2 oz can.	43%
Soap, Laundry	54%
Soap, Toilet, Floating, white	36%
Repellent, Insect, 2 oz btl	13%
HARD FUELS	
Coal, Bituminous, Egg	245%
Coal, Bituminous, Run of Mine	280%
Coal, 2" Screenings	305%
MISCELLANEOUS ITEMS	
Sprayer, liquid, insect, pump type	25%
Bag, water, sterilization complete	15%
Drums, gasoline, 55 gal	305%
PETROLEUM PRODUCTS	
Fuel oil	140%
Gas Oil.	142%
Gasoline	96%
Kerosene	108%
Lubricants	36%

CORPS OF ENGINEERS:

All items	35%

MEDICAL DEPARTMENT:

All items	28%

4705

THE [illegible] SUPPLY PROGRAM

Section VI, Equipment & Supplies, Civil

Item No.	Class and Group of Item Federal Standard Stock Catalog	Unit M= 1,000 MM= 1,000,000	Unit Cost
(1)	(2)	(3)	(4)
	QUARTERMASTER CORPS		
	Petroleum Products		
1	Fuel Oil	Bbls M	3,276.00
2	Gas Oil	Bbls M	3,220.00
3	Gasoline (42 gal bbls.)	Bbls M	4,127.00
4	Kerosene	Bbls M	3,623.00
5	Lubricants	Bbls M	14,343.00
	Class 51		
6	Calcium Hypochlorite, High Test 5 lb can	Lb	.28
7	Calcium Hypochlorite, Tubes for Water Purification (box 100)	Box	1.35
8	Chloride of Lime (20 lb can)	Lb	.06
9	Insecticide, liquid, gal, finished spray (pyrethrum free)	Gal	
10	Insecticide, powder, body insects, 2 oz can	Can	.04
11	Soap, Laundry	Lbs	.07
12	Soap, Toilet, Floating, white	Lbs	.12
13	Repellent, insect, 2 oz btl	Btl	.07
	Class 56		
14	Beans or Peas, Dried	Lbs. M	69.50
15	Cheese	Lbs. M	285.00
16	Flour	Lbs. M	35.08
17	Milk, Evap	Lbs. M	94.90
18	Salt	Lbs. M	17.06
19	Soup, Dehydrated	Lbs. M	155.00
20	"C" or "K" ration	Rations	

7	Calcium Hypochlorite, Tubes for Water Purification (box 100)	Box	1.53
8	Chloride of Lime (20 lb can)	lb	.06
9	Insecticide, Liquid, gal, finished spray (pyrethrum free)	Gal	
10	Insecticide, powder, body insects, 2 oz can	Can	.04
11	Soap, Laundry	lbs	.07
12	Soap, Toilet, Floating, White	lbs	.12
13	Repellent, Insect, 2 oz btl	Btl	.07
	Class 56		
14	Beans or Peas, Dried	lbs. M	69.50
15	Cheese	lbs. M	285.00
16	Flour	lbs. M	35.08
17	Milk, Evap	lbs. M	94.90
18	Salt	lbs. M	17.36
19	Soup, Dehydrated	lbs. M	155.00
20	"C" or "K" ration	Rations M	816.80
	HARD FUELS		
21	Coal, Bituminous, Egg	Gross Ts	7.50
22	Coal, Bituminous, Run of Mine	Gross Ts	6.50
23	Coal, Bituminous, 2" Screenings	Gross Ts	6.00
	MISCELLANEOUS ITEMS		
24	Bag, Water Sterilization, complete with cover and hanger	ea	11.65
25	Drums, gasoline, 55 gallon	Drums M	4,250.00
26	Sprayer, liquid, insect, pump type	ea	.50
27	Miscellaneous Items to be requisitioned by Theater Commander		

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Declassified E.O. 12356 Section 3.3/NND No. 785016

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Section VI, Equipment & Supplies, Civil

Item No.	Class and Group or Item Federal Standard Stock Catalog	Unit M= 1,000 Mm= 1,000,000	Unit Cost
(1)	(2)	(3)	(4)
	CORPS OF ENGINEERS		
	Sanitation Supplies		
1	Hypochlorinator, gas engine type	Ea	650.00
2	Oil, Diesel No. 2, or equal	Gal	.07
3	Oil Sprayer, Knapsack Type	Ea	15.00
4	Oil Sprayer, Knapsack Type, Spare Parts	Sets	2.00
5	Miscellaneous Items to be Requisitioned by the Theater Commander		
	MEDICAL DEPARTMENT		
1	CAD Basic Medical Unit	Ea	4,662.00
2	CAD Obstetrical Bag	Ea	33.00
3	CAD Supplemental Tropical Unit	Ea	1,945.00
4	Vaccine, Cholera, 20cc	Vial	.175
5	Vaccine, Typhus, 20cc	Vial	1.40
6	Miscellaneous Items to be Requisitioned by the Theater Commander		

Commander

MEDICAL DEPARTMENT

1	CAG Basic Medical Unit	Ea	4,682.00
2	CAG Obstetrical Bag	Ea	33.00
3	CAG Supplemental Tropical Unit	Ea	1,945.00
4	Vaccine, Cholera, 20cc	Vial	.175
5	Vaccine, Typhus, 20cc	Vial	1.40
6	Miscellaneous Items to be Requisitioned by the Theater Commander		

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Declassified E.O. 12356 Section 3.3/NND No. 785016

HEADQUARTERS PENINSULAR BASE SECTION

10 FEBRUARY 1944

RESTRICTED
ROUTINE

RESTRICTED

TO (ACTION) : AFHQ

(INFORMATION) : 1 DISTRICT, 2 DISTRICT, PBS, SOS NATOUSA, FATIMA, ABD

FROM : FLAMBO

DATE TIME SIGNED : 101500 A
DATE TIME REC'D : 102023 A

REF NR : ~~XXXXXX~~ 115775
CITE : NONE

1. PROCEDURE FOR ACCOUNTING FOR SUPPLIES ALL KINDS TO ITALIAN MILITARY LAID DOWN YOU 45220A DATED 30 JAN CAN BE FOLLOWED FOR ALL ISSUES MADE FROM U.S. AND BRITISH DEPOTS

2. POLICY IS HOWEVER TO ARRANGE FOR DIRECT DELIVERY FROM DOCKS TO ITALIAN DEPOTS WHENEVER POSSIBLE. THIS POLICY BEING IMPLEMENTED. IN SUCH CASES IT WILL BE IMPRACTICABLE FOR U.S. OR BRITISH AGENCIES TO PROVIDE ACCOUNTS REQUIRED. NO ALLIED SERVICE PERSONNEL AVAILABLE TO CHECK EITHER AT (A) SHIPS SIDE OR (B) DEPOTS. IN ANY EVENT (A) NOT ACCEPTABLE AS WOULD INVOLVE DELAYS OR PORT CLEARANCE AND (B) UNRELIABLE IN VIEW POSSIBLE LOSSES BETWEEN SHIPS SIDE AND DEPOTS

3. CONSIDER ONLY SATISFACTORY SOLUTION FOR CASES UNDER 2 ABOVE IS FOR SHIPS DOCUMENTS TO BE ACCEPTED AS RECORD SUPPLIES FURNISHED

ACTION : G-4
INFO : HQ ACC
: FO
: QM
: ORD O
: SIG O
: CML O
: ENGRO
: TRANSP O
: SURGEON
: MIS ADV
: SECT'Y GEN. STAFF
: COMMANDING GENERAL

37.1

RESTRICTED

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- 13604 -

Declassified E.O. 12356 Section 3.3/NND No. 785016

Tel
1d

HEADQUARTERS PENINSULAR BASE SECTION

1 FEBRUARY 1944

..CONFIDENTIAL CONFIDENTIAL

..ROUTINE

TO (ACTION) : CG PBS FARGO FOR COLONEL J CRANSHANE, HEADQUARTERS ACC, NAPLES

(INFORMATION) : FLAMBO

FROM : SIGNED GIMG

DATE TIME SIGNED : 302006A
DATE TIME REC'D : 311915A

REF. NR. : 45221

CITE : FHSUP, FHMGS, NAFIN AND FHGDS

AGWARS 5486 DATED 22ND DECEMBER IS PARAPHRASED IN PART FOR YOUR INFORMATION. "ACCOUNTING INSTRUCTIONS REQUIRE TO BE SUBMITTED EACH MONTH TO CHIEF ACCOUNTANT OF AMG SUMMARY REPORT OF SUBSISTENCE AND OTHER SUPPLIES FURNISHED TO COBELLIGERENTS, CLASSIFIED AS TO MAJOR CATEGORIES OF SUPPLIES AND SUPPORTED BY PRICED SHIPPING TICKETS OR OTHER APPROIATE SIGNED RECEIPTS. AMG WILL MAKE APPROPRIATE ACCOUNTING ENTRIES BASED UPON SUCH REPORTS TO CHARGE ITALIAN MILITARY OR OTHER GOVERNMENTAL AGENCY OR UNIT AND CREDIT DEFERRED ACCOUNT PAYABLE TO UNITED STATES ARMY. FOR PURPOSE OF ULTIMATE SETTLEMENT WITH ITALIAN GOVERNMENT SUCH PROCEDURE WILL PERMIT ESTABLISHMENT OF A RECORD. END"

NEW SUBJECT.

SUBSISTENCE AND CLOTHING FOR ITALIAN MILITARY ARE NOW ENROUTE FROM UNITED STATES AND ARRIVAL EXPECTED IN NEAR FUTURE. ALL BRITISH AND UNITED STATES AGENCIES CONCERNED HAVE BEEN NOTIFIED TO SUBMIT A REPORT TO CHIEF ACCOUNTANT OF AMG AT NAPLES ON 15

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OF EACH MONTH FOR ALL SUBSISTENCE AND OTHER SUPPLIES RECEIVED FROM UNITED STATES SOURCES AND TURNED OVER TO ITALIAN MILITARY. THESE REPORTS WILL BE ITEMIZED AND BEAR SIGNATURES OF PARTIES CONCERNED BUT NEED NOT REFER TO UNIT PRICES.

NEW SUBJECT:

YOU WILL BE FURNISHED AT AN EARLY DATE A PRICE LIST FOR ALL SUBSISTENCE AND OTHER TYPES OF SUPPLIES RECEIVED FROM UNITED STATES SOURCES FOR YOUR INFORMATION IN THE ACCOMPLISHMENT OF SUCH DOCUMENTS AS REQUIRE MONEY VALUE ENTRIES.

NEW SUBJECT:

NECESSARY INSTRUCTIONS FOR RECORDING OF BRITISH STOCKS AS REGARD ISSUES FROM BRITISH DEPOTS TO AMG OR ITALIAN FORCES HAVE PREVIOUSLY BEEN ISSUED.

NEW SUBJECT:

PLEASE ACKNOWLEDGE.

ACTION: AMG HQS.

INFO. : HQS ADV
FIN O.
QM
G-4
SECY
C.G.

CONFIDENTIAL 4700

File

CIPHER MESSAGE IN SIGS: 6161

CONFIDENTIAL

TO:- FATIMA FOR COL J CRAWSHAWE, HQ ACC, NAPLES FOR ACTION TO FLAMBO FOR INFO

FROM:- SIGNED CINC CITE FHSUP, FHMGS, NAFIN ND FHGDS 45221 JD Jan

AGWARS 5485 DATED 22 DEC IS PARAPHRASED IN PART FOR YOUR INFO. QUOTE ACCOUNTING INSTRUCTIONS REQUIRED TO BE SUBMITTED EACH MONTH TO CHIEF ACCOUNTANT OF AMG SUMMARY REPORT OF SUBSISTENCE AND OTHER SUPPLIES FURNISHED TO COBELLIGERENTS, CLASSIFIED AS TO MAJOR CATEGORIES OF SUPPLIES AND SUPPORTED BY PRICED SHIPPING TICKETS OR OTHER APPROPIATE SIGNED RECEIPTS. AMG WILL MAKE APPROPRIATE ACCOUNTING ENTRIES BASED UPON SUCH REPORTS TO CHARGE ITALIAN MILITARY OR OTHER GOVERNMENTAL AGENCY OR UNIT AND CREDIT DEFERRED ACCOUNT PAYABLE TO US ARMY. FOR PURPOSE OF ULTIMATE SETTLEMENT WITH ITALIAN GOVERNMENT SUCH PROCEEDURE WILL PERMIT ESTABLISHMENT OF A RECORD. END QUOTE NEW SUBJECT. SUBSISTENCE AND CLOTHING FOR ITALIAN MILITARY ARE NOW ENROUTE FROM US AND ARRIVAL EXPECTED IN NEAR FUTURE. ALL BRITISH AND US AGENCIES CONCERNED HAVE BEEN NOTIFIED TO SUBMIT A REPORT TO CHIEF ACCOUNTANT OF AMG AT NAPLES ON 15th OF EACH MONTH FOR ALL SUBSISTENCE AND OTHER SUPPLIES RECEIVED FROM US SOURCES AND TURNED OVER TO ITALIAN MILITARY. THESE REPORTS WILL BE ITEMIXED AND BEAR SIGNATURES OF PARTIES CONCERNED BUT NEED NOT REFER TO UNIT PRICES. NEW SUBJECT. YOU WILL BE FURNISHED AT AN EARLY DATE A PRICE LIST FOR ALL SUBSISTENCE AND OTHER TYPES OF SUPPLIES RECEIVED FROM US SOURCES FOR YOUR INFO IN THE ACCOMPLISHMENT OF SUCH DOCUMENTS AS REQUIRE MONEY VALUE ENTRIES. NEW SUBJECT. NECESSARY INSTRUCTIONS FOR RECORDING OF BRITISH STOCKS AS REGARD ISSUES FROM BRITISH DEPOTS TO AMG OR ITALIAN FORCES HAVE PREVIOUSLY BEEN ISSUED. NEW SUBJECT. PLEASE ACKNOWLEDGE.

SMC DISTRIBUTION ACTION ACC

INFO "Q" G4 MGS ITSC

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SMC/310840A

CIPHER MESSAGE IN SIGS: 6161
CONFIDENTIAL

TO:- FATIMA FOR COL J CRAWSHAWE, HQ ACC, NAPLES FOR ACTION TO FLAMBO FOR INFO

FROM:- SIGNED CINC CITE FHSUP, FHGGS, MAFIN ND FHGDS 45221 30 Jan

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INFO "Q" G4 MGS ITSC

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L.H.
SMC/310840A

ALLIED FORCE HEADQUARTERS
Military Government Section

Lt Col Henderson
/r

7 December 1943

SUBJECT: Price Policy to be Followed by AMG/ACC in Italy---
Recommendations as to.

TO : Chief, Military Government Section

1. The following memorandum presents recommendations as to price policy to be followed in Italy for consideration by you and by the appropiate Sub-Commissions of the Allied Control Commission in order that a final draft price policy may be agreed and transmitted to the Combined Chiefs of Staff for approval.

2. <u>The price policy herein elaborated may be summarized as follows:</u>

(a) The price increases in Italy are in general to be resisted in view of the inflationary trend already underway.

(b) Considering (a), subsidies to domestic producers may be preferable to price increases as a means of encouraging production.

(c) All goods imported for civilian or Italian government use should be charged to the appropriate Ministry or Agency at a price in line considered to be equivalent to landed-cost. The price at which these goods are subsequently sold will, wherever possible, be a subject for joint consideration by Allied and Italian officials. In general, they should be sold on not less than a landed cost basis, but may be sold at a loss if a price based on landed cost is so high as materially to disturb the general price structure.

(d) Exportable surpluses should be purchased from Italian producers at prices designed to cover costs plus a fair profit. As to the prices at which these surpluses should be sold abroad, while there is much to commend the quoting of landed-cost prices, the balance of the argument is in favor of a policy of charging prices reasonable in the light of those prevailing in the foreign market concerned, even though above landed cost. The question of disposing of the surplus of foreign exchange would be left to the future.

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(e) Consideration should be given to setting up an Agency

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under the appropriate Sub-Commission to handle exports.

The detailed application of this price policy to domestic import and export prices is discussed below.

3. As to pricing of Italian-produced articles for domestic consumption:

(a) The settled policy of AMG and ACC to retard the upward movement of prices should be continued by every practicable means, with concurrence and cooperation of the Italian Government.

(b) Main attention must be given to major commodities, such as wheat, flour, pasta, olive oil; cheese, charcoal, and coal. In some insatnces, where the cost-prices essential to maintain supply would be undesirably high (from an inflation-control viewpoint) subsidies are being and will continue to be resorted to. This is the case notably to wheat. It is desirable to have the agreement of the Italian Government as to the need for such subsidies, and to arrange so far as possible that the payments proceed from or are for the account of the Italian Government or its agencies. All subsidy programs should be subject to frequent examination in order to determine whether a small increase would achieve the same purpose without subjecting the national budget to the additional burden which a subsidy involves.

(c) The pricing of Sardinian coal requires immediate decision.

(i) The present siutation is approximately as follow prices in Sardinia range generally from 140 to 160 lire and elsewhere in Italy from 300 to 320 lire per metric ton. Costs probably vary around 300 lire at the mines, depending on output. At the same time prior to invasion imported coal was around 300 lire generally throughout all Italy.

(ii) Inasmuch as the general price structure in Sardinia has become adjusted to a coal price of 140-150 lire, it is probably justifiable to continue that price for the time being. Normally, however, it would not be considered equatable to oblige consumers distant from the point of production to subsidize those nearby. Consequently any differential coal price in favor of users in Sardinia should be reviewed from time to time.

(iii) Prices for Sardinian coal elsewhere in Italy should be set sufficiently above c.i.f. Italian port to cover as much as possible the loss on coal at lower prices in Sardinia. It has been suggested that these prices should range somewhere between 380 and 500 lire, but a decision can best be made by our fuel experts in touch with the situation. Whether a schedule of differential prices for various types of users can be set up will depend on the availability of technical staff.

(iv) As to the determination of the prices of imported coal, see below, paragraph 4(c).

4. <u>As to pricing of imports</u>, the policy should be to charge all such goods to the appropriate Ministry or Agency of the Italian Government at a price in lire considered to be equivalent to landed-cost(i.e.c.i.f. Italian ports). The price at which these goods are subsequently sold will be determined by the Italian Government in consultation with the Allied Control Commission in all areas under Commission control, and by the appropriate local governmental agency in accordance with AMG directive in all other areas. This procedure will be more readily understood by the British and American public than one which involves actual sale by Allied officials of imported goods at a loss. For the purpose of reducing Governmental expenditures, imported goods should normally be resold at prices which will avoid losses to the Governmental agency charged with them. However, the policy of maintaining the prevailing price-cost structure in Italy so far as possible, will make it desirable in some instances to sell imported goods at prices which will be below landed cost. In the following paragraphs the problem of pricing various types of imports is examined from this viewpoint.

(a) <u>Foodstuffs</u>. In general, the prevailing official prices of major foods(especially flour) in Italy are lower than lire equivalent of the landed cost of the corresponding imported items. In the interest of retarding the rise in the cost of living, it has been and will continue to be necessary to sell most imported foods at less than cost. However, in the determination of the domestic prices(see paragraph 3) account should be taken of the cost of imports, of the proportion of total consumption which is supplied by imports, and how long this degree of dependence on imports is likely to continue. If the proportion is large and likely to continue large, and the spread

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between landing cost and prevailing domestic price is also large, consideration should be given to raising the domestic price. Even inflation control may not justify costly subsidies, the burden which will have to be borne by an already over-loaded Italian Government budget.

(b) Medical and other supplies and equipment for the use of the Government, armed forces and public institutions of Italy.
There is no inflation-control argument to support a policy of supplying such imports below cost. The Ministry or Governmental agency to which they have initially been billed at cost, may and generally should transfer the full cost of goods onto the budgets of the institutions, Departments, or other Governmental units subsequently acquiring the goods for use? It is of course true that the net cost to the Government is the same, but from a budgetary point of view it is more satisfactory to charge the cost of imported articles to the branch or unit responsible. Of course, if the article in question is one of the common consumption and has a prevailing price below landed-cost which it is desired to maintain, the Italian Government may prefer to charge imported goods to the consuming unit, institution, or agency at the prevailing price, carrying the loss on the National budget.

(c) Industrial and agricultural equipment and supplies, including fertilizers. In accordance with the general policy laid down in paragraph 4 above, all such import as soon as arrangements can be made in both ACC and AMG territory, will be charged to appropriate Italian Governmental Ministries or agencies at landed cost. Normally, it should be possible for the Government to resell such goods at approximately the same price. In some instances, however, such resale prices would be so much above the prevailing price (demand being entirely dependent on imports), so much above previous prices to which consumers have adjusted their own operations, as to make it impossible for them to sell their output at the official price. In other instances it will be appropriate for the Italian Government officials and ACC or AMG officials concerned jointly to consider which is preferable: to supply the imported articles at less-than-cost prices, the Government's budget bearing the loss; or to allow the users of the imported articles to raise the prices of their products or services so far as to cover the increased cost of imported equipment or raw materials.

A commodity for immediate consideration is imported coal. It is strongly recommended that all imported coal on arrival be billed to the Italian Government at landed cost. But it will be then be necessary to determined what policy the Italian Government should follow in selling or charging that coal to state and private users. Imported coal from Germany was selling at about 300 lire per metric ton prior to the invasion. American and British coal has a landed cost somewhere between 2500 and 3000 lire at Italian ports. To what extent so high a price for coal would raise the production costs of public utilities, flour mills, bakeries, machine shops, mines, etc., beyond the point at which they could continue to operate at existing prices for their products, is not known and will have to be ascertained in the case of each major user and industry. Neither is it possibl from this distance to determine whether a single price for imported coal to all users (whatever that price may be) is preferable under existing circumstances to a schedule of price differentials for various classes of users. In any event , it will probably be necessary to have a considerably lower price for Sardinian coal than for imported coal in order to induce users to take the former, which is much inferior to the latter. All these matters will have to be the subject of consideration by Itlian and ACC-AMG authorities.

(d) The policy laid down in paragraph 4 above, involving the billing of all imports to the Italian Government or its agencies at landed-cost, will make it necessary for AMG-ACC to take account of the landed cost of the articles it receives from abroad. This would run counter to accounting procedures now being followed, but was to some exrent foreseen in our M.T 73, sent to CCS on 1 November, which said in part (paraphrased): "In the determination of prices in Italy at which we will sell imports, the landed-values schedules you are preparing will be of some assistance, although local considerations such as prevailing prices are now of predominant importance in this matter." It is also to be noted that in message 86538T1 of 6 November the War Office instructed the British Army accountants in this Theatre to keep what records they could of the value of supplies made available to the Italians, having in mind the uncertain nature of future negotiations which may have to be carried out with the Italians in reaching a final peace settlement.

5. As to the pricing of exports.

(a) As to the prices paid to the producer in Italy is concerned, it is proposed that it be based on cost (including a reasonable profit) at the point where AMG takes possession. Admittedly, having in view the disturbed conditions as to wages, cost of materials and fuel, etc., which Italian producers face, as well as the damage their plants have in many cases suffered, it will not be easy to arrive at at and agree on a fair cost price. But no other policy will be readily defensible.

(b) As to the price to be charged to the buyer in the foreign market, several bases present themselves: ~~EX~~ (1) Sell at a loss (i.e. at less than landed cost) in order to adjust to price prevailing in that market (2) Sell at a price designed to cover landed-costs. (3) Sell at a price above landed costs by an amount considered reasonable in view of prices prevailing in the market. Each of these possibilities will be considered.

(1) It should not be necessary to sell at a loss, inasmuch as Italian exportable surpluses consist of goods (sulphur, citrus by-products fruits, nuts, wine) which in view of wartime scarcities can in most cases readily be sold in foreign markets at prices which will avoid a loss.

(2) Selling abroad at prices designed only to cover landed cost would be from some points of view most defensible policy. It woulb be readily accepted by Anglo-American opinion as being fairly comparable to the policy herein recommended of charging imports to the Italians at prices covering landed costs. However, there are persuasive arguments in favor of basis no. 3, which are next presented.

(3) In general, it is recommended that exports be priced to foreign buyers at prices above landed costs by an account considered reasonable in view of prices prevailing in the buyers country. This policy would have several advantages, to offset the disadvantages mentioned in (2) above. (a) It would provide a reserve which, though not accruing to the immediate benifit of the Italian producers, would be available to meet futture contingencies. (b) It would be entirely reasonable in the case of exports to neutral countires

such as Spain, Turkey or Argentina to price them at levels prevailing in those countries.

(c) Reasonable prices, even though above landed costs, would not be unfair to consumers in Allied markets, and the resulting extra amounts of foreign exchange (dollars, sterling, francs, etc.,) could be held for appropriate disposition in the future--possibly though not necessarily - as a partial reimbursement to Allied Governments for goods supplied to Italy for civilian purposes.

6. Consideration should be given to the instrumentality through which exports and imports will be accounted. While all such transactions could be carried directly into AMFA's balance sheet, it is suggested that it is preferable to open separate accounts for this purpose because (a) AMFA's accounts are not designed inventories and (b) it is not yet clear that AMFA is to carry foreign exchange. It is therefore proposed that an Export and Import Agency (or separate agencies for each) be created as part of the ~~XXXXXXX~~ Sub-Commission in the same way that AMFA is part of the Finance Sub-Commission and that over its books all accounting of exports to and imports from Italy should pass.

The following hypothetical summarized statement of account is offered as an illustration of the way in which such an agency might function.

Statement(s) of Account as at ? date
(all amounts in lire)

ASSETS		LIABILITIES	
EXPORTS		EXPORTS	
Cash in hand and at bankers	10,000,000	Sundry creditors: Advances obtained from AMFA for purchase goods for export	65,000,000
Cash (in foreign exchange) at bankers abroad, converted at current rate of exchange	50,000,000	Balance on export account	10,000,000
Goods in hand, at cost	15,000,000		
Total	75,000,000	Total	75,000,000

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IMPORTS		IMPORTS	
Cash at AMFA or bankers (proceeds sales of imported goods to Italian Government or its agencies	140,000,000	Sundry creditors: Econ. & Indus. Sub-Comm. (value of goods rec'd at landed cost)	140,000,000
Total	140,000,000	Total	140,000,000

An examination of this statement will indicate several points, (1) Imports can be carried into the accounts of the Agency at costs, and then sold or billed to the Italian Government or its agencies at a price in lire designed to cover this cost. Should any instances occur in which ACC or AMG itself sold at a loss, this would be reflected by a deficit on the asset side. (2) Any surplus of foreign exchange over cost of exports would be carried visibly. If the above accounts were being liquidated in the course of negotiations with the Italian Government, the state of import account is clear: i.e., a sum of lire obtained for imports in some instances sold directly to the users but generally billed to the Italian Government at cost. The possibility of converting these lire into the desired foreign currencies will be one of the post war problems. As to the export accounts, and considering the item 10,000,000 lire "Balance on export a/c", this accrues as a result of selling exports above cost and remains after the Italians have been fully satisfied by payment to the producers of goods exported of a price including a fair profit. As stated, it can be set aside as a reserve to adjust prices paid to producers if subsequent analysis shows those originally paid to have been inadequate to keep the producers in business. Failing that, it becomes the property of the Allies. Apart from this, the whole amount shown as an asset at 50,000,000 lire will exist in foreign exchange. The disposition of this foreign exchange will remain for discussion, for example as to whether part or all of it will be made available to the Italians in meeting the Allies' demand for conversion of the lire held in the import accounts.

Supply Division

Finance Division

CENTRAL ECONOMIC COMMITTEE
APO 400

2 January 1944

SUBJECT: Price Policies.

TO : Military Government Section, AFHQ, APO 512.

1. Reference, Memorandum, Views of ACC/AMG, on Price Policies in Italy, dated 31 December 1943. Copy is attached.

2. This Committee concurs in the memorandum except paragraphs 10 and 18.

3. With respect to paragraph 10 the Committee recommends that petroleum products should be charged at landed cost, and that retail prices should be established sufficient to cover landed cost, distribution costs, taxes, and a reasonable profit. It is recommended that a retail price of 16 lire for gasoline, 14.50 lire for kerosene, and 14.20 lire for gas oil be established and a compensation fund be set up to provide for adjustments when the elements used in establishing these prices are more definitely determined.

4. With respect to paragraph 18 the Committee agrees that a proper system of accounting for imports and exports should be set up. The memorandum apparently contemplates a separate agency which will have broader functions. The Committee is not prepared to make any recommendations on this proposal until the proposed functions and authority of such an agency are more clearly defined.

For the Committee:

A. I. HENDERSON,
Lt. Col., A.U.S.,
Chief Executive.

37.1

S E C R E T

HEADQUARTERS
ALLIED MILITARY GOVERNMENT

ECONOMIC DIRECTORATE

2 January 1944

MEMORANDUM: Views of ACC/AMG on Price Policies in Italy

1. It is the unanimous policy of AMG/ACC to retard the upward movement of prices affecting the cost of living in Italy by every means available to both the Allied and Italian Governments. It is recognized that a general increase in Italian prices cannot be prevented. Two decades of Fascism and an undisciplined population that has not complied with price controls long before our arrival, the unsuccessful prosecution of the costly war, ~~and~~ the destruction of industrial plant and equipment, and the increased expenditures resulting from the presence of the armed forces combine to produce inflationary pressures which cannot be kept entirely in check. But efforts can and should be made to retard them. Main attention must be given to the major commodities entering into the cost of living such as wheat and flour for bread and pasta.

2. All goods imported for Italian civilian consumption should be charged to the account of the Italian Government at a landed cost price in Dollars, Sterling or North African Francs, depending upon whether the goods come from U.S., U.K. or North Africa. For this purpose, it will be necessary for C.C.S. and A.F.H.Q. to furnish current information on landed costs for imported commodities.

3. To keep governmental subsidies as low as practicable, the imported commodities should be sold in Italy, on behalf of the Italian Government, at not less than the landed cost basis except where, as in the case of wheat or coal, such action would result in such a price rise over the existing legal price for that commodity as to threaten to disturb the general price structure. An examination of the 1 November 1943 schedule of landed costs for imported commodities indicates that in the case of many commodities, this policy can be pursued without damage to inflation control.

4. In the case of imported wheat and flour - food stuffs essential to subsistence - the governing consideration in determining the price for resale on behalf of the Italian Government is keeping down the cost of living. It has been and will continue to be necessary to sell these items below landed costs. Imported wheat and flour should be sold through the normal distribution channels at the legal prices for Italian produced wheat and for flour processed therefrom, even though such prices are substantially lower than the landed cost of imported wheat and flour.

5. It is intended that as long as wheat and flour are to be imported, the legal

3. To keep governmental subsidies as low as practicable, the imported commodities should be sold in Italy, on behalf of the Italian Government, at not less than the landed cost basis except where, as in the case of wheat or coal, such action would result in such a price rise over the existing legal price for that commodity as to threaten to disturb the general price structure. An examination of the 1 November 1943 schedule of landed costs for imported commodities indicates that in the case of many commodities, this policy can be pursued without damage to inflation control.

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5. It is intended that as long as wheat and flour are to be imported, the legal price for bread throughout areas under our control will for the time being be 3.60 lire a kilo. To enable this to be done, imported flour should be sold to the baker at 3.10 lire a kilo and imported wheat should be sold to the miller at a price to enable him to produce flour to sell at 3.10 lire a kilo. Accordingly, imported wheat and flour should be sold to the Consorzi and the Alimentazione at a price to enable them to sell the imported wheat and flour to the miller and baker at prices to accomplish the foregoing. In any locality where production and transportation costs make it impossible for a baker to sell bread profitably at 3.60 lire if he pays 3.10 lire for flour, appropriate financial assistance will be given by the local government authority.

6. In the case of food stuffs other than wheat or flour it will generally be possible to charge landed costs. Milk for small children and expectant or nursing mothers, requires special consideration. Landed cost figures as of 1 November 1943 indicate that milk can be charged at landed cost. However, 4692 the landed cost is revised upward and requires charging consumers prices appreciably in excess of 9 lire for a 12 oz. can or 11 lire for a 14 oz. can of evaporated milk, the question should be reconsidered.

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9. Imported coal should be sold on behalf of the Italian Government for 1200 lire per metric ton CIF Italian ports, compared with the landed cost of between 2500 and 3000 lire per metric ton. In the case of Sardinian coal, a price of 400 lire per metric ton in Sardinia is recommended for fine coal (less than 20 m.m. in size) and 500 lire per metric ton for coarse coal (20 m.m. or more in size). These prices, it is estimated, will cover cost of production. The price for the two grades of Sardinian coal elsewhere in Italy should be 550 lire and 650 lire per metric ton CIF Italian ports (except Sardinia) to cover cost of production and shipping. Differential prices for various types of users of coal are not considered desirable at this time.

10. The information we have available from Regions I and II indicates that petroleum products are an important factor in transportation costs and transportation is an important factor in the cost of food. Therefore, unless these statements of fact are invalidated, a maximum price of 11 lire per litre of gasoline and corresponding prices for other petroleum products are recommended. It is suggested that out of these 11 lire, there be paid in order of priority:-

(a) Distribution costs and dealers' margins (an effort being made to keep these as low as possible).

(b) Italian import duties and excises.

(c) Balance being credited to the account of landed cost. The deficit in landed cost not covered by the 11 lire price, would be charged as a subsidy.

11. The difference between landed cost charged to the Italian Government and the internal sale price charged on behalf of the Italian Government for all imported commodities would be treated as a subsidy by the Italian Government. These procedures would in no way alter the existing arrangements whereby the public and private organizations or individuals to whom the imported commodities are turned over for distribution are required to pay cash lire for such commodities at prices fixed by the Allied authorities, if possible after agreement with the Italian Government.

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12. Even though legal retail prices are not fixed, we desire that imported goods should not be sold to consumers at a price too high in view of what is charged to the distributor. Accordingly, Allied authorities will watch and if necessary control the retail price of imported goods. The Allied authorities will also, in appropriate circumstances, jointly consider with the Italian Government the retail prices to be charged for imported goods.

13. Exportable surpluses should be purchased from Italian producers at prices in lire sufficient to cover actual costs at times of production plus a fair profit. This, however, would not affect the position where goods can be obtained in the open market at lower prices.

14. Exports from Italy should be sold abroad as far as practicable at prices equivalent to prices prevailing in foreign markets concerned, whether such prices are in excess of or less than prices paid to the Italian producers. In the case of exports to the U.S., U.K. and French North Africa, payment will be respectively in Dollars, Sterling or Francs, credited to an Italian Government account; in the case of exports to neutral countries, further consideration should be given to whether the payment should be in the currency of that country or in Dollars or Sterling credited to the Italian Government's accounts held by or under the control of the British and American Governments. The Dollar, Sterling or Franc accounts of the Italian Government would not be credited for exports if such exports did not arrive at their destination. This would place the risk for loss of exports on the Italian Government, just as the risk for the loss of shipments to Italy is borne by the Allies.

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15. The question of actual payment over by the Italian Government ~~of Dollars,~~ Sterling or Francs with which it is charged for imports and the actual payment over of Dollars, Sterling or Francs credited to the Italian Government for exports can be left to the future for settlement as part of the larger financial relations which will have to be worked out between the Allies and Italy. However, existing procedures and arrangements will be continued whereby the distributors who obtain imported commodities are required to pay to AMG cash lire for such commodities, and Italian producers are paid by AMG cash lire for exports, at prices agreed upon. In the ultimate financial settlement with the Italian Government, lire thus received or paid out will be dealt with in the accounting.

16. Under the foregoing proposals normal Italian taxes and imposts could, at least in the future, be applied, except possibly in the case of goods given as relief and in the case of some of the few imported commodities that will be sold below landed costs. Even where goods are sold below landed costs, we should have no objection to the imposition of normal Italian taxes and imposts if we are credited with full landed costs in Dollars, Sterling or Francs and the Italian Government is charged with the subsidy.

17. The foregoing price proposals, so far as affects the relations between the Allies and the Italian Government, should be applied to imports and exports since the beginning of the occupation of Sicily and the Italian mainland. It would be quite desirable, although not absolutely essential, to obtain the agreement of the Italian Government to such of the foregoing proposals as are agreed to by the various interested Allied Headquarters before action is taken to implement such proposals.

18. To provide an instrumentality for the accounting of imports and exports, and for handling other operational matters relating to imports and exports, an import-export agency should be created under arrangements to be worked out between ACC/AMG and 15 Army Group. This agency might be given status within the Industry and Commerce Sub-Commission similar to the status of AMFA within the Finance Sub-Commission. It would be authorized to deal directly with all AMG Regions and Italian areas in which the Allied authorities are functioning.

19. With regard to domestic prices of Italian produced commodities and services.

(a) The proposed 100% increase in passenger railway rates at this time should be disapproved. A doubling of rates for a service provided by the Italian Government would set a precedent for corresponding increases in other prices, without discouraging the actual amount of traffic carried by the railroads, and without improving noticeably the financial position of the railroads. Increases in freight rates should also be resisted at this time because they affect the cost of living.

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(b) Italian public utility service rates have been kept to artificially low levels. In some cases these rates can be raised sufficiently to eliminate the need for government subsidy without affecting appreciably the cost of living. With this in view, the Public Works Sub-Commission has been authorized to examine the rate structures of those public utility institutions seeking rate increases with a view to recommending such increases as are consistent with our overall efforts to retard inflationary price rises.

20. The desirability of continuing to keep in effect the detailed legal domestic price lists was considered but no conclusions were reached. In Region I, [illegible] legal prices are now prescribed for only bread, pasta, olive oil, sugar, milk, coal, petroleum products and soap. The communes are authorized to fix prices on the other commodities. In Region VI, the original detailed AMG legal price list, modified in a few instances, remains in effect.

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R.A. HAMLYN,
Brigadier,
Acting Economic Director.

Declassified E.O. 12356 Section 3.3/NND No. 785016

SECRET

HEADQUARTERS
ALLIED MILITARY GOVERNMENT

ECONOMIC DIRECTORATE

2 January 1944

MEMORANDUM: Views of ACC/AMG on Price Policies in Italy

1. It is the unanimous policy of AMG/ACC to retard the upward movement of prices affecting the cost of living in Italy by every means available to both the Allied and Italian Governments. It is recognized that a general increase in Italian prices cannot be prevented. Two decades of Fascism and an undisciplined population that has not complied with price controls long before our arrival, the unsuccessful prosecution of the costly war, ~~and~~ the destruction of industrial plant and equipment, and the increased expenditures resulting from the presence of the armed forces combine to produce inflationary pressures which cannot be kept entirely in check. But efforts can and should be made to retard them. Main attention must be given to the major commodities entering into the cost of living such as wheat and flour for bread and pasta.

2. All goods imported for Italian civilian consumption should be charged to the account of the Italian Government at a landed cost price in Dollars, Sterling or North African Francs, depending upon whether the goods come from U.S., U.K. or North Africa. For this purpose, it will be necessary for C.C.S. and A.F.H.Q. to furnish current information on landed costs for imported commodities.

3. To keep governmental subsidies as low as practicable, the imported commodities should be sold in Italy, on behalf of the Italian Government, at not less than the landed cost basis except where, as in the case of wheat or coal, such action would result in such a price rise over the existing legal price for that commodity as to threaten to disturb the general price structure. An examination of the 1 November 1943 schedule of landed costs for imported commodities indicates that in the case of many commodities, this policy can be pursued without damage to inflation control.

4. In the case of imported wheat and flour - food stuffs essential to subsistence - the governing consideration in determining the price for resale on behalf of the Italian Government is keeping down the cost of living. It has been and will continue to be necessary to sell these items below landed costs. Imported wheat and flour should be sold through the normal distribution channels at the legal prices for Italian produced wheat and for flour processed therefrom, even though such prices are substantially lower than the landed cost of imported wheat and flour.

5. It is intended that as long as wheat and flour are to be imported, the legal price for bread throughout areas under our control will for the time being be 3.60

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5. It is intended that as long as wheat and flour are to be imported, the legal price for bread throughout areas under our control will for the time being be 3.60 lire a kilo. To enable this to be done, imported flour should be sold to the baker at 3.10 lire a kilo and imported wheat should be sold to the miller at a price to enable him to produce flour to sell at 3.10 lire a kilo. Accordingly, imported wheat and flour should be sold to the Consorzi and the Alimentazione at a price to enable them to sell the imported wheat and flour to the miller and baker at prices to accomplish the foregoing. In any locality where production and transportation costs make it impossible for a baker to sell bread profitably at 3.60 lire if he pays 3.10 lire for flour, appropriate financial assistance will be given by the local government authority.

6. In the case of food stuffs other than wheat or flour it will generally be possible to charge landed costs. Milk for small children and expectant or nursing mothers, requires special consideration. Landed cost figures as of 1 November 1943 indicate that milk can be charged at landed cost. However, if the landed cost is revised upward and requires charging consumers prices appreciably in excess of 9 lire for a 12 oz. can or 11 lire for a 14 oz. can of evaporated milk, the question should be reconsidered. £689

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10. The information we have available from Regions I and II indicates that petroleum products are an important factor in transportation costs and transportation is an important factor in the cost of food. Therefore, unless these statements of fact are invalidated, a maximum price of 11 lire per litre of gasoline and corresponding prices for other petroleum products are recommended. It is suggested that out of these 11 lire, there be paid in order of priority:-

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17. The foregoing price proposals, so far as affects the relations between the Allies and the Italian Government, should be applied to imports and exports since the beginning of the occupation of Sicily and the Italian mainland. It would be quite desirable, although not absolutely essential, to obtain the agreement of the Italian Government to such of the foregoing proposals as are agreed to by the various interested Allied Headquarters before action is taken to implement such proposals.

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R.A. HAMLYN,
Brigadier,
Acting Economic Director.

S E C R E T

HEADQUARTERS
ALLIED MILITARY GOVERNMENT

ECONOMIC DIRECTORATE

2 January 1944

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11. The difference between landed cost charged to the Italian Government and the internal sale price charged on behalf of the Italian Government for all imported commodities would be treated as a subsidy by the Italian Government. These procedures would in no way alter the existing arrangements whereby the public and private organizations or individuals to whom the imported commodities are turned over for distribution are required to pay cash lire for such commodities at prices fixed by the Allied authorities, if possible after agreement with the Italian Government.

12. Even though legal retail prices are not fixed, we desire that imported goods should not be sold to consumers at a price too high in view of what is charged to the distributor. Accordingly, Allied authorities will watch and if necessary control the retail price of imported goods. The Allied authorities will also, in appropriate circumstances, jointly consider with the Italian Government the retail prices to be charged for imported goods.

13. Exportable surpluses should be purchased from Italian producers at prices in lire sufficient to cover actual costs at times of production plus a fair profit. This, however, would not affect the position where goods can be obtained in the open market at lower prices.

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14. Exports from Italy should be sold abroad as far as practicable at prices equivalent to prices prevailing in foreign markets concerned, whether such prices are in excess of or less than prices paid to the Italian producers. In the case of exports to the U.S., U.K. and French North Africa, payment will be respectively in Dollars, Sterling or Francs, credited to an Italian Government account; in the case of exports to neutral countries, further consideration should be given to whether the payment should be in the currency of that country or in Dollars or Sterling credited to the Italian Government's accounts held by or under the control of the British and American Governments. The Dollar, Sterling or Franc accounts of the Italian Government would not be credited for exports if such exports did not arrive at their destination. This would place the risk for loss of exports on the Italian Government, just as the risk for the loss of shipments to Italy is borne by the Allies.

15. The question of actual payment over by the Italian Government of Dollars, Sterling or Francs with which it is charged for imports and the actual payment over of Dollars, Sterling or Francs credited to the Italian Government for exports can be left to the future for settlement as part of the larger financial relations which will have to be worked out between the Allies and Italy. However, existing procedures and arrangements will be continued whereby the distributors who obtain imported commodities are required to pay to AMG cash lire for such commodities, and Italian producers are paid by AMG cash lire for exports, at prices agreed upon. In the ultimate financial settlement with the Italian Government, lire thus received or paid out will be dealt with in the accounting.

16. Under the foregoing proposals normal Italian taxes and imposts could, at least in the future, be applied, except possibly in the case of goods given as relief and in the case of some of the few imported commodities that will be sold below landed costs. Even where goods are sold below landed costs, we should have no objection to the imposition of normal Italian taxes and imposts if we are credited with full landed costs in Dollars, Sterling or Francs and the Italian Government is charged with the subsidy.

17. The foregoing price proposals, so far as affects the relations between the Allies and the Italian Government, should be applied to imports and exports since the beginning of the occupation of Sicily and the Italian mainland. It would be quite desirable, although not absolutely essential, to obtain the agreement of the Italian Government to such of the foregoing proposals as are agreed to by the various interested Allied Headquarters before action is taken to implement such proposals.

18. To provide an instrumentality for the accounting of imports and exports, and for handling other operational matters relating to imports and exports, an import-export agency should be created under arrangements to be worked out between ACC/AMG and 15 Army Group. This agency might be given status within the Industry and Commerce Sub-Commission similar to the status of AMFA within the Finance Sub-Commission. It would be authorized to deal directly with all AMG Regions and Italian areas in which the Allied authorities are functioning.

19. With regard to domestic prices of Italian produced commodities and services.

(a) The proposed 100% increase in passenger railway rates at this time should be disapproved. A doubling of rates for a service provided by the Italian Government would set a precedent for corresponding increases in other prices, without discouraging the actual amount of traffic carried by the railroads, and without improving noticeably the financial position of the railroads. Increases in freight rates should also be resisted at this time because they affect the cost of living.

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(b) Italian public utility service rates have been kept to artificially low levels. In some cases these rates can be raised sufficiently to eliminate the need for government subsidy without affecting appreciably the cost of living. With this in view, the Public Works Sub-Commission has been authorized to examine the rate structures of these public utility institutions seeking rate increases with a view to recommending such increases as are consistent with our overall efforts to retard inflationary price rises.

20. The desirability of continuing to keep in effect the detailed legal domestic price lists was considered but no conclusions were reached. In Region III, AMG legal prices are now prescribed for only bread, pasta, olive oil, sugar, milk, coal, petroleum products and soap. The communes are authorized to fix prices on the other commodities. In Region II, the original detailed AMG legal price list, modified in a few instances, remains in effect.

46 80

R.A. HAMLYN,
Brigadier,
Acting Economic Director.

CENTRAL ECONOMIC COMMITTEE
APO 400

1 January 1944

SUBJECT: Establishment of Uniform or Standard Prices.

TO: Acting Deputy President, Allied Control Commission.
Chief, AMG 15th Army Group.
Chief, Headquarters AMG.

1. Paragraph 3, e of AFHQ Administrative Memorandum No. 92, dated 19 December 1943, directs the Central Economic Committee to establish the prices at which supplies imported for the civilian population will be sold, and to establish uniform or standard prices for such other essential commodities or services as may be considered necessary.

2. It is requested, therefore, that all proposals designed to establish uniform or standard prices for essential commodities or services be referred to the Committee for approval prior to their issuance.

For the Committee:

A. Y. HENDERSON,
Lt. Col., A. U. S.,
Chief Executive,
Central Economic Committee

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SECRET

HEADQUARTERS
ALLIED MILITARY GOVERNMENT
ECONOMIC DIRECTORATE

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31 December 1943

MEMORANDUM: Views of the Economic Directorate, ACC/AMG on Price Policies in Italy

1. It is the unanimous policy of AMG/ACC to retard the upward movement of prices affecting the cost of living in Italy by every means available to both the Allied and Italian Governments. It is recognised that a general increase in Italian prices cannot be prevented. Two decades of Fascism and an undisciplined population that has not complied with price controls long before our arrival, the unsuccessful prosecution of the costly war, and the destruction of industrial plant and equipment combine to produce inflationary pressures which cannot be halted. They can and should be retarded. Main attention must be given to the major commodities entering into the cost of living such as wheat, flour, pasta and olive oil.

2. All goods imported for Italian civilian consumption should be charged to the account of the Italian Government at a landed cost price in Dollars, Sterling or North African Francs, depending upon whether the goods come from U.S., U.K. or North Africa. For this purpose, it will be necessary for C.C.S. and A.F.H.Q. to furnish current information on landed costs for imported commodities.

3. To keep governmental subsidies as low as practicable, the imported commodities should be sold in Italy, on behalf of the Italian Government, at not less than the landed cost basis except where, as in the case of wheat or coal, such action would result in such a price rise over the existing legal price for that commodity as to threaten to disturb the general price structure. An examination of the 1 November 1943 schedule of landed costs for imported commodities indicates that in the case of many commodities, this policy can be pursued without damage to inflation control.

4. In the case of imported wheat and flour - food stuffs essential to subsistence - the governing consideration in determining the price for resale on behalf of the Italian Government is keeping down the cost of living. It has been and will continue to be necessary to sell these items below landed costs. Imported wheat and flour should be sold through the normal distribution channels at the legal prices for Italian produced wheat and for flour processed therefrom, even though such prices are substantially lower than the landed cost of imported wheat and flour.

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5. It is intended that as long as wheat and flour are to be imported, the legal price for bread throughout areas under our control will be 3.60 lire a kilo. To enable this to be done, imported flour should be sold to the baker at 3.10 lire a kilo and imported wheat should be sold to the miller at a price to enable him to produce flour to sell at 3.10 lire a kilo. Accordingly, imported wheat and flour should be sold to the Consorzi and the Alimentazione at a price to enable them to sell the imported wheat and flour to the miller and baker at prices to accomplish the foregoing. In any locality where production and transportation costs make it impossible for a baker to sell bread at 3.60 lire if he pays 3.10 lire for flour, the local government authority will give an appropriate subsidy.

6. In the case of food stuffs other than wheat or flour it will generally be possible to charge landed costs. Milk for small children and expectant or nursing mothers, requires special consideration. Landed cost figures of 1 November 1943 indicate that milk can be charged at landed cost. However, if the landed cost is revised upward and requires charging consumers prices appreciably in excess of 9 lire for a 12 oz. can or 11 lire for a 14 oz. can of evaporated milk, the question should be reconsidered.

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7. Medical and other supplies and equipment, and industrial and agricultural equipment and supplies should be resold in Italy on behalf of the Italian Government at a price equivalent to landed cost. Fertilizers and insecticides are essential to maximise Italian agricultural production. These commodities, and imports entering into their manufacture should be resold at this time at prices which will not increase by more than 60% or 70% the price paid by agricultural producers for fertilizers and insecticides.

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8. Landed cost figures as on 1 November 1943 indicate that laundry soaps and toilet soaps can be charged at landed costs; however, if 1 November 1943 landed cost price is revised upward and requires consumers' prices appreciably in excess of 25 lire per kilo for laundry soap and 36 lire per kilo for toilet soap, the question should be reconsidered. It is noted that if, in lieu of soap, Italy were supplied with caustic soda - the ingredient required for domestic soap production - valuable shipping space could be saved, and local materials and labour could be employed. This matter should be brought strongly to the attention of C.C.S., since soap is being shipped and caustic soda refused us.

9. Imported coal should be sold on behalf of the Italian Government for 1200 lire per metric ton CIF Italian ports, compared with the landed cost of between 2500 and 3000 lire per metric ton. In the case of Sardinian coal, a price of 400 lire per metric ton in Sardinia is recommended for fine coal (less than 20 m.m. in size) and 500 lire per metric ton for coarse coal (20 m.m. or more in size). These prices, it is estimated, will cover cost of production. The price for the two grades of Sardinian coal elsewhere in Italy should be 550 lire and 650 lire per metric ton CIF Italian ports (except Sardinia) to cover cost of production and shipping. Differential prices for various types of users of coal are not considered desirable at this time.

10. The information we have available from Regions I and II indicates that petroleum products are an important factor in transportation costs and transportation is an important factor in the cost of food. Therefore, unless these statements of fact are invalidated, a maximum price of 11 lire per litre of gasoline and corresponding prices for other petroleum products are recommended. It is suggested that out of these 11 lire, there be paid in order of priority:-

(a) Distribution costs and dealers' margins (an effort being made to keep these as low as possible).

(b) Italian import duties and excises.

(c) Balance being credited to the account of landed cost. The deficit in landed cost not covered by the 11 lire price, would be charged as a subsidy.

11. The difference between landed cost charged to the Italian Government and the internal sale price charged on behalf of the Italian Government for all imported commodities would be treated as a subsidy by the Italian Government. These procedures would in no way alter the existing arrangements whereby the public and private organisations or individuals to whom the imported commodities are turned over for distribution are required to pay cash lire for such commodities at prices fixed by the Allied authorities, if possible after agreement with the Italian Government.

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14. Exports from Italy should be sold abroad as far as practicable at prices equivalent to prices prevailing in foreign markets concerned, whether such prices are in excess of or less than prices paid to the Italian producers. In the case of exports to the U.S., U.K. and French North Africa, payment will be respectively in Dollars, Sterling or Francs, credited to an Italian Government account; in the case of exports to neutral countries, further consideration should be given to whether the payment should be in the currency of that country or in Dollars or Sterling credited to the Italian Government's accounts held by or under the control of the British and American Governments. The Dollar, Sterling or Franc accounts of the Italian Government would not be credited for exports if such exports did not arrive at their destination. This would place the risk for loss of exports on the Italian Government, just as the risk for the loss of shipments to Italy is borne by the Allies.

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15. The question of actual payment over by the Italian Government of Dollars, Sterling or Francs with which it is charged for imports and the actual payment over of Dollars, Sterling or Francs credited to the Italian Government for exports can be left to the future for settlement as part of the larger financial relations which will have to be worked out between the Allies and Italy. However, existing procedures and arrangements will be continued whereby the distributors who obtain imported commodities are required to pay to AMG cash lire for such commodities, and Italian producers are paid by AMG cash lire for exports, at prices agreed upon. In the ultimate financial settlement with the Italian Government, lire thus received or paid out will be dealt with in the accounting.

16. Under the foregoing proposals normal Italian taxes and imposts could, at least in the future, be applied, except possibly in the case of goods given as relief and in the case of some of the few imported commodities that will be sold below landed costs. Even where goods are sold below landed costs, we should have no objection to the imposition of normal Italian taxes and imposts if we are credited with full landed costs in Dollars, Sterling or Francs and the Italian Government is charged with the subsidy.

17. The foregoing price proposals, so far as affects the relations between the Allies and the Italian Government, should be applied to imports and exports since the beginning of the occupation of Sicily and the Italian mainland. It would be quite desirable, although not absolutely essential, to obtain the agreement of the Italian Government to the foregoing proposals at the present time.

18. To provide an instrumentality for the accounting of imports and exports, and for handling other matters relating to imports and exports, an import-export agency should be created as part of the Industry and Commerce Sub-Commission of AMG/ACC. The status of this agency would be similar to that of AMFA in the Finance Sub-Commission. It would be authorized to deal directly with all AMG Regions and Italian areas in which the Allied authorities are functioning.

19. With regard to domestic prices of Italian produced commodities and services.

(a) The proposed 100% increase in passenger railway rates at this time should be disapproved. A doubling of rates for a service provided by the Italian Government would set a precedent for corresponding increases in other prices, without discouraging the actual amount of traffic carried by the railroads and without improving noticeably the financial position of the railroads. Increases in freight rates should also be resisted at this time because they affect the cost of living.

(b) Italian public utility service rates have been kept to artificially low levels. In some cases these rates can be raised sufficiently and for handling other matters relating to imports and exports, an import-export agency should be created as part of the Industry and Commerce Sub-Commission of AMG/ACC. The status of this agency would be similar to that of AMFA in the Finance Sub-Commission. It would be authorized to deal directly with all AMG Regions and Italian areas in which the Allied authorities are functioning.

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R.A. HAMLYN,
Brigadier,
Acting Economic Director.

HEADQUARTERS
ALLIED MILITARY GOVERNMENT
ECONOMIC DIRECTORATE

SECRET

31 December 1943

MEMORANDUM: Views of the Economic Directorate, ACC/AMG on Price Policies in Italy

1. It is the unanimous policy of AMG/ACC to retard the upward movement of prices affecting the cost of living in Italy by every means available to both the Allied and Italian Governments. It is recognised that a general increase in Italian prices cannot be prevented. Two decades of Fascism and an undisciplined population that has not complied with price controls long before our arrival, the unsuccessful prosecution of the costly war, and the destruction of industrial plant and equipment combine to produce inflationary pressures which cannot be halted. They can and should be retarded. Main attention must be given to the major commodities entering into the cost of living such as wheat, flour, pasta and olive oil.

2. All goods imported for Italian civilian consumption should be charged to the account of the Italian Government at a landed cost price in Dollars, Sterling or North African Francs, depending upon whether the goods come from U.S., U.K. or North Africa. For this purpose, it will be necessary for C.C.S. and A.F.H.Q. to furnish current information on landed costs for imported commodities.

3. To keep governmental subsidies as low as practicable, the imported commodities should be sold in Italy, on behalf of the Italian Government, at not less than the landed cost basis except where, as in the case of wheat or coal, such action would result in such a price rise over the existing legal price for that commodity as to threaten to disturb the general price structure. An examination of the 1 November 1943 schedule of landed costs for imported commodities indicates that in the case of many commodities, this policy can be pursued without damage to inflation control.

4. In the case of imported wheat and flour - food stuffs essential to subsistence - the governing consideration in determining the price for resale on behalf of the Italian Government is keeping down the cost of living. It has been and will continue to be necessary to sell these items below landed costs. Imported wheat and flour should be sold through the normal distribution channels at the legal prices for Italian produced wheat and for flour processed therefrom, even though such prices are substantially lower than the landed cost of imported wheat and flour.

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16. Under the foregoing proposals normal Italian taxes and imposts could, at least in the future, be applied, except possibly in the case of goods given as relief and in the case of some of the few imported commodities that will be sold below landed costs. Even where goods are sold below landed costs, we should have no objection to the imposition of normal Italian taxes and imposts if we are credited with full landed costs in Dollars, Sterling or Francs and the Italian Government is charged with the subsidy.

17. The foregoing price proposals, so far as affects the relations between the Allies and the Italian Government, should be applied to imports and exports since the beginning of the occupation of Sicily and the Italian mainland. It would be quite desirable, although not absolutely essential, to obtain the agreement of the Italian Government to the foregoing proposals at the present time.

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(a) The proposed 100% increase in passenger railway rates at this time should be disapproved. A doubling of rates for a service provided by the Italian Government would set a precedent for corresponding increases in other prices, without discouraging the actual amount of traffic carried by the railroads and without improving noticeably the financial position of the railroads. Increases in freight rates should also be resisted at this time because they affect the cost of living.

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18. To provide an instrumentality for the accounting of imports and exports, and for handling other matters relating to imports and exports, an import-export agency should be created as part of the Industry and Commerce Sub-Commission of AMG/ACC. The status of this agency would be similar to that of AMFA in the Finance Sub-Commission. It would be authorized to deal directly with all AMG Regions and Italian areas in which the Allied authorities are functioning.

19. With regard to domestic prices of Italian produced commodities and services.

(a) The proposed 100% increase in passenger railway rates at this time should be disapproved. A doubling of rates for a service provided by the Italian Government would **set** a precedent for corresponding increases in other prices, without discouraging the actual amount of traffic carried by the railroads and without improving noticeably the financial position of the railroads. Increases in freight rates should also be resisted at this time because they affect the cost of living.

(b) Italian public utility service rates have been kept to artificially low levels. In some cases these rates can be raised sufficiently to eliminate the need for government subsidy without affecting appreciably the cost of living. With this in view, the Public Works Sub-Commission has been authorised to examine the rate structures of those public utility institutions seeking rate increases with a view to recommending such increases as are consistent with our over-all efforts to retard inflationary price rises.

20. The desirability of continuing to keep in effect the detailed legal domestic price lists was considered but no conclusions were reached. In Region I, AMG legal prices are now prescribed for only bread, pasta, olive oil, sugar, milk, coal, petroleum products and soap. The communes are authorized to fix prices on the other commodities. In Region 2, the original detailed AMG legal price list, modified in a few instances, remains in effect.

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R.A. HAMLYN,
Brigadier,
Acting Economic Director.

December 29, 1943

Suggested price policy for Italian imports and exports.

1. All goods imported for Italian civilian consumption should be charged to the account of the Italian Government at a landed cost price in dollars, sterling, or North African francs, depending upon whether the goods come from U.S., Great Britain or North Africa. (Despite the necessity of including shipping and insurance items in landed cost, it should be possible for CCS and AFHQ to furnish the necessary information). In the main, the imported goods should be resold in Italy at not less than the landed cost basis except where, as in the case of wheat or coal, such action would result in such a price rise over the existing legal price for such a commodity as to threaten to disturb the general price structure.

2. In order to resist at least for the near future, the inflationary rise in the Italian internal price level,

(a) imported wheat and flour should be sold through the normal distribution channels at the legal prices for Italian produced wheat and flour processed therefrom, even though such prices are substantially lower than the landed cost of imported wheat and flour.

(b) imported coal should be sold at around 1200 lire a ton as compared with 500 - 600 lire a ton for Sardinian coal sold on the mainland. The estimated landed cost of imported coal is 2500 to 3000 lire a ton.

The difference between landed cost and internal sale price would be treated as a subsidy by the Italian Government.

3. Petroleum products. For the past few years the legal retail price for gasoline was 5.65 lire a litre including taxes amounting to about 4.40 lire a litre, landed cost of .50 lire a litre and distribution costs of .50 lire a litre. In November, the Petroleum Section of A.F.H.Q. Advanced Echelon mentioned orally as a tentative estimate a retail price of 8 - 9 lire a litre as covering landed cost, the same taxes, and distribution and other charges. In December the Petroleum Section apparently proposed a price of 11 lire a litre; Petroleum Section at Freedom proposed a price of 18 lire a litre. Now Petroleum Section of A.F.H.Q., Advanced Echelon, proposes a price of 16 lire a litre, including 6 lire for landed cost, 4.40 lire for taxes, 5 lire for distribution costs and .6 lire for dealers' margin. Such landed costs and distribution costs represent an increase of over 1000 per cent

(b) imported coal should be sold at around 1200 lire a ton as compared with 500 - 600 lire a ton for Sardinian coal sold on the mainland. The estimated landed cost of imported coal is 2500 to 3000 lire a ton.

The difference between landed cost and internal sale price would be treated as a subsidy by the Italian Government.

3. Petroleum products. For the past few years the legal retail price for gasoline was 5.45 lire a litre including taxes amounting to about 4.40 lire a litre, landed cost of .50 lire a litre and distribution costs of .50 lire a litre. In November, the Petroleum Section of A.F.H.Q. Advanced Echelon mentioned orally as a tentative estimate a retail price of 8 - 9 lire a litre as covering landed cost, the same taxes, and distribution and other charges. In December the Petroleum Section apparently proposed a price of 11 lire a litre; Petroleum Section at Freedom proposed a price of 18 lire a litre. Now Petroleum Section of A.F.H.Q., Advanced Echelon, proposes a price of 16 lire a litre, including 6 lire for landed cost, 4.40 lire for taxes, 5 lire for distribution costs and .6 lire for dealers' margin. Such landed costs and distribution costs represent an increase of over 1000 per cent over the pre-occupation landed costs and distribution costs. Before such a price increase is publicly announced we ought to be reasonably sure that the landed costs and distribution costs are not being over-estimated. Another possibility is to reduce the petroleum taxes or, if the taxes are permitted to stand for reasons of tax administration, etc., to have the Italian Government, in effect, subsidize the difference between the announced price and the land cost, taxes, and distribution costs as actually determined from time to time.

4. Other imported foods, medical supplies and equipment, and industrial and agricultural supplies and equipment, including fertilizers. A preliminary examination by the Industry and Commerce Sub-Commission of H.Q., A.M.G. of these items indicates that practically all of them can be resold in Italy at a price equivalent to landed cost without significantly affecting the general price structure. 4675

5. Exportable surpluses should be purchased from Italian producers at prices in lire which will cover the actual production cost at the time the goods were produced and a fair profit. Such exports should be sold abroad at prices equivalent to those prevailing in the foreign market concerned, even though such prices are in excess of the prices paid to the Italian producers. In the case of exports to Britain, the United States and French North Africa payment will be made respectively in sterling, dollars or francs credited to an Italian Government account. In the case of exports to other countries like Spain or Turkey, further consideration should be given to whether payment should be in currency of that country or in sterling or dollars credited to the Italian Government accounts held by or under the control of the British and American Governments.

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6. The question of actual payment over by the Italian Government of dollars, sterling or francs with which it is charged for imports and the actual payment over of dollars, sterling or francs credited to the Italian Government for exports can be left to the future for settlement as part of the larger financial relations which will have to be worked out between the Allies and Italy.

However, existing procedures and arrangements will be continued whereby the distributors who obtain imported commodities are required to pay to AMG cash lire for such commodities, and Italian producers are paid by A.M.G. cash lire for exports, at prices agreed upon. In the ultimate financial settlement with the Italian Government, lire thus received or paid out will be dealt with in the accounting.

7. Under the foregoing proposals normal Italian taxes and imposts could, at least in the future, be applied, except possibly in the case of those few imported commodities that will be sold below landed costs.

8. The foregoing price proposals, so far as affects the relations between the Allies and the Italian Government, should be applied to imports and exports since the beginning of the occupation of Sicily and the Italian mainland. It would be quite desirable, although not absolutely essential, to obtain the agreement of the Italian Government to the foregoing proposals at the present time.

Bernard Bernstein,
Lieut-Colonel,
Finance Sub-Commission.

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Bernard Bernstein,
Lieut-Colonel,
Finance Sub-Commission.

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HEADQUARTERS
ALLIED MILITARY GOVERNMENT
ECONOMIC DIRECTORATE
APO 512

28 December 1943.

Subject: AFHQ, MGS Memorandum entitled "Price Policy to be followed by AMG/ACC in Italy - Recommendations as to" dated 7 December 1943.

The Economic Directorate has considered the above memorandum and approves the same with the following changes:-

(1) Change paragraph 2 (b) to read "Considering (a), subsidies to domestic producers are in some cases preferable to price increases as a means of encouraging production."

(2) Change paragraph 2 (c), first sentence, to read "All goods imported for civilian or Italian Government use should be charged to the Italian Government at prices in dollars, sterling or francs, considered to be equivalent to landed cost."

(3) Add language to paragraph 2 (c) which will make it clear that this procedure in no way alters the existing arrangement whereby the distributors who obtain the imported commodities are required to pay cash lire for such commodities at prices agreed upon.

(4) Change paragraph 2 (d), first sentence, to read "Exportable surplus should be purchased from Italian producers at prices designed to cover actual costs at the time of production, plus a fair profit. This however would not affect the position where goods can be obtained in the open market at lower prices."

(5) Change paragraph 3 (a) to read "It is the unanimous policy of AMG/ACC to retard the upward movement of prices by every means available, with the concurrence and co-operation of the Italian Government."

(6) The substance of the above changes should be made also in the body of the memorandum at the relevant sections.

(7) Para 3 (c) (ii) : The price for Sardinian coal in Sardinia should be increased to cover cost of production. A price of 400 lire per metric ton for fine coal (less than 20 millimetres in size) and 500 lire per metric ton for coarse coal (20 millimetres or more in size) are suggested.

(8) Para 3 (c) (iii) : The price for Sardinian coal elsewhere in Italy should be increased to cover cost of production and shipping. Prices of 550

... makes it clear that this procedure in no way alters the existing arrangement whereby the distributors who obtain the imported commodities are required to pay cash lire for such commodities at prices agreed upon.

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(8) Para 3 (c) (iii) : The price for Sardinian coal elsewhere in Italy should be increased to cover cost of production and shipping. Prices of 550 lire and 650 lire per metric ton, CIF Italian ports (except Sardinia) are suggested. Differential prices for various types of users are not considered to be desirable at this time.

(9) Para 4 (c) : A price of 1200 lire per metric ton, CIF Italian ports, is suggested as the price to be charged on behalf of the Italian Government for imported coal. Differential prices for different classes of coal users are not considered to be desirable at this time.

(10) The problems of accounting raised in Para 6 have not yet been considered. 4674

R. A. HAMLYN,
Brigadior,
Acting Economic Director.

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U.S. CONFIDENTIAL EQUALS BRITISH CONFIDENTIAL
ALLIED FORCE HEADQUARTERS
APO 512

27 December 1943

ADMINISTRATIVE MEMORANDUM)
NUMBER 95)

PAYMENTS IN ITALIAN TERRITORY

1. The following instructions regarding payment by the military forces for goods and services in Italian territory will be observed.

2. It is important that the U.S. and British forces should, where possible, act in unison. Coordination of executive action, based on policies prescribed from time to time by this headquarters will be effected. Commanding officers will insure that competitive buying between the forces does not occur and that there is adequate coordination over the prices to be paid. Appropriate methods of financial control and economy in expending Allied Military lire and other currencies in Italian Territory must be observed for military purposes.

3. (a) Wherever practicable, arrangements are to be made in conjunction with Allied Military Government or Allied Control Commission local representatives for the Italian government to make available for Allied use naval, military and air installations, power stations, oil refineries, public utility services, ports and harbors, transport and inter-communication facilities and equipment, and other local resources and services that are required.

(b) Where any goods or services are provided under arrangements with the Italian Government no payment from military funds will be made without authority from this headquarters unless the need for some immediate payment is operationally essential and temporary financing cannot be arranged through the Allied Military Government or Allied Control Commission representative on behalf of the Italian Government.

(c) Wherever the policy in paragraph 3 a. above cannot be implemented, action will be taken as follows.

4. Privately-owned Goods.

(a) Goods should not be seized or requisitioned without payment unless strictly required for military purposes, the test being whether, if payment had to be made, the charge would be admissible against public funds. Requisitioning will be confined to authorized officers of the procuring services. In all cases where payments is not made, accurate records must be maintained of the articles requisitioned, including the date, place, identification of article, and name of owner.

(b) Consumable goods, of which continuous and regular supply is required by the Allied Forces and can only be maintained in return for payment, may be requisitioned and paid for under properly approved requisitioning arrangements or purchased under local purchase arrangements. However, it is the policy of this headquarters that

Government no payment from military funds will be made without authority from this headquarters unless the need for some immediate payment is operationally essential and temporary financing cannot be arranged through the Allied Military Government or Allied Control Commission representative on behalf of the Italian Government.

(c) Wherever the policy in paragraph 3 a. above cannot be implemented, action will be taken as follows.

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(b) Consumable goods, of which continuous and regular supply is required by the Allied Forces and can only be maintained in return for payment, may be requisitioned and paid for under properly approved requisitioning arrangements or purchased under local purchase arrangements. However, it is the policy of this headquarters that only known surpluses, as determined by the Allied Force Local Resources (Italian) Board, will be purchased locally. Under present circumstances, the only articles falling under this category are perishable fruits and vegetables known to be in surplus. Small day to day requirements of spare parts may also be purchased. Where local purchases are made, it is essential to insure that excessive prices are not paid, in order to reduce the tendency towards inflation and to curb profiteering. Where excessive prices are demanded under local purchase arrangements, goods authorized to be purchased will be requisitioned and fair prices paid, these being fixed in cooperation with the local Allied Military Government or Allied Control Commission representative. If such goods are concealed because the individual owners hope to secure blackmarket prices, they will be sought out. The local authorities are instructed to cooperate to the fullest extent in finding them, as it is essential to do everything possible to prevent soaring prices.

(c) Durable goods which are unlikely to be in continuous, rapid, production in the occupied territory, or which the owners will be unable to replace locally or will not need to replace at present, will be requisitioned or seized by authorized officers without payment under properly approved arrangements pending further instructions. Such goods as motor and other transport vehicles, heavy plant and machinery, constructional materials, structural steel, railway plant and war material would be treated in this way. In requisitioning motor vehicles (particularly passenger), the injunction in paragraph 4 a. above should be strictly observed. Unnecessary requisitioning of motor transport seriously disorganizes essential civilian communication.

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/...... (d) in instances

(d) In instances where durable goods are in continuous production, they will normally be requisitioned without payment and the question of financing the firm's further operations will be handled as prescribed in paragraph 6 d. below.

(e) It is impossible to define with exactness which privately-owned goods, should or should not, be paid for from military funds. The method of treatment will have to be resolved on commonsense lines for each class of goods, bearing in mind the principle set out in paragraph 4 b, c, and d above and the following considerations:

(1) The forces should not use manpower unnecessarily in negotiating prices, contracts and agreements for goods which can be secured in adequate quantities without immediate payment.

(2) Excess unnecessary payment for goods leads to inflation. However, it is recognized that therewill be cases where cash payments for small day to day requirements will be the most effective method of getting access to available local supplies.

(3) Important, or long-term contractual commitments for goods should not be entered into by the forces without reference of the case with recommendations to this headquarters.

5. Privately-Owned Real Estate (Land and Buildings).

This class of property, including accommodation and furnishings thereof, required for military purposes will be occupied without payment of rent or other recompense. The owner should be advised that both the determination of the rate to be paid and the payment thereof are the responsibility of the Italian authorities. Military authorities will not pay for machinery, equipment and plant installed in workshops, factories etc., which it is essential to take over and operate. The operation of workshops and factories by the military should be avoided wherever reasonably possible in order to conserve military manpower.

6. Services Performed by Private Persons and Firms.

(a) Labor employed by the Allied Forces will be paid fair wages, the same rates and same conditions of employment being observed by each force in the same localities. The rates of wages will be determined in consultation with appropriate Allied Military Government or Allied Control Commission Officials and the local military financial representatives. Inflated wages will not be paid.

(b) Contracts may be made where necessary (by competitive tender, wherever possible) for ordinary military services such as repairs to clothing, equipment and vehicles, laundry, bread-making, small manufacturing services, and minor works services. Important, or long-term contracts or agreements should not, at present, be entered into without authority from this headquarters. Examples are storage of petrol and

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(b) Contracts may be made where necessary (by competitive tender, wherever possible) for ordinary military services such as repairs to clothing, equipment and vehicles, laundry, bread-making, small manufacturing services, and minor works services. Important, or long-term contracts or agreements should not, at present, be entered into without authority from this headquarters. Examples are storage of petrol and use of cold storage plants.

(c) Contracts should not be made, or expenditure incurred from military funds, for services, e.g., repairs to roads and bridges, which the State or local authorities should arrange and pay for. Such work will, of course, have to be undertaken under military arrangements when it is operationally essential and it is impracticable to arrange for the Italian Authorities to undertake it, but in all such cases Allied Military Government or Allied Control Commission officials should be consulted when possible.

(d) Where private firms are required to turn over their whole output, or the greater part of it, regularly to the military forces but the factories are not taken over and run by the military, reference will be made to the Italian Authorities and to representatives of the Allied Military Government or Allied Control Commission and the local military financial representatives as to arrangements for financing the continued operation of such firms. At present contracts should not be made for buying the products of such firms.

7. Services Performed by Municipal Authorities and Public Utility Concerners.

At present no payments should be made by the military forces for such services as removal of refuse, supply of gas, water and electricity, use of port facilities, non-State-owned telephones, telegraphs, or railways. The method of dealing with the financing of such services should be explored with the Allied Control Commission or Allied Military Government and the local military financial representatives, bearing in mind paragraph 3 above.

9.........Goods and

8. Goods and Services Provided by State-Owned and Parastatal Concerns.
Payment may not be made from military funds for any goods taken over which are owned by the State or parastatal concerns or for any services provided by State-owned organizations, e.g., railway traffic. The methods of financing those State Services which the Allied Forces must utilize, is being considered by the Allied Control Commission, and they will arrange any temporary financing which may be necessary until a final decision is taken. Where it is necessary for parastatal concerns to produce goods or perform services for Allied military purposes, the method by which the cost of production shall be recovered may vary with the particular case or class of case and the arrangements under which the concern continues to operate. In particular cases proposals for financing the continued operation of such firms should be worked in conjunction with Allied Control Commission or the Allied Military Government and the local military financial representatives.

9. Claims for Damage, Traffic Accidents, etc.
Payments will not be made in respect of these claims. Seperate instructions are being issued about Workmen's Compensation for Industrial Accidents.

10. General.
These instructions are intended as a guide to what may be paid from military funds in the interim period until the policy outlined in paragraph 3 can be fully implented. It is impossible to make provisions now for every type of case and it is recognized that many individual cases will have to be considered on their individual merits.
(AG 386.2-5 GDS-AGM)

By command of General EISENHOWER;

/s/T.J. Davis
T.J. DAVIS
Brigadier General, United States Army
Adjutant General

Reproduced, Hq Peninsular Base Section
APO 782, 31 December 1943

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HEADQUARTERS
ALLIED MILITARY GOVERNMENT
ECONOMIC DIRECTORATE
APO 512

AGENDA

MEETING OF REGION 1 AND REGION 2 REPRESENTATIVES WITH THE

ECONOMIC DIRECTORATE TO DISCUSS PRICE POLICIES

29 December 1943 at 1400 hrs in NAPLES, Provincia Bldg. Rm 11.

A. Introductory general statement on price problems receiving attention at this Headquarters, by the Economic Director.

B. Statements of price problems in Regions 1 and 2, by their representatives.

C. Imports.

(1) Prices charged Italian government for imports.

(2) Prices charged on behalf of Italian Government for imported commodities, with particular reference to:

(a) Food, coal, petroleum products, clothing, etc.

(b) Medical and other supplies for use of the Italian Government and its institutions.

(c) Industrial and agricultural equipment and supplies including fertilizer.

D. Exports.

(1) Prices we pay locally for commodities exported such as [illegible] nuts, citric acid

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(a) Food, coal, petroleum products, clothing, etc.

(b) Medical and other supplies for use of the Italian Government and its institutions.

(c) Industrial and agricultural equipment and supplies including fertilizer.

D. Exports.

(1) Prices w[illegible] pay locally for commodities exported such as sulphul, lemons, nuts, citric acid.

(2) Prices at which the exports are resold on the other side.

E. Creation of an Import-Export Agency.

F. Accounting for imported and exported commodities.

G. Italian produced commodities and services:

(1) Railway and other public utilit[illegible] rates;

(2) Prices paid by Armed Forces for timber, iron, asphalt, industrial gases.

H. General discussion of effectiveness of legal price list and other price controls and of measures to be taken to facilitate price stabilization.

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Declassified E.O. 12356 Section 3.3/NND No. 785016

Lt. Col. Henderson:

Lt. Col. Carruthers has no important objections to the Hamlyn memorandum (Par. 10 on Petroleum products.) He did make the following points:

1. He does not think that cost of petrol is an important enough factor in transportation costs to seriously effect the price of food.

2. All he is concerned with is getting enough in the aggregate to cover (a) the supplier; (b) distribution costs; and (c) taxes. If the retail price is not set high enough to cover these elements it is alright with him as long as the Italian government makes up the difference through a subsidy.

3. He thinks that the deficit and the resulting subsidy should be arranged by the Allied Govts. and the Italian Govt. and not by C.I.P. and the Italian Govt. He said that Lt. Col. Bernstein had suggested that payment of the subsidy should be arranged between C.I.P. and the Italian Govt.

4. He would prefer to have the paragraph include a statement to the effect ~~at~~ that 11 lire ~~does~~ would not cover cost, distribution, and taxes. His estimate, of course, is that 16 lire is required to ~~avert~~ avoid need for a subsidy.

L. S. Plummer,
Capt.

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SECRET

HEADQUARTERS
ALLIED MILITARY GOVERNMENT
ECONOMIC DIRECTORATE

31 December 1943

MEMORANDUM: <u>Views of the Economic Directorate, ACC/AMG on Price Policies in Italy</u>

1. It is the unanimous policy of AMG/ACC to retard the upward movement of prices affecting the cost of living in Italy by every means available to both the Allied and Italian Governments. It is recognized that a general increase in Italian prices cannot be prevented. Two decades of Fascism and an undisciplined population that has not complied with price controls long before our arrival, the unsuccessful prosecution of the costly war, and the destruction of industrial plant and equipment combine to produce inflationary pressures which [illegible] be limited. They can and should be retarded. Main attention must be gi[illegible] the major commodities entering into the cost of living such as wheat, flou[illegible]sta and olive oil.

2. All goods imported for Italian civilian consumption should be charged to the account of the Italian Government at a landed cost price in Dollars, Sterling or North African Francs, depending upon whether the goods come from U.S., U.K. or North Africa. For this purpose, it will be necessary for C.C.S. and A.F.H.Q. to furnish current information on landed costs for imported commodities.

3. To keep governmental subsidies as low as practicable, the imported commodities should be sold in Italy, on behalf of the Italian Government, at not less than the landed cost basis except where, as in the case of wheat or coal, such action would result in such a price rise over the existing legal price for that commodity as to threaten to disturb the general price structure. An examination of the 1 November 1943 schedule of landed costs for imported commodities indicates that in the case of many commodities, this policy can be pursued without damage to inflation control.

4. In the case of imported wheat and flour - food stuffs essential to subsistence - the governing consideration in determining the price for resale on behalf of the Italian Government is keeping down the cost of living. It has been and will continue to be necessary to sell these items below landed costs. Imported wheat and flour should be sold through the normal distribution channels at the legal prices for Italian produced wheat and for flour processed therefrom, even though such prices are substantially lower than the landed cost of imported wheat and flour.

5. It is intended that as long as wheat and flour are to be imported, the legal price for bread throughout areas under our control will be 3.60 lire a kilo.

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5. It is intended that as long as wheat and flour are to be imported, the legal price for bread throughout areas under our control will be 3.60 lire a kilo. To enable this to be done, imported flour should be sold to the baker at 3.10 lire a kilo and imported wheat should be sold to the miller at a price to enable him to produce flour to sell at 3.10 lire a kilo. Accordingly, imported wheat and flour should be sold to the Consorzi and the Alimentazione at a price to enable them to sell the imported wheat and flour to the miller and baker at prices to accomplish the foregoing. In any locality where production and transportation costs make it impossible for a baker to sell bread at 3.60 lire if he pays 3.10 lire for flour, the local government authority will give an appropriate subsidy.

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6. In the case of food stuffs other than wheat or flour it will generally be possible to charge landed costs. Milk for small children and expectant or nursing mothers, requires special consideration. Landed cost figures as of 1 November 1943 indicate that milk can be charged at landed cost. However, if the landed cost is revised upward and requires charging consumers prices appreciably in excess of 9 lire for a 12 oz. can or 11 lire for a 14 oz. can of evaporated milk, the question should be reconsidered.

7. Medical and other supplies and equipment, and industrial and agricultural equipment and supplies should be resold in Italy on behalf of the Italian Government at a price equivalent to landed cost. Fertilizers and insecticides are essential to maximise Italian agricultural production. These commodities, and imports entering into their manufacture should be resold at this time at prices which will not increase by more than 60% or 70% the price paid by agricultural producers for fertilizers and insecticides.

8. Landed cost figures as on 1 November 1943 indicate that laundry soaps and toilet soaps can be charged at landed costs; however, if 1 November 1943 landed cost price is revised upward and requires consumers' prices appreciably in excess of 25 lire per kilo for laundry soap and 16 lire per kilo for toilet soap, the question should be reconsidered. It is noted that if, in lieu of soap, Italy were supplied with caustic soda - the ingredient required for domestic soap production - valuable shipping space could be saved, and local materials and labour could be employed. This matter should be brought strongly to the attention of C.C.S., since soap is being shipped and caustic soda refused us.

9. Imported coal should be sold on behalf of the Italian Government for 1200 lire per metric ton CIF Italian ports, compared with the landed cost of between 2500 and 3000 lire per metric ton. In the case of Sardinian coal, a price of 400 lire per metric ton in Sardinia is recommended for fine coal (less than 20 m.m. in size) and 500 lire per metric ton for coarse coal (20 m.m. or more in size). These prices, it is estimated, will cover cost of production. The price for the two grades of Sardinian coal elsewhere in Italy should be 550 lire and 650 lire per metric ton CIF Italian ports (except Sardinia) to cover cost of production and shipping. Differential prices for various types of users of coal are not considered desirable at this time.

10. The information we have available from Regions I and II indicates that petroleum products are an important factor in transportation costs and transportation is an important factor in the cost of food. Therefore, unless these statements of fact are invalidated, a maximum price of 11 lire per litre of gasoline and corresponding prices for other petroleum products are recommended. It is suggested that out of these 11 lire, there be paid in order of priority:-

(a) Distribution costs and dealers' margins (an effort being made to keep these as low as possible).

(b) Italian import duties and excises.

(c) Balance being credited to the account of landed cost. The deficit in landed cost not covered by the 11 lire price, would be charged as a subsidy.

11. The difference between landed cost charged to the Italian Government and the internal sale price charged on behalf of the Italian Government for all imported commodities would be treated as a subsidy by the Italian Government. These procedures would in no way alter the existing arrangements whereby the public and private organizations or individuals to whom the imported commodities are turned over for distribution are required to pay cash lire for such commodities at prices fixed by the Allied authorities, if possible after agreement with the Italian Government.

12. Even though legal retail prices are not fixed, we desire that imported

statements of fact are invalidated, a minimum price of 11 lire per litre of gasoline and corresponding prices for other petroleum products are recommended. It is suggested that out of these 11 lire, there be paid in order of priority:-

(a) Distribution costs and dealers' margins (an effort being made to keep these as low as possible).

(b) Italian import duties and excises.

(c) Balance being credited to the account of landed cost. The deficit in landed cost not covered by the 11 lire price, would be charged as a subsidy.

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12. Even though legal retail prices are not fixed, we desire that imported goods should not be sold to consumers at a price too high in view of what is charged to the distributor. Accordingly, Allied authorities will watch and if necessary control the retail price of imported goods. The Allied authorities will also, in appropriate circumstances, jointly consider with the Italian Government the retail prices to be charged for imported goods.

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13. Exportable surpluses should be purchased from Italian producers at prices in lire sufficient to cover actual costs at times of production plus a fair profit. This, however, would not affect the position where goods can be obtained in the open market at lower prices.

14. Exports from Italy should be sold abroad as far as practicable at prices equivalent to prices prevailing in foreign markets concerned, whether such prices are in excess of or less than prices paid to the Italian producers. In the case of exports to the U.S., U.K. and French North Africa, payment will be respectively in Dollars, Sterling or Francs, credited to an Italian Government account; in the case of exports to neutral countries, further consideration should be given to whether the payment should be in the currency of that country or in Dollars or Sterling credited to the Italian Government's accounts held by or under the control of the British and American Governments. The Dollar, Sterling or Franc accounts of the Italian Government would not be credited for exports if such exports did not arrive at their destination. This would place the risk for loss of exports on the Italian Government, just as the risk for the loss of shipments to Italy is borne by the Allies.

15. The question of actual payment over by the Italian Government of Dollars, Sterling or Francs with which it is charged for imports and the actual payment over of Dollars, Sterling or Francs credited to the Italian Government for exports can be left to the future for settlement as part of the larger financial relations which will have to be worked out between the Allies and Italy. However, existing procedures and arrangements will be continued whereby the distributors who obtain imported commodities are required to pay to AMG cash lire for such commodities, and Italian producers are paid by AMG cash lire for exports, at prices agreed upon. In the ultimate financial settlement with the Italian Government, lire thus received or paid out will be dealt with in the accounting.

16. Under the foregoing proposals normal Italian taxes and imposts could, at least in the future, be applied, except possibly in the case of goods given as relief and in the case of some of the few imported commodities that will be sold below landed costs. Even where goods are sold below landed costs, we should have no objection to the imposition of normal Italian taxes and imposts if we are credited with full landed costs in Dollars, Sterling or Francs and the Italian Government is charged with the subsidy.

17. The foregoing price proposals, so far as affect the relations between the Allies and the Italian Government, should be applied to imports and exports since the beginning of the occupation of Sicily and the Italian mainland. It would be quite desirable, although not absolutely essential, to obtain the agreement of the Italian Government to the foregoing proposals at the present time.

18. To provide an instrumentality for the accounting of imports and exports, and for handling other matters relating to imports and exports, an import-export agency should be created as part of the Industry and Commerce Sub-Commission of AMG/ACC. The status of this agency would be similar to that of AMFA in the Finance Sub-Commission. It would be authorized to deal directly with all AMG Regions and Italian areas in which the Allied authorities are functioning.

19. With regard to domestic prices of Italian produced commodities and services.

(a) The proposed 100% increase in passenger railway rates at this time should be disapproved. A doubling of rates for a service provided by the Italian Government would set a precedent for corresponding increases in other prices, without discouraging the actual amount of traffic carried by the railroads and without improving noticeably the financial position of the railroads. Increases in freight rates should also be resisted at this time because they affect the cost of living.

(b) Italian public utility service rates have been kept to artificially low levels. In some cases these rates can be raised sufficiently to eliminate the need for government subsidy without affecting

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(b) Italian public utility service rates have been kept to artificially low levels. In some cases these rates can be raised sufficiently to eliminate the need for government subsidy without affecting appreciably the cost of living. With this in view, the Public Works Sub-Commission has been authorized to examine the rate structures of these public utility institutions seeking rate increases with a view to recommending such increases as are consistent with our over-all efforts to retard inflationary price rises.

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20. The desirability of continuing to keep in effect the detailed legal domestic price lists was considered but no conclusions were reached. In Region I, AMG legal prices are now prescribed for only bread, pasta, olive oil, sugar, milk, coal, petroleum products and soap. The communes are authorized to fix prices on the other commodities. In Region 2, the original detailed AMG legal price list, modified in a few instances, remains in effect.

R.A. HAMLYN,
Brigadier,
Acting Economic Director.

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ALLIED FORCE HEADQUARTERS FAS/rns

Military Government Section

CONFIDENTIAL 16 December 1943

Memorandum to the Files

Subject: Lord Rennell's ideas on the price of wheat and on wheat hoarding in Italy.

1. On this date Lt. Commander Southard called on Lord Rennell on instructions from General Holmes. Lord Rennell wished to discuss several financial matters and also wished to outline his ideas on the important problem of how to induce dehoarding of wheat. Lt. Commander Southard told Lord Rennell he would circulate a summary of the discussion in this Section in order that Lord Rennell's ideas might be added to other viewpoints currently available to the Section.

2. Lord Rennell has come to the conclusion that the price of wheat is too low for administrative reasons if for no others. By this he means that the local enforcement agencies recognize that a price of 360 or even 500 lire per quintal for wheat is so far below the general level of prices as to make it quite understandable that producers will not sell. Consequently they do not seriously endeavor to compel dehoarding. How much more wheat could be got out at 1,000 lire per quintal than at 360 he is not at all sure; but he feels that certainly a far more determined enforcement effort would be made.

3. It was explained to Lord Rennell that in contrast with the opinion in July and August that wheat hoarding was explainable in terms of price speculation, the prevailing opinion in this Section is that price speculation is a minor element and lack of consumers goods and distrust of currency are the major explanations of hoarding. He replied that he agreed that price speculation is a minor element, but he feels consumers goods are more plentiful than supposed and he does not think distrust of the currency is of major importance. His opinion is that "famine fear" is the principal factor in wheat hoarding now. That is, wheat holders fear that there is a real scarcity of famine proportions, and they are consequently extremely reluctant to sell. This reluctance is intensified by the low official price. The result is that the current black market price is up to 3000 lire per quintal, compared with a "normal" or "fair" black market price of 1,200 to 1,600.

4. Lord Rennell proposes the following: Do nothing at the moment, so far as price is concerned. When the supply of imported grain or flour is large enough to justify confidence that we can provide the minimum ration, sell it at landed cost -- which is apparently about 1100 lire per quintal. If people perceive that [illegible] "famine fear" will disappear. At that

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4. Lord Rennell proposes the following: Do nothing at the moment, so far as price is concerned. When the supply of imported grain or flour is large enough to justify confidence that we can provide the minimum ration, sell it at landed cost — which is apparently about 1100 lire per quintal. If people perceive that the minimum ration is freely obtainable, "famine fear" will disappear. <u>At that time</u> remove the controls on wheat, flour, and bread prices, and bank on a market price of about 1200 lire per quintal. (It was not clear whether these were grain or flour prices).

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5. Lord Rennell explained that the Officers in AMG and ACC principally concerned with price policy do not agree with him on the above disagreement varying from admission that <u>some</u> change in present price policy is needed to argument that Lord Rennell's program is inflationary. To this criticism Lord Rennell replies that in fact his program is <u>not</u> inflationary. That is, at present people are endeavoring at least to double their actual ration of bread, by supplementing the legal ration in the black market. Hence it is a question of whether the whole effective ration will be bought at a grain price of 1200 lire per quintal, or whether half of it will be bought at a grain price of 360 lire and the other half or even more at a grain price of 3000 lire. In any case, he accuses his opponents of offering no effective inflation control program either on the supply or on the finance side, and suggests that in fact the <u>effective</u> price level already reflects considerable inflation. In this connection, he remarked that the dollar is being traded in southern Italy at 150 lire.

/s/ Frank A. Southard Jr
FRANK A. SOUTHARD, JR.,
Lt. Commander, U.S.N.R.,
M.G.S. (Finance), A.F.H.Q.

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